Property investment: how do you know if it is for you?

Many people consider investing in property in the hope of bringing wealth to their lives. Whilst there are many alternatives such as stocks, bonds and cash, property investment tends to be viewed as one of the safest and easiest options.

Property investment isn't for everyone. If you are considering investing in property, it is essential to weigh up the pros and cons.

There is a variety of things to weigh up when considering entering the world of property investment. (iStock)

THE PROS

Capital growth – The value of your property will grow over time and may be extremely beneficial financially if well chosen. Not only will you benefit from steady capital growth, but regular monthly rental returns.

A safe investment – This is the only investment market that is not dominated by investors, creating a natural buffer in the market. It is also the most forgiving investment; if you purchase the worst house in the area, the chances are that its value will still increase over time.

Mitigate risk – You can insure your asset against most risks; fire, damage, a tenant leaving, damaging your property or breaking the lease.

Anyone can invest – You do not have to possess a vast amount of knowledge, as you may with stocks or opening up a business.

Control – Unlike other investments, you are in full control of your property investment; you can make all the decisions and have control over all of your returns.

Tax benefits – Though tax benefits should not be used as a decision making factor, it can be a benefit of investing in property. If your property is negatively geared, it may provide tax benefits.

THE CONS

Liquidity – Even though you can sell your property if things get tough, the process is not as quick as selling other investments such as shares.

Hidden and ongoing costs – Along with the initial costs of investing in property (such as stamp-duty, deposits, legal and conveyance fees), you will need to consider the ongoing hidden costs of property investment such as fitting out the property, maintenance and repairs, building and landlord insurance, land tax, water rates, council rates, and so on. Other investments, such as shares, do not incur as many ongoing fees.

Rent-free periods – During the periods when you cannot find a tenant and the property is vacant, you will need to cover the mortgage repayments.

Bad tenants – Problematic tenants are every owner's nightmare. They can severely damage your property, refuse to make payments and sometimes even refuse to leave the property. Some disputes can take months to resolve and become very stressful, especially if there is an emotional attachment to the property.

Other costs – Although negative gearing may offer tax deductions, you will need to consider and budget for the shortfall between repayments and rental income, as well as the cost to cover repayments when the property is vacant.

** Source: realestateview.com.au*

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