

INVESTING IN RENTAL PROPERTY

For many New Zealanders, bricks and mortar are an important part of our lives. We either own our own home or aspire to one day. Some go one step further and purchase rental property.

Back in the 1980s rental property helped provide a hedge against inflation. Rapidly rising values increased our net equity, while minimum repayments were required for the mortgage each year.

However, times have changed and with a government focused on a low inflationary environment, we can no longer rely on inflation to grow this asset for us.

When investing in rental property, we believe it is important to consider the following.

Location The diverse housing market in Auckland, means we need to be careful where we buy.

Age Older homes can be more attractive because they are cheaper to purchase initially, however maintenance costs can be expensive each year.

- Do your homework and employ an independent professional to value the property before you buy.
- With an older home, put 10% of the gross annual rental into a maintenance fund.

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Tenants

Demand and supply for rental property changes regularly in Auckland which can make it difficult to retain consistent tenancy over the long term. Slower growth in market values due to low inflation means regular rental increases can be difficult to obtain.

- Only allow for 49 weeks in rental income and talk to LawWorks about long term leasing with built in rental reviews.

Unreasonable Expectations

A lot of people have unrealistic expectations about the annual after tax return and capital growth they can expect from their property. They believe the property is sufficient to provide for retirement.

- Enlist the help of a financial planner to analyse the property(s) to determine the realistic contribution it makes to your retirement plan and what else needs to be done to achieve your financial goals.

Rental property can be rewarding but remember it is a business and needs to be treated as such in order to succeed.

For more information, contact LawWorks at the below address.