Investing without FEAR

When it comes to property investing, most investors experience fear at some point or another. Helen Collier-Kogtevs reveals time-tested strategies to help overcome the initial jitters and mitigate the risks so you can invest with confidence.

Fear usually stems from concern about the unknown. In the case of the inexperienced investor, fear of the unknown may even result in novice investors not investing at all.

To overcome the fear of starting on your investment journey, getting an education from people who are investors themselves is the fastest way. Don't discuss your fears with non-investors - go to those "in the know". We all know that our friends and family mean well, but in your early days of investing, it can be beneficial to only share your plans with people who know and understand what you're trying to achieve.

IDENTIFYING RISKS

Risk is another word for fear. Below are some of the most common risks/fears that property investors experience and the strategies that can be applied to mitigate them:

1. Risk/Fear: of increasing your debt level and not being able to finance the repayments

Bad debt is generally associated with high depreciating, non-income producing items such as cars, clothes or just having a good time. **Good debt**, on the other hand, is used to purchase income-producing assets such as investment properties. The income from these assets is used to pay the mortgage payments and expenses **whilst the owner reaps the reward of the increasing capital growth in the value of the property. In short, depending on your gearing strategy, the property may pay for itself!**

Bear in mind that banks will not lend if they don't believe you can repay the debt – and the banks' lending criteria also includes a safeguard allowing for interest rate rises. These guidelines not only reduce your risk, but alleviate some of that fear as well.

2. Risk/Fear: of supporting an investment property if you lose your job

Before getting into the investment market, you will need to decide whether you are considering a positive or negatively geared property. Based on the approach you take, there are different strategies to reduce your financial exposure should you lose your job. You need a 'rainy day' strategy, and there are a couple of pre-planning options:

• Positive cash flow property

This is where your rental income exceeds the mortgage payments and property expenses. Direct the excess into your offset account and hold it there as your 'rainy day' account. The ongoing surplus can be used to help support the property if you found yourself unexpectedly unemployed.

• Negative cash flow property

Negatively geared property is when the mortgage needs 'topping up' from your income. Your property deductions/ out of pocket expenses may help you to secure a tax refund at the end of the financial year. Save your tax refund as a buffer. Alternatively, talk to your accountant about claiming a variation to your PAYG each week. This allows you to access your tax refund as a reduction in your weekly tax, rather than waiting for a lump sum once you have lodged your tax return. You will need to be disciplined

to put this amount aside each week to help accumulate a buffer to maintain the property in the unfortunate event that you lose your job.

In a couple of years, you'll likely have enough buffer and equity to use for a deposit on another property. Remember, **with a tenanted investment property, you only have to find money for the short fall not the whole loan. Worst case scenario: if you lose your job before your savings buffer is built you will need to look at your budget very closely. It would be a shame to lose this future wealth for the sake of a few extra dollars per week.**

3. Risk/Fear: of not securing a tenant

This is one of the most common risks that investors talk about. There are a couple of ways to mitigate this risk:

- Only buy properties in high rental areas where the vacancy rate is consistently less than 3%.
- Begin looking for a property manager early in the purchasing process. Interview and select the property manager before you settle. Your agent will be able to keep an eye out for tenants before you even have the property in your name! Finding a good property manager early can help to lower the risk of experiencing a long vacancy period.

4. Risk/Fear: of bad tenants

How do you pay the mortgage if the tenants don't pay their rent? Or pay for repairs or damage caused if they "do a runner"? It could possibly take weeks or even months to repair the damage, during which time you may not be able to rent the property until it is once again habitable. The answer is landlord's insurance. This insurance protects the landlord from bad tenants and the cost of this insurance is minimal when you consider the cost of not having it - and it is tax deductible as well. By having landlord's insurance, the risk of tenants defaulting on their rent or destroying the property is no longer high as the insurance policy will kick in to cover those costs should the need arise.

5. Risk/Fear: of interest rate increases

We have no control over changes to interest rates if the Reserve Bank of Australia (RBA) increases or decreases them (or whether our lender chooses to increase or decrease rates independent of the RBA).

Interest rates are a fact of life and if you're going to invest in property, allow for increases and only purchase property that you can afford to hold onto. After all, it's no fun living off baked beans while trying to get rich. The finance lender usually takes into account a few interest rate rises as a buffer when establishing your loan serviceability.

EXIT STRATEGY

An exit strategy is your 'pull the pin' plan. It is best to put this plan together in the cool light of day, before you buy, because doing it under pressure can lead to the wrong decision. An exit strategy will protect your overall investment plan and give you peace of mind.

The biggest breakthrough you can have in property investing is in your mindset. Worry less about things that really don't matter because a good risk mitigation strategy will allow you to sleep at night without fear.

Helen Collier-Kogtevs is the author of '47 Biggest Mistakes Made by Property Investors and How to Avoid Them'.

Helen has raised some interesting points for all current and potential investors to consider. If you have any concerns about investing and would like to discuss them, please call the office and we will be happy to help.