Property investment myths

By Margaret Lomas – director of Destiny Financial Solutions

In some ways, the olden days were definitely easier. No one had to feel guilty that John and Joan from next door were buying their third investment property while they were too frightened to embark on their first. We didn't have to curse every time we ignored that hot share tip we were given last week by the green grocer, only to find that the tech boom paid off after all and Joe Bloggs down the street was now retiring as an on-paper millionaire. All that was expected of any middle class Australian was that they would save hard to buy the family home, and then work equally hard paying it off before the golden handshake at 65.

As parents do, our forebears taught us only what they knew. We didn't need to know much about money – how hard did it really get? All you had to know was that you worked, you saved, you borrowed for your family home and you paid your bills on time.

And so today, many people today are still guided by investment myths which simply are not appropriate for the new approaches to investing that have been developed as we realise that the responsibility for our futures has placed itself firmly in our own back yards.

Let's take a look at the myths and explore what may have been their origins.

Myth Number 1

You must be debt free before you begin an investment portfolio

Waiting until you own your own home debt free may mean you miss the boat completely. The way to deal with this myth is to know that personal debt is bad debt, but debt which secures income producing growth assets is good debt. As the asset grows, you only need to repay what you borrowed, and you can keep the rest to fund your own retirement.

Myth Number 2

You need cash lump sums to invest

The beauty of property as an investment is its acceptability by banks as a security for borrowing. That being the case, once you have entered the market with your first cash deposit (usually via a purchase of an owner-occupied property), even low growth on property will mean that you can leverage again and again over time, even if you never have any actual cash to do so.

Myth Number 3

Capital growth is the single most important feature of an investment property

Capital growth is important over time. But your sole reason for investing in property should be to hold on to it as long as you can so you can gain the maximum amount of growth. To do this, the cash flow aspects of the investment today should be more important to you than its potential growth rates, since the ability of a property to support its own costs is what will keep you in the market.

Myth Number 4

Your family home is a financial asset

Choosing to view your family home as an asset will allow you to ignore the very important task you have in preparing financially for your own retirement. Often, when I speak to people about their future and the day they ultimately leave the paid workforce, they indicate a false sense of security, quoting the incredibly rising value of their family home as their retirement fund.

If you do not want to end up among the ranks of our aged population who have been forced to sell the family home and move outside the area they have been in for many years just to liquidate some cash to make life a little easier, then you must accept that your home will remain a liability until you choose to use it to leverage into other income producing assets. For many this will mean dealing with fear of debt now, and understanding that another day you wait may well be another day you waste.

The Biggest Myth

Perhaps the biggest misconception about investing is that you need to be a risk taker, or otherwise highly intelligent and astute, to succeed. Almost anybody with any level of income can put together some form of investment portfolio, and most probably include property in that portfolio. The key is to become informed. Ask questions and read as much as you can. Consider all viewpoints and extract from all things the bits that feel right for you. Decide that today will be the day you start and don't procrastinate. Understand that the road will not necessarily be smooth and at times it will seem that the adversity is just too great to overcome, but slowly and surely you will begin to see the forest for the trees and your portfolio will grow and prosper. And most importantly, you will have taken the responsibility for your future into your own hands, and this makes the achievement that much more rewarding.

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