THE FUTURE BELONGS TO THOSE WHO PREPARE FOR IT.

the Oracle

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Capital growth versus rental return: which investment property is suitable for you?

Hoping you all had a Happy Easter & safe holiday. *Angelo Benedetti*

Investing in real estate is undoubtedly one of the most efficient ways for Australians to build their wealth. Property has historically increased in value in most markets in the long-term and gives buyers the added benefit of receiving a direct return from the rental income.

Property that yields high rental returns as well as good capital growth can be hard to find. So many investors therefore usually base their strategy around either long-term capital growth or a cash-positive rental return.

If you're not sure which path you should take, the following tips should help you decide which strategy best suits your goals.

High rental returns

Though they can pop up anywhere, good rental yields typically arise in regional or outer suburban areas. While such properties are less likely to be affected by fluctuations in market prices, steady rental demands increase the likelihood of solid rental returns.

Properties with a high rental yield can make for a great investment with those looking to increase their day-to-day cash flow, however it pays to take note that it is also taxed as income, and this can minimise an owner's net earnings.

Capital Growth

Capital growth investors on the other hand are looking for properties that appreciate in value rather than focusing on the rental yield. While usually found anywhere, investors often focus on capital cities or areas of growth and development.

The objective of this strategy is to sell the property for a profit within a certain number of years, leaving a healthy return on the initial investment.

It can be a struggle for some investors to work through the first two years of ownership though, as the rental returns may yield little or no profit and mortgage repayments may need to be bolstered with other funds. Just be careful that you're not over committing or paying more than you can afford.

It is important to remember that while property investment is one of the safer options open to Australians, there is no guarantee that a property will continue to increase in value at the rate it has done in the past. Make sure you take time to research the market, always take a long-term view and speak to your broker to ensure you've chosen suitable finance.

Mortgage health check

With 2007 well and truly underway, now is a good time to investigate how well your mortgage is performing. Any number of alterations to your work habits or lifestyle spending may have affected your financial needs, so it pays to have a quick look at where your money is going, what interest rates are up to, and whether or not you are getting the maximum use out of your loan features.

To find out if your mortgage is working hard enough book an appointment with your broker. In the space of half an hour they can outline whether your loan is up to the task or whether a new loan may better suit your current circumstances.

It might also prove a good time for you to consider locking part of your loan into a fixed-rate combination. Asking a few simple questions could save you plenty of dollars in the long run, so make an appointment with Oracle Lending Solutions today.

If you would like to discuss your options, please call Angelo Benedetti for a no obligation assessment.

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