

There are many types of investment: when should you choose property?

by JOHN EDWARDS, CEO Residex

The easiest way of determining how you should invest your money is to look at the pros and cons of the various possibilities. There are three obvious ways of investing your money - placing it in a bank account, investing in shares or purchasing property. Which one will be the most suitable for you will depend on your current and expected future position.

When are bank deposits a good investment?

Bank deposits certainly provide a **very secure form of investment**, but as a consequence the returns are very low in comparison to other forms of investment and **they cannot be leveraged**. The tax benefits that flow from negative gearing are not available and so it's quite clear that leaving your money in the bank is **not likely to be the best option**, unless you are seeking **the highest level of security** and are content with a low investment return.

When are shares better than property?

The most obvious advantage of shares over houses is that you **don't need a big nest egg to begin investing**. An investment can be under \$1,000, whilst in the property market, usually at least \$20,000 in savings would be needed. From this a number of benefits arise.

You can make a **gradual investment**. If you have a \$1,000 in savings it can be invested straight away, and as more becomes available, subsequent amounts can be invested. With property, however, it's all or nothing. This makes shares ideal for individuals who are **just starting up** and don't have much to invest.

This type of investment also allows you to **disperse your investment** so that risk is reduced. Because comparatively small sums of money can be invested, you can have shares in a number of different companies. On the other hand, dispersing your property investment in a number of homes requires large sums of money.

Shares have **negligible maintenance**. With shares you won't have to worry about gardening, painting, or finding new tenants. This asset looks after itself, and also, shares can also be **more easily and quickly sold** than property. It takes time to prepare a home for inspection and find a buyer. Shares on the other hand can easily be sold on the day you decide to dispose of them.

When is property better than shares?

One of the key reasons why you might invest in property over shares is that this asset is less volatile, making it less risky for the investor. This occurs because house values won't dramatically increase one day and fall the next, so getting in and/or out at the wrong time is less risky.

Property is also "safe as houses" because you can **guarantee almost always that the value will grow in the long term**. Everyone needs a roof over their head, the population is increasing, yet no more land can be made. This means that land is becoming an increasingly scarce asset and so values are only going to increase. Property is also advantageous because **you are in charge of the asset**. This means that you can personally enhance the value of your property - fixing up the kitchen or landscaping the garden are all

things you can personally do to increase the selling value. In addition, unlike shares, each house is different and can be valued and sold on its unique attributes.

This asset also **offers greater leverage** than shares, as you can usually borrow a far greater proportion of your investment. This means that a comparatively small amount of cash gives you the benefits of owning an expensive asset. To take advantage of this, the returns - rent, property value increase etc - will need to exceed the interest being paid on the money borrowed. Our just released **Best Rent Report** features the top 100 suburbs in Australia for both rent and capital growth to help you make the right investment choice. There are also grants and tax exemptions provided by governments to encourage some home buyers which are not available with any other form of investment.

What should you consider?

How you proceed is essentially dependent on how much you currently have to invest, what levels of risk you are willing to take, how accessible you need your saving to be and how much time you are willing to devote to your investment decisions. Usually, when you are **first beginning to invest, shares are your best option**. However as **more equity becomes available, investing in houses will provide additional benefits**, reducing your risk and increasing your borrowing capacity.

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