7 MORTGAGE MISTAKES *investors should avoid*

Everybody makes mistakes, sometimes it is the best way to learn. But when it comes to property investment, mistakes can be costly and it is wise to learn from the mistakes of others to modify your strategies and be ready for a much smoother experience. OBU RAMARAJ highlights seven mortgage mistakes that savvy investors should avoid to build a successful property portfolio.

Buying a property can be a sound investment which can provide a steady source of income and eventually profit, when you want to sell it. Maximising profit is a balancing act between choosing the right property, the right suburb and the right home loan.

The truth is that buying and managing an investment property requires time, skill and experience. You need to do your homework, consider your long-term investment goals, costs and exit strategy. Before you apply for your mortgage as an investor, consider these seven mistakes that most property investors make.

Mistake #1: Making a purchase based on emotion

New property investors have a tendency to choose a property because they have fallen in love with it. You should buy an investment property based on affordability, market value, rate of occupancy and future growth potential. Investments should be free of emotion and the best way to achieve that is to engage the services of a buyer's agent.

Mistake #2: Not being finance ready

The kind of property being purchased determines how much finance you can secure. For example, you can only borrow up to 80% for an off-the-plan CBD apartment and even less for student accommodation. It is important to ensure your finance is pre-approved based on the amount you can afford and for the kind of property you want to buy.

Mistake #3: Not using the right structure to borrow

Many investors are so keen to buy an investment property, they will do it at any cost and sometimes borrow using the wrong structure. One example is cross-collaterisation where two or more properties serve as securities against one big loan. This is a risky choice, in that you may end up paying thousands more in mortgage insurance, or it can be difficult to release a security in the future should the need arise (depending on total borrowing).

Mistake #4: Not engaging the right team of professionals

A key to achieving success in property investment includes engaging the right team of professionals. One of the biggest mistakes you can make is to try and do it all yourself. Research, understand and gain knowledge about property investment. Being financially smart will help you ask the right questions and guide you with regard to whose information you should trust.

Mistake #5: Not defining your investment goals

You do not get in your car without knowing where you want to go and how to get there. Similarly, before deciding to become a property investor, you need an investment strategy that fits in with your long-term wealth creation goals and financial situation. With clear goals and consistent review, your investment can deliver positive results with minimal risk.

Mistake #6: Not accounting for extra costs

As an investor, you need to account for extra costs like stamp duty, GST and other expenses before seeking finance. It is important to have enough cash reserves to account for mortgage repayments, council rates, maintenance, insurance, property management fees and utilities amongst other fees, should you find yourself without tenants for some time.

Mistake #7: Not reviewing your portfolio regularly

Banks change their interest rates seasonally and sometimes offer new promotions. If you get too cosy with your preferred lender, you may miss out on a really good deal with another lender. Therefore, ditch your 'set and forget' mentality and review your loans at least annually, to ensure you have a loan at the best rate.

To sum it up, whether you are buying your first or subsequent investment property, you need to know your investment goals, plan your investment strategy, and finally engage the right team of professionals. Avoid the mistakes above and you are on your way to building a successful property portfolio. ■

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