InvestorOne

Considerations when investing in property

1 – Determine the type of property

When a decision to invest in real property is made the first question an investor needs to ask is whether to acquire residential, commercial or industrial property. Small investors have always preferred residential property largely because it is what they know. Commercial and industrial property has its advantages; however it is different to residential property. Commercial and industrial properties have different issues to residential property.

Some of the differences between commercial and residential property include:

- Commercial leases normally have an initial lease term of 3 to 5 years,
- Residential leases normally have an initial lease term of 6 months,
- Commercial property normally have a yield that is around 6 to 8%,
- Residential property normally has a yield around 4 to 6%,
- Commercial properties are normally more expensive than residential properties.

2 – Determine the structure to hold the property

The decision of what type of structure to use is just as important as the purchase of the property itself. The key questions that an investor should ask themselves include:

- Will the property be negatively geared and who should receive this benefit?
- Will this property be held long term?
- What are the land tax costs of holding the property?
- Will the property be transferred to another entity (i.e. SMSF) at a later stage and at what cost?
- Who or what entity should receive income and capital gains in the future?

Selecting an appropriate structure that provides both tax efficiency and flexibility is overlooked by many investors and advisors.

3 – Key investment issues when acquiring a residential property investment

The following are some of the key factors when selecting a structure to hold a residential investment property.

- The land tax definition of owner includes joint owners in NSW (i.e. Mum and Dad holding property together receive 1 threshold whereas Mum and Dad holding property separately receive 2 thresholds),

- A residential investment property cannot be transferred from individual(s), trusts or a company to a self managed superfund,

- If a residential investment property is acquired by a unit trust a self managed superfund can acquire units so long as certain conditions are met,

- The issue and redemption of units in a unit trust may not attract stamp duty in certain States and therefore provide flexibility for later movements,

- Some trusts create unnecessary land tax burdens in relation to property holdings (see Land Tax Unit Trust brochure).