Does property investing actually work?

Property investing isn't for everyone. If you're out to make a quick buck without much effort, then it probably isn't for you. Property investments can take years to pay off, causing many to wonder: does property investing actually work?

FIRST we must look at the definition of 'work' – which means providing the investor with a decent return on investment over time. Most people count on their properties to provide them with a proper retirement income, and this usually means acquiring several properties and keeping them for at least 10–15 years. There are only a finite number of properties an investor can buy and, with the recent tightening in lending criteria, this number is reducing. So you need to make the most of it!

Cash flow positive properties

There is a misguided belief among some investors that acquiring cash flow positive properties, regardless of capital gains, is the key to success. However, after all expenses, cash flow is usually modest and it would take forever to build up a portfolio that delivers a decent income stream.

Moreover, properties with strong enough cash flow are very often older, and located in remote areas where vacancies are high and capital growth close to non-existent. They can become a real challenge when you want to sell.

OUR EXPERT

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Capital growth properties

Aiming for capital growth is a much better way to make property investment work. Contrary to popular belief, properties with capital growth potential are not necessarily cash flow negative. There are plenty of locations in Australia where properties grow at a good rate and are also kind to your wallet in terms of cash flow.

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With interest rates still at low levels, these types of properties could be cash flow positive with a 20% deposit. You can substantially boost your cash flow by buying new properties because depreciation will allow you to claim a larger tax refund. The difference can be as much as $4,000–$5,000 a year extra cash in your pocket compared with buying an old property.

Buy old properties, renovate and sell

This strategy, which is known as flipping, can work but is imited to investors with time, and experience in the building industry. These investors must also have deep pockets as there are always surprises when renovating an old property. Finally, this strategy requires the investor to do it over and over to keep the money-making momentum going.

Creating a strategy

A key aspect of property investing that must be understood is that, unlike shares (which you can sell off if you need access to funds), property is not a liquid asset. It is also a large investment – and you can't offload the toilet or kitchen to raise a few thousand dollars if your pet needs urgent vet treatment! Being forced to sell a property in a flat market could result in unwanted losses.

This is why it's essential that when you invest in property you create a strategy and a plan of action. Working with a property advisor, you will discover how property investing can fit into your wealth-building strategy. You'll also learn how to take full advantage of any tax deductions or other perks available to you as a landlord.

These risk mitigation techniques will help you fast-track your property success and put you well on your way to building a property portfolio that 'works'.