Is it better to buy an investment property or home first?

There's a lot to consider when buying an investment property or home, especially for the first time.

Have you been saving for a long time and feel ready to get into the property market? Maybe you're considering buying a home to live in or investing in a property you can rent out to somebody else.

Either way, it's worth knowing some more about both options to ensure you're making a well-informed decision, noting that regardless of what you choose to do, property prices can go through major swings that can occur with little warning.

Buying your first property to live in

- **First home owner grants**. Depending on which state or territory you live in, a first home owners grant could help you to finance your first home purchase. This doesn't apply to investment properties, and in some states you'll lose your right to this grant if you buy an investment property first.
- **Security and stability.** You can stay in your home as long as you like, as long as you're making your home loan repayments.
- **Exempt from capital gains tax (CGT).** Any home that is classified as your main residence, whether it's your first place or not, is free from CGT when you go to sell it. If you'd like to know more, read our article – What is capital gains tax?
- **Expenses stack up and aren't tax deductible.** There will be initial costs, such as stamp duty and legal fees, as well as ongoing costs, such as water rates, building insurance and repairs. When buying an investment property, you'll also be hit with these costs, but depending on your situation some of the costs attached to your investment property may be tax deductible.

Apex Partners Pty Ltd ABN 24 132 935 016
133 Alexander Street Crows Nest NSW 2065
Phone: 1300 856 338

- **You may have to make some sacrifices.** Where you really want to live may not be where you can actually afford to buy. So, whether it means choosing a place that's smaller, further out from the city, or looking for a job closer to your new home, you may have to make some trade-offs.

Buying your first property as an investment

- **You may get a cheaper place.** An investment property doesn't need to tick all the boxes of your 'dream home', which means you could potentially buy something at a cheaper price.
- **It's not an emotional decision.** Your purchase should be based on investment potential, including forecast rental return and capital growth. So, instead of walking into a place and having to love the look of it, you can walk in with your investor's hat on.
- **Earn rental income.** If you're renting out your investment property, you'll be getting money from someone else to contribute to your mortgage, which means you could pay off your loan sooner. Bear in mind however that the rent you receive may not completely cover your home loan repayments and additional costs.
- **Tax advantages and disadvantages.** Many of the costs associated with an investment property are often tax deductible. For instance, the interest and fees you pay on your loan, advertising for tenants, as well as cleaning, gardening, maintenance and pest control. Also, if your property is negatively geared—which simply means the interest, and other costs you incur are more than the income your investment property produces—the loss can reduce the amount of tax you pay on your earnings at tax time. On the flip side, if you sell your investment property down the track and make a profit, capital gains tax may be payable.
- **Management and obligations**. If you're time poor or located a long distance from your investment property, another thing you'll need to think about is appointing a property manager to take care of certain duties. On top of that, there are various responsibilities that apply to landlords before, during and when ending a tenancy and these can differ depending on which state in Australia the investment property is located.

Source: AMP News & Insights