

## PROPERTY INVESTMENT LOOKING GOOD

- Allistar Walker

The continuing fall in interest rates to all time in living memory lows, coupled with the downward correction of property prices, has again made investment property look better. Let's look at an example we have just financed.

		Interest only repayments	
		At 7%	At 5.5%
Flat Purchase	\$280,000		
Rent receivable	\$290 pw	\$377 pw	\$296 pw

In this case the loan equals the purchase price. Note that you would need to use equity in another property to achieve this. Of course on top of interest paid, there are expenses like rates, insurance and maintenance. These can currently be claimed as a tax break to make your property investment more attractive. There will be other examples that are closer to being positively geared, which is the ultimate aim.

But wait there is more! Later this year, we may see a forecast increase in immigration. Then, because of this current recession, there is likely to be a shortage of housing stock.

The tightening of bank lending criteria makes it more difficult for the home buyer, who doesn't have sufficient deposit. More people will be forced to rent rather than buy. Increased immigration and lack of housing stock will further pressure the need for rental properties. Rents are then likely to rise possibly as much as 20%.

Now our returns above look a lot better, if you have secured an interest rate of 5.5% for 5 years. While rates are not there yet, there is an expectation that this could happen. So much depends on what sort of further news is to come out of the worlds battered economies. If and when it comes it will possibly only be brief.

A word of warning here. While a five year fix is good, you should make sure your investment strategy is robust enough to be able to afford repayments at a higher rate of say 8% by the time your 5 year rate matures. No one knows where interest rates will be in 5 years time or indeed by how much your returns on the property may have increased in that time. Generally you can expect rental increases each year at least in line with inflation and ultimately as the housing market turns around there will be capital gains. Rates and insurance are also likely to increase.

It is important when entering the property investment market to have a firm strategy. Decide how much income you want from property – long term. That is work out the end goal and then decide how many or what sort of properties you need to achieve that. Ask yourself is property to your main strategy or maybe you will hold or trade shares?

This of course is only the beginning. There are many aspects to property investment that a potential investor should seek to understand. The more you understand the less scary, less risky it is and the more certainty it provides.

Talk it over with your qualified Mortgage Advisor or Planner and commit your Plan to paper. Make sure you are comfortable with all aspects of the strategy, the upsides as well as the downsides.

The opportunity for Mum and Dad property investors, particularly in the Auckland market, may never be better than this year. Before rushing in though, ensure you have your strategy sorted.

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