

## RESIDENTIAL INVESTMENT – WHAT TO LOOK FOR?

- Allistar Walker

Following on from the last article on Property Investment, residential investors are increasingly coming back into the market. The attraction of lower prices, potential or near positive gearing with low interest rates is just too much to stay away from.

There are many features you might consider before choosing a property. It is up to you to decide exactly what type of rental client you want and this may largely dictate the type of property that you buy.

**Location, Location, Location.** This saying holds true whether in recession or the good times. The ideal is good capital growth combined with good steady rental returns. Where do people want to live and work? Cities or larger provincial areas are preferable to country towns, particularly where that little town's economy is based on one thing.

The property doesn't have to be one that you would want to live in, but certain things are a detraction for tenants: busy roads, unsealed roads, school, toilets or large shopping complex next door, close to noisy neighbours like railways, commercial or industrial premises. At the same time it is good to be handy to these things, just not at their front door.

**Price.** For the price you are prepared to pay, is the rental return realistic? What is it as a percentage of property price? Often it may be better to buy two smaller priced rentals rather than a flashier higher priced property. The returns on the former can be far superior, unless you are in for the kill on the capital growth potential. Beware though, as we have all now witnessed how property prices can decrease. Many have the view that they will decrease further, simply based on affordability ratios now as compared to twenty or thirty years ago.

**Quality.** Will it be brick, weatherboard, plaster or other materials. Maintenance is less on a brick house but purchase price will probably be more. Would that be worth it? Do the sums. Watch out for plaster homes. Are they leaky? A builders report may be a worthwhile investment. Has the property some aspects about it which can be improved on, hence enhancing the capital value as well as the rental return.

**Structure.** The correct legal structure is something you should discuss with your tax adviser. This should be done before the property is purchased and settled. A structure many property investors opt for is the Loss Attributing Qualifying Company (LAQC). This offers limited liability protection and for losses to be offset against personal income.

Never become emotionally involved with your investment property business. Make sure it ticks your boxes for returns, value and future projections. Rental properties near to where you live are ideal as you can do regular drive bys and easily attend to maintenance issues.

*Further information on how to buy and set up rental properties is available from Allistar Walker who is a Senior Fellow of Financial Services Institute of Australasia and an accredited mortgage/insurance advisor. His full disclosure is available at [www.mortgagehelp.co.nz](http://www.mortgagehelp.co.nz) or he can be contacted at 410 6023 and [enquiry@mortgagehelp.co.nz](mailto:enquiry@mortgagehelp.co.nz)*