

## Property Risks

Potential Risk	How this may affect your property	How can you minimise this risk?
Property prices do not rise as much as you had expected or may even fall in real terms	<p>The value of your investment may decrease in capital terms, against which there can be no guarantee.</p> <p>A short term sale of the property or a sale within a forced time frame could mean that you get back less than you invested.</p>	<ul style="list-style-type: none"> <li>• Always buy for the medium to long term. It is usually safest to plan to hold the property for at least a 10 year period</li> <li>• Buy in an area that has a track record of solid capital growth and/or is rising in buyer appeal</li> </ul>
Rental returns do not rise as much as you had expected, or may even fall in real terms	<p>The income return from your investment may remain static.</p> <p>Upward movements in interest rates – particularly if you have borrowed a large proportion of the purchase price – may place pressure on your ongoing ability to finance your investment.</p>	<ul style="list-style-type: none"> <li>• When doing your numbers, build in a safety margin on the income return you are expecting to cover possible short term ups and downs</li> <li>• Don't over-borrow. Using finance to leverage a property investment can make good sense, but be aware of the risk of stretching yourself too far.</li> </ul>
Off-the-plan purchase doesn't go as expected	<p>There are a number of potential risks in purchasing off the plan including construction delays, a possibility of the market price falling between the time you sign the contract and settle and the possibility that the property does not meet your expectations upon completion.</p>	<ul style="list-style-type: none"> <li>• When buying off the plan you should consider it to be a long-term investment</li> <li>• Read the fine print in the purchase contract to know exactly what you're buying and what your rights and responsibilities are</li> <li>• Research the developer's track record</li> <li>• View other properties built by the developer</li> </ul>
A builder becomes insolvent, liquidated or suspended	<p>This can result in a myriad of problems including the possibility of the property purchase being unable to settle.</p>	<ul style="list-style-type: none"> <li>• Check that the contract requires the builder to have adequate insurance</li> <li>• Ask to see a copy of the builder's insurance policy</li> </ul>

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Faults in construction	Faults in a builder's work can occur, potentially diminishing the value of the property	<ul style="list-style-type: none"> <li>• If there are faults with a builder's work you can usually get it fixed under warranty.</li> <li>• Ensure the builder has 'home warranty insurance'</li> <li>• Ask your solicitor for the policy and certificate numbers</li> <li>• Ensure your builder is covered by a reputable, long-standing insurance company. If the insurer were to become insolvent, liquidated or suspended the builder may not be in a position to repair any deficiencies</li> </ul>
Property can deteriorate and lose value	<p>Lack of maintenance, bad weather or any number of other disasters can impact the value of a property.</p> <p>In the case of strata title, an ineffective body corporate may result in insufficient maintenance of the common property areas resulting in loss of value.</p>	<ul style="list-style-type: none"> <li>• Allow sufficient money for routine maintenance</li> <li>• Ensure you have adequate insurance cover</li> <li>• Get involved in the body corporate to ensure regular maintenance is carried out</li> </ul>
Property is vacant for longer than you had expected	Your total rental income for the year may be lower than expected. At worst, you may receive no income for a significant period of time and have to cover your mortgage payments and other costs yourself.	<ul style="list-style-type: none"> <li>• Build in to your budget an allowance for empty periods (allow a vacancy period of at least 4 weeks per year to be prudent)</li> <li>• Use a property management firm to handle lettings and re-lettings even if you wish to manage the property yourself</li> <li>• Would you choose to rent the property? What can you do to make the property more appealing to potential tenants?</li> <li>• Are you asking too much? Check the local newspaper to see what similar properties in the local area are renting for</li> </ul>

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Bad tenants	Tenants may damage the property, fail to pay rent on time, or upset neighbours. This may increase your costs, reduce your rental income and lead to a need to evict the tenants.	<ul style="list-style-type: none"> <li>• Invest in landlord’s insurance</li> <li>• Take the time to check references, including previous landlords, employers and financial references. If there are any questions do a thorough investigation</li> <li>• If possible drive by their previous residence – is it in good condition?</li> <li>• If you do not have time to do the required homework use a property management firm</li> </ul>
Costs rise unexpectedly	For example, the monthly mortgage payment rises or you have to make major repairs to the property.	<ul style="list-style-type: none"> <li>• Consider a mortgage with a fixed rate. With a fixed rate your payments will not go up even if interest rates rise.</li> <li>• Build-in a margin for unexpected costs and repairs</li> </ul>
Public liability	Members of the public might be able to sue you for injuries received whilst on your property.	<ul style="list-style-type: none"> <li>• Arrange and maintain adequate insurance</li> <li>• Ensure you comply with statutory regulations designed to protect the safety, well-being and basic rights of your tenants and their visitors</li> <li>• Ensure repairmen and contractors working on your rental property carry adequate liability coverage and workers’ compensation insurance</li> </ul>

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Negative change in personal financial circumstances	<p>A negative change in your finances could occur if you lost your job, got divorced or became ill resulting in an inability to earn income.</p> <p>This could mean an inability to maintain mortgage payments on your investment property and even your own home. Non-payment of a mortgage can result in a possible forced sale which could result in substantial losses.</p>	<ul style="list-style-type: none"> <li>• Try to invest in property that is neutrally or positively geared so that the impact on your monthly cash flow is minimal</li> <li>• Invest in income protection insurance. This provides a replacement income if injury or illness prevents you from working for an extended period of time, ensuring that you can continue to meet regular expenses including mortgage repayments</li> <li>• You may also consider trauma insurance which is another way of protecting your income. It provides a cash lump sum if you suffer from a specific injury or illness</li> <li>• Invest in life insurance; life insurance pays out when you die and is a particularly good investment if you have dependants</li> </ul>
Property may have some hidden surprises	<p>Any number of items can be wrong with a property from termite infestation to electrical problems. Some serious problems are not always immediately apparent.</p>	<ul style="list-style-type: none"> <li>• Arrange for the necessary inspections including a building and pest inspection</li> </ul>
Difficult to liquidate quickly	<p>If you need fast access to the money invested in the property, it may take time to sell it</p>	<ul style="list-style-type: none"> <li>• Refinance to access equity</li> <li>• Look for alternatives to selling the property</li> <li>• If you must sell, consider selling at auction</li> </ul>
Property has an encumbrance	<p>An encumbrance is any legal impediment to the use or transfer of land, including such things as easements, mortgages, caveats, notices of intention to resume, and leases which are usually registered on the title.</p>	<ul style="list-style-type: none"> <li>• Always check the title and the purchase contract for encumbrances</li> <li>• Seek advice from your solicitor on any encumbrances</li> </ul>

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Changes to property tax laws	It is important to be aware of the possibility of the performance of your investment being affected by changes in taxes such as income tax, capital gains tax and various property taxes such as land tax and rates.	<ul style="list-style-type: none"> <li>• There are several taxation issues to consider when investing in property, be sure to talk to your tax accountant about your personal situation</li> </ul>
Forced sale	<p>If you need to sell a property at a time when demand is low then a loss could be incurred.</p> <p>This could be not only because market prices have dropped but also because the costs of selling can be high. For example selling costs can include capital gains tax, land tax, selling agent fees, marketing fees, solicitor fees, accountant fees and more.</p>	<ul style="list-style-type: none"> <li>• Only sell if there is no alternative</li> <li>• Shop around for a good real estate agent</li> <li>• Presentation is everything! Do your best to ensure the property is neat and tidy when potential buyers inspect the property</li> </ul>
Market risk	The performance of an investment property is affected by the overall market and general condition of the Australian economy.	<ul style="list-style-type: none"> <li>• Talk to your advisor about possible diversification</li> <li>• Do your research to be well-informed</li> </ul>
Unreliable or misleading information	Information on a property can be misleading and unreliable. Also be aware that all forecast information is based on assumptions and is not guaranteed.	<ul style="list-style-type: none"> <li>• Don't rely on only one source of information</li> <li>• Ask a lot of questions and where possible verify their answers</li> <li>• Seek professional advice from an advisor you trust</li> </ul>
Property trading or flipping	Property trading is buying (via various methods) and selling property in a short period of time. It is risky as a large number of factors can impact your returns. An unsuccessful trade may incur high losses.	<ul style="list-style-type: none"> <li>• Develop a strategy to invest for the long-term</li> </ul>
Compulsory Acquisition	Instances may arise where you will have to sell your property to the Government. This could be because your house is in the way of a new freeway or other structure.	<ul style="list-style-type: none"> <li>• In situations such as this the government will generally compensate you for your loss</li> <li>• Obtain professional valuation advice to ensure that the compensation is fair and reasonable</li> </ul>

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National & global events	Wars, civil insurrections and other major unforeseen events beyond the scope of the information available to you at the time of investing could also have an effect on your investment. Sometimes events such as these increase the likely performance of an asset, at other times they impair performance.	<ul style="list-style-type: none"> <li>• Talk to your advisor about risk mitigation strategies</li> </ul>
Legislative changes	Changes in State or Federal legislation or policies can affect the return on your property investment. For example, current government policy allows depreciation, but should this change it may affect the financial performance of your property.	<ul style="list-style-type: none"> <li>• Do your research</li> </ul>
Local government planning changes	Zoning plans and the location of infrastructure such as roads, schools and shopping centers can impact the value of a property.	<ul style="list-style-type: none"> <li>• Talk to the council to find out what their plans are</li> <li>• Talk to neighbors and other locals</li> </ul>

You now understand some of the risks involved in investing in property. Risk is not something to be scared of, rather it simply needs to be understood, accounted for and managed.

And remember... *“There are risks and costs to a program of action. But they are far less than the long-range risks and costs of comfortable inaction.” – John F. Kennedy*

SPECIAL NOTE: Consumers must seek their own professional advice in relation to the risks of investing in property and must make their own assessment in these areas before investing. We have in preparing this information used our best endeavors to ensure that the information contained therein is true and accurate, but accept no responsibility and disclaim all liability in respect of any errors, inaccuracies or misstatements contained herein. Prospective purchasers should make their own inquiries to verify the information contained herein.