Why losing your job doesn't mean the end of your investing days

One of the biggest concerns we hear from potential investors is: 'What happens if I lose my job?' But this shouldn't be a major worry for you as a property investor – and here's why

THE thought of losing your job can make you anxious. It's an understandable fear. Many people worry about the financial side of investing in property and how they will afford to maintain their lifestyle plus their investment expenses if they don't have a regular income.

Rental income: your financial protection

As a landlord, you are responsible for paying the mortgage on your investment property. However, you don't have to come up with this on your own – the rental income from your tenants will keep flowing in, even if your employment income suddenly dries up. So you should continue to receive enough funds to cover most (if not all) of your mortgage repayments, regardless of your job status.

Where investors start to panic is when their property investments are heavily negatively geared. If your rental property costs you $50 per week to run, then you can probably afford the extra costs for a few months while you seek employment, but if your investments are costing you $500 per week, you could find yourself in some financial strife until back at work.

OUR EXPERT

Philippe Brach

is CEO of Multifocus Properties & Finance. He is an experienced property investment specialist, finance broker and author of *Creating Property Wealth in any Market*

What do you do if you lose your job?

1. Get a handle on your situation

Your first step towards gaining control of the situation is to understand your financial position and your most pressing money obligations.

ASIC's Money Smart financial guide confirms that you will feel able to make clearer decisions once you know exactly how much money you have. It suggests that you assess how much you have in savings and list every expense you'll need to meet for the next eight weeks or so. Include necessities like mortgage repayments, other loans, car and home maintenance, and insurance premiums. This gives you a baseline of 'essential expenses' to cover, while all luxuries are on hold.

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2. Rely on your savings

We advise our clients to keep a certain amount of money in savings (or available equity) on hand as a buffer to deal with emergencies. With this in place, you'll be able to navigate a temporary lack of income, and once you have a new job you'll be back to your normal financial routine.

In addition, you can claim relevant tax deductions across the entire income year, so you won't lose any tax deductibility along the way.

3. Pay only the interest

Hopefully you have already set up your investment loans on an interest-only basis, which is what most investors do. If not, then talk to us and we will see what can be done.

4. Get another job

For most people, finding a new job within a month or two is not a problem, in which case everything will be back to normal. So start looking for employment immediately.

5. Tax considerations

If you have no income for a period of time, the tax entitlements are not lost, they are carried forward. Once you have a new job, you simply claw back your investment tax losses.

In conclusion, most people will be able to weather the short period between jobs if they have set themselves up properly at the start with a good risk management plan. YIP