Invest in *property*. Build your portfolio.

Loan Market

Seriously helpful.

Invest in *property*,
Build your portfolio.

Investing in property has long been a strategy for Australians to build wealth. From purchasing a small unit while rentvesting to managing a portfolio of properties - the key to success is to make wise, educated decisions. That's where a Loan Market broker can help.

Here we look at:

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01

Getting started.

If you haven't invested in property before, there are a number of ways you can get started. The important thing is that you make informed choices and ask any and all questions along the way. Some key considerations include:

- Do you own your own home, or are you considering rentvesting?
- What is your budget?
- What strategy would work for you - positive vs negative gearing?
- What property type works best for you?

We'll explore all these topics in this ebook to help you lay the foundations of a solid investment property portfolio.

To get started, we'll look at rentvesting vs purchasing an investment as your second (or third, fourth, etc) property.

Rentvesting

Rentvesting is where you purchase property in an area you can afford, while choosing to rent and live in an area you want to be in. This can be a good strategy for people looking to get into the property market with a smaller deposit. It requires researching property sales, vacancy rates and rental prices to find an area you want to invest in. The benefit is you are not limited by areas you want to live in, so can remove the emotional component of buying your first home.

Using equity

If you already own property, you may be able to use equity to top up your deposit. You'll need to work out how much equity you have in your home, and how much "usable equity" lenders will consider (more information on this below). You will likely need to get a valuation on your property to determine its current value. This can be arranged by your broker.

The size of the deposit you will need varies from lender to lender, but in general lenders require a 20% deposit to avoid paying lenders mortgage insurance (LMI), which provides cover for the lender. Don't forget, if you access equity from your property, it increases the size of the loan which increases your repayments.

What is equity?

Equity is the difference between the money you owe on your property and what a lender thinks your property could sell for. For example, if you had a loan balance of $500,000 and your property was valued at $800,000, you would have $300,000 of equity and a loan-to-value ratio (LVR) of 62.5%.

Note your usable equity is a little lower than this. A lender usually calculates usable equity as 80% of the value of the property minus the loan balance.

02

Crunching the numbers.

Before purchasing your property, you will need to have a look at your budget and crunch some numbers to determine what you can realistically afford. Purchasing an investment property carries many of the same initial costs as a property you live in, but there are a few ongoing costs you need to keep on your radar.

Nail your budget

The costs to consider when crunching your own numbers include:

- **Insurance:** It is a good idea to consider landlord insurance to provide financial protection from damage caused by tenants or missed payments. If the property is a house, you will also want to consider building insurance. Chat to us for help with this.
- **Land tax:** If you are liable for land tax, this is paid annually to your state government.
- **Council rates & strata fees:** Council rates vary depending on where you live and are paid to your local council.
- **Strata fees:** If your property is an apartment, townhouse or part of a strata, you will need to pay body corporate fees. This usually includes fees for management, sinking fund and building insurance.
- **Rental management:** Most investors choose to pay a property manager to look after the property, at a fee. The management includes finding tenants, regular inspections and fielding tenant requests on your behalf.
- **Maintenance:** As the owner, you are responsible for ensuring everything remains in working order.

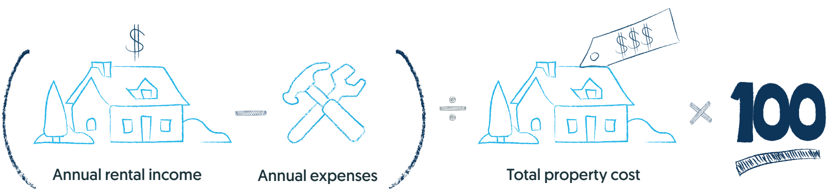
Also keep in mind that typically investment properties attract a higher home loan interest rate than owner-occupied properties. It's important to do your homework to make sure the loan you choose is competitive and suits your needs. Your broker can prepare a shortlist for you and play hardball with lenders on your behalf.

What is rental yield?

Rental yield is the money you earn from rental income minus any expenses you have to pay. It can be calculated as a gross percentage (before expenses are deducted) or as a net percentage (with expenses included).

GROSS RENTAL YIELD

NET RENTAL YIELD



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Reduce your taxable income - let's do the sums.

You rent out an apartment for:
$1,600 per month

Your monthly loan repayments are:
$1,900 per month

You pay other costs of:
$300 per month

You have a shortfall of:
$600 per month

Which is a shortfall of:
$7,200 per year.

Your annual salary is:
$100,000

Your salary minus your annual shortfall is your new taxable income:
$92,800

03

What is your strategy.

When you purchase an investment property to rent to tenants, it could be positively or negatively geared. This refers to whether the income you receive for the property is higher or lower than the overall amount you pay to own it. These can have implications for the investor, not only for how much you have in your pocket week-to-week, but also when it comes to tax. The right strategy will vary depending on your situation.

Here we'll break down the difference between the two, how to know which your property is, and what it means for you as an investor.

Positive vs negative gearing

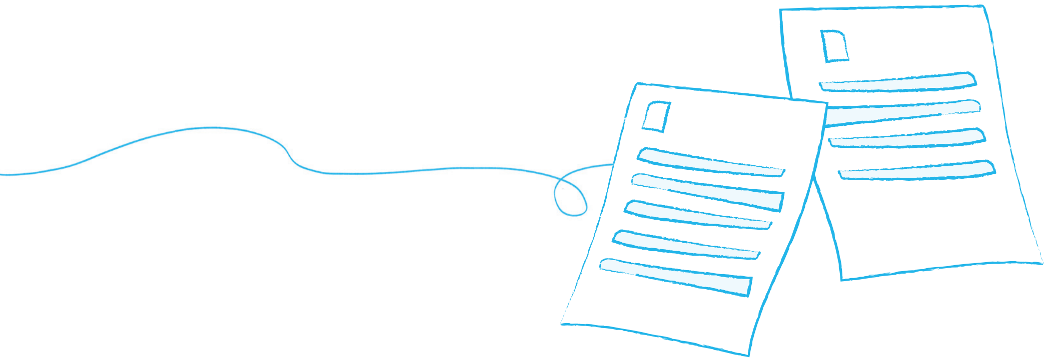
At a basic level, the term 'gearing' means money you borrow to invest. Whether you're positively, negatively, or neutrally geared depends on the rental income and your outgoings, including interest and other associated expenses.

Positive gearing - Your property is positively geared if the income from your investment is more than your interest payments and outgoings like maintenance and repair costs.

Negatively gearing - Your property is negatively geared if the income from your investment is less than your interest payments and outgoings.

Neutral gearing - Your property could be neutrally geared, which means the income is equal to your interest payments and outgoings.

This part is pretty straightforward - you're either actively making money from your investment property, or paying out of your pocket to have the property. However there are other implications such as tax that you should consider.



You may be able to claim a tax deduction for things like body corporate fees, advertising for tenants, insurance, land tax, gardening and cleaning fees, and council and water rates. Check the ATO's rental property guide for a list of things you may be able to claim, and always consult with your tax advisor for more information.

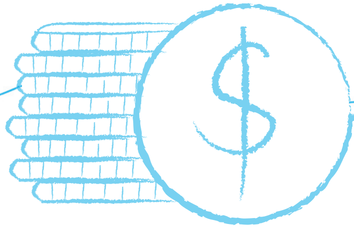
How to calculate whether a property is positively or negatively geared

Whether you already own the property or are looking to purchase one, there are a number of costs to consider when calculating whether it is positively or negatively geared. The amount you have coming in for rent is your income, from which you deduct all your outgoings which can include:

- Mortgage repayments and fees
- Council and water rates
- Land taxes
- Real estate agent fees
- Insurance premiums
- Repairs and maintenance
- Body corporate fees (if applicable)

Beyond this, you can also take into account some potential tax deductions, depending on your circumstances. For example investors may be able to claim some depreciation such as the decline in value over time of the building structure - speak to your accountant for information relevant to your circumstances.

If your income exceeds your outgoings, your property is positively geared.
If your outgoings are higher than your income, your property is negatively geared.



Choosing negative gearing as an investor

At first glance, finding a positively geared property sounds like the most logical strategy, however, negative gearing can have its place for some tax-savvy investors. If your property is negatively geared, you'll need to cover the shortfall out of pocket, but it could in turn reduce your taxable income.

Under Australia's tax law, you might be able to claim the interest and some outgoings as expenses. For example, you may be able to claim the interest part of your loan repayments, along with repairs and maintenance costs on the property as expenses. Your net loss on the property could also be offset against your personal income, which means your taxable income would be reduced. So for example, if your salary is $90k per annum and your property leaves you out of pocket by $5k per year, you may be able to deduct this amount from your taxable income, bringing it down to $85k. By the same token, investors with a positively geared property may need to pay tax on their rental income profit. For more information, the ATO provides a guide to rental income and expenses. It is important to speak to your accountant or financial advisor for personalised advice based on your unique circumstances.

Negative vs positive gearing

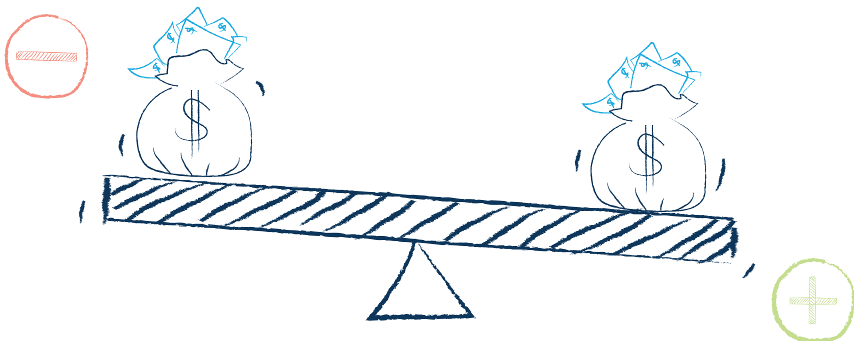
While negative gearing offers financial benefits, it's important to keep in mind tax savings only play a role in the bigger picture of a viable investment property. So while negative gearing could in some circumstances help you save on tax, this shouldn't be the only reason you're investing in a particular property or the sole driver of your strategy. For example, you may not be looking for regular income from the property but be more focussed on finding a property with high capital growth potential, meaning the value of the property is likely to increase above average over time.

Bottom line: which strategy is best?

Both negative and positive gearing have their place, and the right option will depend on your circumstances. It is a good idea to develop a thorough understanding of how each works, including what, if any, deductions you will be able to claim. Additionally, as an investment, it is a good idea to look for a property with good capital growth prospects.

Property investment isn't without its risks, so make sure you have the financial foundation to cushion a fall in the value of your property, a rise in interest rates, and/or long vacancy periods.

As your Loan Market broker, we can work with you to understand what your loan repayments could be if you are looking to invest.



04

Choosing the ultimate **investment property.**

Choosing an effective investment property is more about the financial potential it carries than emotional appeal. This is where research comes in. As your broker, we can help you crunch the numbers of any properties you are interested in and also discuss the strategy that could work best for you.

As a property investor, the dream is a high yield property in a location with big capital gains, strong rental return, low vacancy rates and low maintenance costs - simple, right? The benefit of an investment property is you are not restricted by location where you want to live. You can even look interstate for the right opportunity.

Property buying checklist

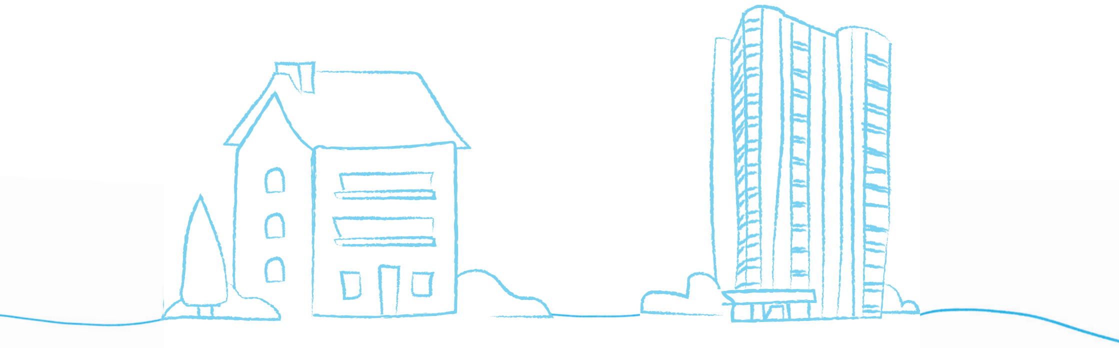
Here are some key considerations when looking for property to buy:

- What is your borrowing power?
- How much rent do you need to make the investment feasible?
- What area do you want to purchase in (this could be based on accessibility for yourself, potential rental yield, demand, demographic, etc)?
- Would you rather a house, apartment, townhouse or student housing?
- What facilities do you want to be close to to attract tenants (such as public transportation, shops, cafes and schools)?

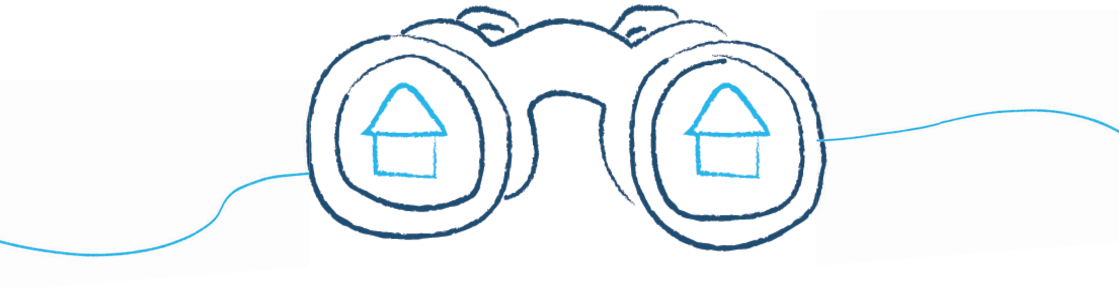
Once you have narrowed your search, consider:

- What state is the building in? Look for structural defects including cracks in the wall, termites, wiring and dampness.
- Are there any developments planned nearby? Check your state government or local council's websites.
- Are there parking spots?
- Is the property at risk of flooding or natural disasters? You can get free insurance quotes online or ask us to get a quote on your behalf.
- What are the ongoing costs for the property (such as council rates and body corporate)?
- Are there zoning or building restrictions on the property? You can check this with your local council.
- Will updates need to be made such as to the bathrooms or appliances?
- Is there much growth potential in the area? Consider past price growth (though past performance is not an indicator of future performance). If it is near a major industry, is it stable (such as mining)?

Once you've set your budget and have an idea of where you want to buy, it's time to start looking. Find out what the future plans are for the suburb and think about what your priorities are in a home. If you're unsure what type of property you may want, here is a breakdown on buying a house vs a unit/townhouse and buying new vs existing.



BUYING A HOUSE	VS	BUYING A UNIT
+ Historically has seen greater potential to grow in value + More scope to improve value and appeal through renovations, additions and landscaping + Not limited by body corporate		+ Often cheaper to buy + Owners can share some repair costs through the body corporate + There could be shared facilities such as a pool or gym to entice tenants
- Usually costs more to buy and you are responsible for all repair costs - Council rates can be higher - Requires building insurance		- Body corporates may limit renovations and additions - You may need to pay money to the body corporate including for strata insurance



BUYING NEW	VS	BUYING EXISTING
+ There shouldn't be many repairs or maintenance required immediately and there may be a warranty on the build + Amenities and technology will be modern + Likely higher energy standards which can be appealing to tenants		+ Could be more choice in the location you want to purchase in + Greater potential to renovate to add value + More straightforward process and can be a shorter timeframe to move in + More evidence of value growth - new apartments can be in overdeveloped areas or new houses can be on smaller land plots
- Construction timelines may not run to plan - There is less opportunity to add value through renovations and improvements - Often new apartment complexes can mean a higher supply of identical properties and therefore more competition for tenants		- Likely to have more need for repairs and maintenance - Amenities and technology may be older and less modern - No ability to customise the floorplan outright, any changes will need to be done by you

05

Finding the right loan.

There are a lot of home loans out there. It isn't quite as simple as deciding you need a loan, and going out to get just any one. To help you understand the difference between your options, we've listed the variations in this cheat sheet.

Variable-rate loan:
The interest rate varies over the life of the loan. If interest rates rise, you pay more, and vice versa.

Fixed-rate loan:
The interest rate is locked at an agreed rate over the specified term (usually one to five years). This means repayments remain the same until the end of the term where the loan will transfer to a variable rate or you can choose to refinance.

Split loan:
You can choose to have a portion of your loan with a variable rate and the remainder with a fixed rate. This can enable you some certainty with the fixed rate, but access to features attached to a variable-rate loan.

Packaged loan:
You have the option to package your home loan with other banking products such as an offset account, credit card, car loan, savings account and insurance (home and contents, car, etc). These can offer discounted rates however often come with a package fee charged annually.

Introductory rate loan:
Also referred to as 'honeymoon rate loans', these offer a lower interest rate for a short period (such as a year) before converting to a standard variable rate.

Principal and interest repayments:
This is where your repayments go toward paying off the principal (which is the loan amount) as well as the interest charged on the loan.

Interest-only repayments:
Some lenders may enable you to only make interest repayments, without paying down the principal, for a set period of time. This could help lower the repayments, however it means you are not making progress toward paying off your home loan principal.

Construction loan:
These are designed for people who are building a home. The lender will provide the money in instalments as it is needed for each stage of the construction. You only pay for interest on the amount you've drawn down and these loans are often interest-only for the first year while the construction is underway.

There are also a few options that can accompany the loan, potentially helping you to pay it off sooner. These are:

Offset account:
This is attached to the home loan but sits separate. Any money you deposit into your offset account counts towards money paid off for your loan, meaning you don't need to pay interest on that amount. However, it usually is accessible, so you can withdraw it if you need to. These more commonly accompany variable-rate loans and can come with fees.

Redraw facility:
This enables you to make extra repayments toward your loan (which reduces the amount of interest you pay), but also withdraw any additional repayments you made if you need it.

Additional repayments:
Some loans allow you to make additional repayments toward the loan. Doing this could save you thousands of dollars in interest.

Pre-approval

When you are looking for an investment property, it can be very helpful to understand how much a lender is willing to allow you to borrow. This is where pre-approval comes in. A conditional pre-approval is an indication from a lender that they are comfortable at that point in time to loan up to a certain limit to you based on your current circumstances. It is important to be aware you're under no obligation to take the loan, and the lender has no obligation to lend you that amount. Depending on the lender, further conditions will have to be met including verification of the information you have provided and confirmation on the suitability of the property prior to formal approval being issued.

As your broker, we can help you get pre-approved for your finance, giving you confidence to move quickly when you find the right property. Pre-approvals can be provided within a few days of application and are usually valid for around three months.

06

Why a Loan Market broker?

There are a lot of moving parts when it comes to buying property. As a first-home buyer, you can remove the uncertainty with the help of someone experienced in the process and is by your side every step of the way - your broker. As a Loan Market broker, we offer you:

We're not a bank, nor are we owned by one
A bank works for its bottom line. We work for you.

Family taking care of family
We're a family-owned business, helping Aussies and Kiwis with their goals for nearly 30 years.

Power to negotiate
With 60+ banks and lenders on our panel, we give you choice and power.

Keeping it simple
We break it down for you - no jargon.

Free for you*
We get paid by the lender you choose.

*We may charge a fee to cover additional time required by our team. Any fees will be discussed with you in advance so you can make an informed decision before proceeding with your application.

Ready to get started?

Make informed decisions to grow your investment portfolio with a Loan Market broker by your side.

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