



# PROPERTY QUARTERS

*Leasing and Management*

## UNDERSTANDING RISK

Like all successful endeavours, building wealth through investing in property needs careful planning.

Which strategy you use will depend on how comfortable you are with taking risks.

An investor with low tolerance to risk will need to be cautious and utilise a strategy based on security whereas an investor with a higher tolerance to risk can be more aggressive with their choice of strategies.

The common rule for all investors is that a higher risk factor deserves a potentially higher reward. Is there an appropriate reward for the level of risk you are willing to take: is the risk worth taking?

There are a number of factors in determining how comfortable you are with risk:

- Your general attitude – are you a “glass half full“ or “glass half empty” sort of person?
- Your current personal circumstances. For example, a 25 year old single person may have a higher capacity for managing risk than a person with a family of 5 children who has more to lose.
- Your current skill and knowledge or access to skills and knowledge you can trust. Everything is easy when you know how.

Once you have an understanding of the level of risk you are comfortable with, you can then decide on strategies that are within your level of tolerance. Stress and pressure are experienced only when events take you beyond your comfort level.

Property investment strategies revolve around the following attributes. Care must be taken that the cumulative level of risk created by all your choices doesn't become too great and/or there is sufficient reward to make it worthwhile.

Risk is related to the difficulties that arise in finding and keeping a tenant for your property

### **CASHFLOW**

The more you borrow, the higher your expenses which results in less nett income. In some months there may not be enough rent collected to cover expenses. This can add enormous pressure if a tenant moves out and the property becomes vacant for any length of time or if unexpected repairs are needed.

### **QUALITY OF THE PROPERTY**

The better the presentation and overall feel of your property the better quality tenant you will attract. The better the tenant the more secure is your property and income.

### **POSITION/LOCATION**

Is your property in the best street or worst street of your area? Is it adjacent to power stations, industrial premises or transport hubs?

### **PROFIT V TENANT**

A too cautious investor will sacrifice rental income for the sake of the security of a good tenant whereas an aggressive investor will risk losing a good tenant for the sake of a higher return.

### **INSURANCE**

All savvy investors know that landlord insurance is essential. Make sure you have adequate cover for your actual needs and not paying for cover on items that are not relevant to you or your property.

02 8866 5000

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