OWN HOME LOANS

Securing Your Wealth by Investing in Property.

Property investing has been a prominent part of Australian culture for many generations. Owning your own piece of land has long been the great Australian dream — adding bricks and mortar into the mix further builds upon this dream.

There's good reason why people choose to invest in property; For well over 50 years, the median house price has been consistently trending upwards in all major Australian capital cities.

Can you use property to build your wealth?

Investors who stay in the market long-term, typically experience the greatest capital appreciation. This means they can create wealth and financial security for themselves and their families.

As a potential investor, you might be wondering:

- **Should I be investing in property?**
- **Can I afford to invest in property?**
- **How much will it cost me to buy a property?**
- **Is it a safe way of creating wealth for myself?**
- **How do I buy an investment property, and is an investmentproperty different to a normal property?**

It's important to explore the answers to these questions if you are considering investing in property as a vehicle to create wealth over the long term.

This guide will examine these questions and give you the insight to help you identify whether investing in property is the right option for you.

It should be noted that while the vast majority of millionaires in Australia have accumulated their wealth through property, a crucial part of their success stems from 'time in the market', rather than 'timing the market'. Investing in property works best as a long term strategy.

Having worked with many first-time investors all the way through to clients with multi-million dollar property portfolios, we recognise each client's circumstances and scenario is different and requires a bespoke lending solution to help you achieve your personal goals.

Establishing an investor mindset

An essential ingredient to achieving your financial success is developing the mindset of an investor. Equipped with an investor mindset, you will be able to kickstart your investment journey and continue building your wealth and financial security into the future.

Essential elements of an investor mindset:

- **Vision:** Building wealth through property can provide significant lifestyle and financial opportunities for you. Firstly, you need clarity around what you would like to achieve and why this inspires you. With a clear vision and motivation, you can implement a plan to effectively move you toward your goals
- **Awareness:** A key reason why some people build a more valuable property portfolio — even when they have a lower income — is simply because they have begun the process. Many people miss many years of wealth creation opportunities purely because they are unaware they could have qualified years earlier. The first step of the property investment journey is to gain the awareness that it's an achievable possibility for you
- **Objective:** Unlike buying a home to live in, investing in property to build your wealth requires applying a logical set of criteria to guide your decision-making. Those criteria are outlined on pages 4-7. The more analysis and objectivity you can give to the investment process, the more you are likely to reduce your risk and increase the potential to generate a higher return on your investment
- **Action:** With your vision in mind, you will have a good idea about the pace that you will need to approach your investment strategy. Like most things in life, success will ultimately come down to how well you implement your plan, which is why we are here to assist you, so you don't feel like you need to do everything on your own. Cultivating the mindset of an investor will give you more clarity and confidence in making decisions that enable you to move closer to your personal goals

Why do people choose to invest in property?

While there are countless reasons why property is an attractive investment option for Australians, there are six key reasons that underpin why almost all property investors choose property.

It is also important to acknowledge that property, like all investments, carries a certain degree of risk, which you should consider to help you determine whether it is the right investment class for you.

Reasons why people choose to invest in property include:

- **Leverage:** Leverage is using borrowed money to invest, to amplify returns. Let's say you have $60,000. Investing that amount in a different asset class may provide a strong yield at that amount alone. But, by using the $60,000 as a 20% deposit for a $300,000 property, a lender can provide the remaining 80% ($240,000), so the cumulative return on your investment can be much higher than investing without leverage. What's better? A 5% return on a $60,000 asset or a 5% return on a $360,000 asset? You don't need a calculator to see the benefits of leverage here

- **Stability:** Lenders generally regard property as a more stable investment class that is not subject to the same fluctuations or volatility as other investment options

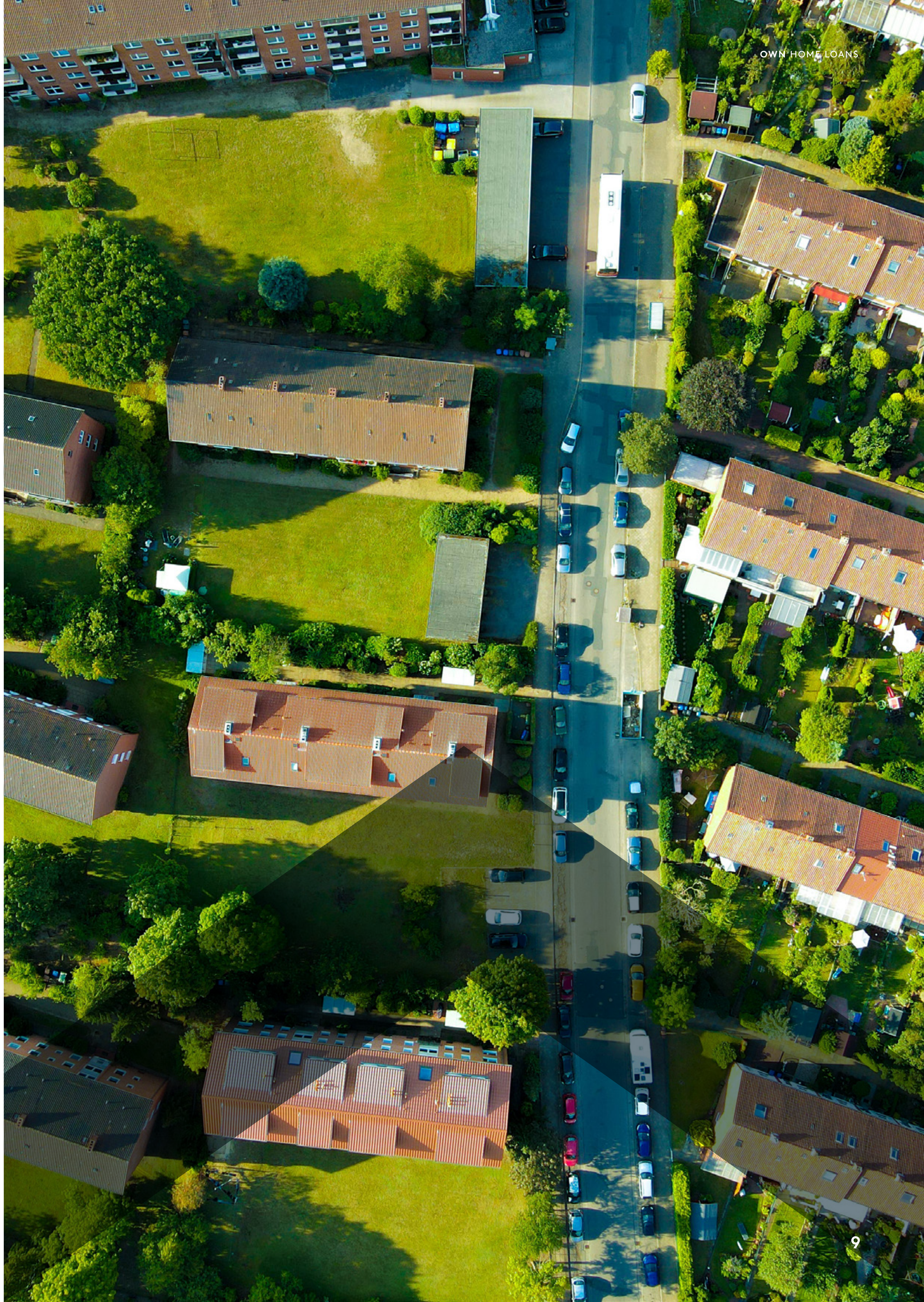
- **Capital Growth:** As your investment portfolio appreciates and rises in value, your wealth over that period increases. For example, if you purchased your investment for $300,000 5 years ago, and it is now valued at $375,000, you have gained $75,000 of equity — this equity can then be unlocked and leveraged to grow your portfolio further!

- **Cash Flow:** Some investment properties can be cash flow positive, meaning the rental income more than covers the loan repayments and costs of holding the property. When there is a mortgage over a cash flow positive property, the investment is considered to be positively geared

- **Tax Advantages:** Some investors acquire property where the rental amount is lower than the costs of the loan and all associated expenses. In such instances, the property is negatively geared, meaning the shortfall is written off against their income, and they receive a tax deduction, which reduces their out of pocket costs — this can be an effective tax-saving strategy

- **Low-Effort:** Investing in property as a buy-and-hold strategy doesn't require the active management that investments such as shares need. Rather than having to keep an eye on your trades, property investors can enjoy the benefits of having a low maintenance, low-effort investment that grows in value over time. This reduces stress and personal effort on their part and means they can actually focus on the other things they want to enjoy

These are the main reasons why people invest in property. We strongly recommend a personalised consultation to help you determine your own finance goals. You will also receive guidance around a tailored lending structure and strategy so you can have clarity and confidence in your approach to investing.



How to choose the right property to invest in?

There are several variables to consider when it comes to choosing an investment property. Your personal investment objectives will influence what factors are most important for you.

Here are some of the factors you would typically want to consider:

- **Objective:** Before you even consider which property you want, it's important to have an end goal in mind. What are you hoping to achieve through investing? Each person has their own motivations, and it's important to be clear on what you would like to accomplish because it will influence almost all other components of your investment process. For example, suppose you're hoping to buy a weekender to enjoy with your family while realising capital growth. In that case, your objective is completely different to someone looking to realise the highest possible rental income from a property
- **Location:** When investing for capital growth, finding a well-positioned property — be it a house, apartment, unit or otherwise — is paramount to delivering significant returns. Across all capital cities, some suburbs have historically outperformed others in terms of percentage growth. There can also be undervalued suburbs in growth areas that have the potential to increase in value
- **Price:** How does the asking price of the property compare to the local marketplace? In some instances, particularly with new properties, they can be priced far beyond 'reasonable' market price solely to maximise profit for the developer. Good property isn't necessarily cheap. However, you shouldn't be paying more than what seems a fair asking price. The factors covered below in amenities and lifestyle have been shown to heavily influence the pricing of a suburb and its dwellings
- **Budget:** It's important to find a property that fits into your budget — otherwise, instead of creating wealth, you could end up with extra financial stress. Generally, a deposit of 20% is a good starting point. This can be made up of savings or existing equity in another property, such as your home. In addition to the deposit, you will need to be able to effectively meet your loan repayments. It's best to speak to a professional about this aspect (like us!) because there are many different variables that impact the amount of your loan repayments
- **Amenities/Lifestyle:** Properties located within close proximity to major amenities and entertainment facilities are likely to be in high demand. Those amenities might include the local shopping centre, access to public transport, dining facilities, cafes, beaches, parks, sporting facilities and schools.The closer the walking distance to these facilities, the more attractive they will be to tenants. Also, some suburbs might have plans to build major infrastructure such as a large shopping centre or business precinct, and often, a significant investment to build local infrastructure can help nearby properties appreciate in value
- **Population Growth & Demographics:** As the population of a suburb or city increases, so too does the demand for housing. That said, it doesn't mean that property values will automatically increase, nor evenly rise across all suburbs. Suburbs with a high shortage of accommodation are likely to increase in value more than those where supply is greater than demand

- **Rate of Owner-Occupiers:** As a rule of thumb, the higher the percentage of owner-occupiers in an area, the greater the influence on capital growth. Also, owner-occupiers tend to take better care of their property (inside and out) than a renter, which positively influences how a suburb looks and feels. As a guide, suburbs with above 70% owner-occupiers are likely to grow more than those where the percentage of tenants is equal to or greater than that of owner-occupiers

- **Vacancy Rates:** What is the vacancy rate of the suburb or area you are considering? If the vacancy rate is high, it generally means there is more supply (property) than demand (tenants), which could impact the time it takes to rent your property. Conversely, low vacancy rates are often a sign that rents will be on the rise

- **Rental Return:** What return are rental properties achieving in the market, and how does that compare to loan repayments and total property holding costs? As property is a long-term investment, it's critical you can maintain the property over the long term to maximise capital growth. The rental return will greatly influence your capacity to comfortably service the loan. Rental yield is calculated as Rent per Week x 52 Weeks / Purchase Price. For example, the rental yield on a property purchased for $450,000 and renting for $400 per week would be ($400 x 52) / $450,000, which equals 4.6%. Though some yields can be quite high and even make the property cash flow positive, it doesn't mean that a higher-yielding property will always deliver the best prospects for capital growth over the long term

- **Uniqueness:** There isn't much uniqueness if your property looks exactly the same as 150 others in a large apartment building. This will likely impact capital growth opportunities — and can sometimes mean lenders demand a higher deposit to reduce their potential risk. Individual dwellings, units, or boutique apartment buildings where there is more scarcity and uniqueness (e.g., an art-deco style apartment on a complex of six) have proven to deliver higher capital growth than high-rise apartment buildings

- **Floor Plan:** A property with a well-designed floor plan will have more appeal to buyers and tenants. Desirable features include open-plan living and dining areas, and a kitchen and meals area that flows out toward the rear of the property. Other aspects include built-in wardrobes, adequate storage, dedicated car park or double lock-up garage for a house, and plenty of natural light. Finishes and Inclusions: The type and quality of inclusions in a property will influence its overall value and appeal for tenants. Though top of the line electrical kitchen appliances may be unnecessary, it does help if the property comes with quality finishes, as this will help it to rent out quicker. If you are buying off-the-plan, be sure to understand what is included as standard, so there are no surprises later

Here are some high-quality finishes that are desirable to tenants:
- Stone benchtops
- Timber floors
- Stainless steel windows
- Quality doorknobs and tapware
- Sisal wool carpets
- Ducted or split air conditioning
- Quality roller blinds

There's an element of art involved in the science of finding the right investment property. Each investor's property requirements will vary based on their borrowing capacity, loan serviceability, future plans, personal desire to invest in a particular market, and so forth.

When it comes to learning more about your options and what type of property will suit your investment objectives, we can provide you with some property reports and introduce you to our established network of property experts who can assist you in the purchasing process.

Property types

Depending on your personal investment objectives and your financial circumstances, there are several types of property you could invest in.

The location, property type and age of the building all influence the price, so it's important to consider your objective together with your budget when choosing a property type.

HOUSES: Houses will typically have 3 to 4 bedrooms, so they are attractive to couples or families. On the whole, houses usually are more expensive to purchase but can generate higher capital growth.

UNITS: These are typically smaller, more compact properties with 2 to 3 rooms, usually with a courtyard or smaller outdoor living area. They are typically more affordable than houses, and can still deliver great capital growth and can easily rent out.

APARTMENTS: Some apartment buildings can make outstanding investments, particularly in smaller, boutique apartment blocks where it is a more unique development as opposed to a large high rise. Over the long-term, apartments in a large, high-rise complex tend to not deliver the same capital growth as other property types.

Age of the property

When choosing a property to purchase, it's important to consider its age. Some pros and cons come with buying property of all ages.

ESTABLISHED:

Pros: These types of properties tend to be less susceptible to market fluctuations and provide good capital growth over the long-term. That said, some properties provide higher growth opportunities than others, and research is required to discern an average investment from a great one. In some areas, established properties are very affordable, and they can be renovated — the costs of which are also tax-deductible.

Cons: Some established properties might incur higher maintenance costs. They might also achieve a lower rental return if the property is run-down — so beware that cheap property doesn't always make for the best investment.

NEW:

Pros: New properties are often attractive for tenants because they have modern appliances, technology and lifestyle features. For investors, they generally come with a warranty for maintenance defects, have high depreciation benefits and higher rental returns.

Cons: The purchase price can be higher, particularly if it is being pre-sold by a developer, and there are few if any options to add value to the property. There can be an oversupply in some cases, particularly with inner-city apartments, affecting rental returns and capital growth prospects.

What is the difference between an investment property and an owner-occupied property?

There are no physical distinguishing factors between an investment property and an owner-occupied property; the difference lies in what you intend to do with the property.

If you intend to live in the property, it is owner-occupied. If you'll be renting it out or holding it to make a capital gain, it is an investment property.

Investment loan vs home loan.
While both loans are still a mortgage, investment loans are generally slightly more expensive than home loans. However, a tax deduction can be claimed on the interest expense paid on an investment loan, so depending on your tax strategy, an investment loan could end up costing you less than an owner-occupier mortgage.

Living in your investment property.
If you decide you'd like to live in your investment property, you'll likely need to have a discussion with your lender about changing your mortgage to owner-occupier. This means you'll probably be offered a lower interest rate and can also be a great time to look at refinancing if you haven't assessed your mortgage for a while.

Buying an investment property.
The process of buying an investment property is exactly the same as buying a house to live in; there's no difference between the properties, it comes down to what you intend to do with it. You can find houses to purchase by checking real estate websites, newspapers, and attending open-houses and auctions.

When applying for a loan, it may be tempting to apply for an owner-occupier mortgage to get a better rate. But this has serious consequences and is what's called occupancy fraud. It's important to be truthful regarding what your intended purpose for the property.

Property spruikers

In an effort to build their knowledge and learn more about property investing, some first-time investors attend educational property seminars.

While on the surface, these seminars might seem like a great learning opportunity, many are carefully scripted events designed to create excitement, enthusiasm and lead inexperienced investors toward making a decision that is not necessarily aligned with their best interests.

The spruikers who deliver these events usually act as the exclusive 'selling agent' for a property developer. They package an attractive story about a specific development, highlight particular features, and present it as a great investment opportunity.

Often, though not always, the development on offer will be an inner-city high-rise apartment building that sounds like a lucrative investment. Regardless of how appealing it sounds, you should be cautious about investing in a development where occupancy of the building will be almost 100% made up of tenants. Remember our rule of thumb about owner-occupied dwellings? The higher the percentage of owner-occupiers in an area, the greater the influence on capital growth. So, having close to zero owner-occupiers in the investment property signals that the growth potential may be subpar.

Other things to beware of:

- If a spruiker says they have exclusive rights to sell the property, in reality, that means they are obliged to act on behalf of the developer, not the purchaser
- Some spruikers have been known to say, "it doesn't matter which property in the building you buy, any property will do". This is poor advice and usually suggests they are focused on making sales instead of finding solutions for your investment goals
- Sometimes the price of the property will be marked up, which means at settlement, the valuation price comes in less than the contract price, leaving the investor to fund the difference
- You might be told, "we reject 85% of the properties that come across our desk because they don't meet our investment criteria", which makes it seem they are discerning as to which projects they decide to market
- If the spruiker only showcases one property or development, you are being asked to fit your investment goals into their limited stock. Instead of rushing to put down an expression of interest for this property that is being sold, you should first consider what settlement length suits your tax and finance needs, as well as considering what the ideal type of property for your investment objective is. Removing yourself from the excitement spruikers can create gives you the space to make a smart decision as to how to proceed

If you happen to come across a property spruiker with an investment opportunity that sounds too good to be true, ask them what percentage of their clientele are repeat investors. The answer will indicate how well the first property has performed. With a well-performing initial property, you would expect to see many of their clients return to reinvest in another property.

Investment properties and tax

When you use an investment property to generate income or profit, the amount is subject to tax. The two types of tax associated with investment properties are CGT and income tax.

Tax associated with investment properties

CGT.
Capital Gains Tax (CGT) is calculated upon selling an asset. You have made a capital gain if you sell the asset for more than you paid for it. The amount of the gain will be included as part of your assessable income and will be charged at your marginal tax rate. If you make a capital loss, the amount cannot offset your income tax, but it can be used to offset any capital gain in that period or carried forward to future periods.

How to reduce CGT.
CGT is only payable on investment properties and not on owner-occupied properties. This means you won't incur a capital loss if you sell your family home.

A 50% CGT discount applies to any capital gain made on an investment property that you've held for more than 12 months.

Income Tax.
Income earned from investment properties is included in your assessable income and, as a result, is subject to income tax. Generally, the rate of tax you pay on your rental income will be your marginal tax rate. For example, if you are in the 32.5% tax bracket, you will be charged 32.5% tax on your rental income.

How to reduce investment property income tax.
The ATO stipulates that costs associated with earning income are generally eligible for a tax deduction — this goes for investment property income too.

What you can claim:

- Interest on your investment loan
- Rental management fees
- Body corporate fees
- Maintenance costs associated with the property
- Landlords insurance
- Council and water rates
- Advertising for tenants
- Depreciation on assets like fixtures, fittings, white goods, etc.

What you can't claim:

- Costs associated with your personal use of the property
- Utility bills paid by the tenant
- Borrowing costs where you have borrowed against the equity in your property for personal use

These costs can be offset against the rental income, and could result in you receiving a tax refund. For example, if the expenses are $30,000 and the rental income is $20,000, you have made a $10,000 loss for the year. This loss can directly offset your income, reducing your taxable income by $10,000. Any PAYG tax associated with your $10,000 of income will be refunded to you.

As an overall strategy, we typically recommend investing for capital appreciation and use any applicable tax benefits to your advantage, rather than investing foremost for tax deductions.

Managing your investment property

When it comes to managing your investment property, you can either manage the property yourself or hire a property manager. Let's take a look at which option might suit you better.

Managing Your Property.
If you choose to manage the property yourself, you will have more direct control and interaction with the tenant. However, a lot of time may need to be allocated to the property management process. You will need to:

- Be well organised and up-to-date with tenancy laws
- Find tenants — which means advertising, screening, possibly even having an open inspection
- Collect bond and rent. The bond, which is held over the tenancy term as a security deposit, is usually four weeks worth of rent. Rent can be collected in several ways, though it's most common for a tenant to deposit the rent into a nominated bank account
- Repairs and maintenance. Should problems arise with the property, the tenant will need to liaise with you to arrange for them to be fixed. This might mean organising with the tenant to visit the property, or it could mean organising the appropriate tradespeople to resolve the issue
- Depending on the property and the tenant, property management can sometimes be time-consuming and difficult. If you are busy or you don't want your investment to cause you unnecessary stress, you will almost certainly find it easier to engage a good quality property manager to look after things on your behalf

Ideally, your property manager will have experience in the profession, great communication skills for interacting with tenants, and is well organised, so the rent is collected on time, every time.

Engaging a property manager.
Many real estate agencies specialise in managing rental properties. Typically, they have a rent roll made up of properties they manage on behalf of property investors. Ideally, your property manager will have experience in the profession, great communication skills for interacting with tenants, and is well organised, so the rent is collected on time, every time.

It's also helpful that the property manager is local to the area of your property. That way, they understand the market, can set realistic rental prices and find suitable tenants for you. They should also be licensed estate agents so they understand and adhere to property rental laws. A property manager will typically charge between 5% to 8% of the rental fee collected. The price is usually negotiable, and though you might find cheaper property managers, the key is to ensure the property is well managed.

Good property managers will generally carry out these responsibilities:

- Advertise the property for rent
- Open property for viewings
- Screen potential tenants
- Conduct reference checks on tenant
- Manage the condition report process
- Arrange collection of bond
- Conduct rental reviews
- Ensure rent is paid on time
- Inspect the property regularly
- Pay your portion of the rent
- Find new tenants (if/when necessary)
- Organise tradespeople for maintenance
- Conduct final inspections
- Be professional in the delivery of service

Your advisory board

If all properties were created equal and grew in value at the same rate, you could choose any property and expect to get a return.

Unfortunately, that isn't how things work.

Experienced mortgage brokers, like us, have been exposed to a lot of different investment property options. As such, we can advise you what investment types and postcodes lenders tend to be less enthusiastic about, and those they regard as a more viable investment property option.

In our case, in addition to having an acute knowledge of organising investment finance, we have an established network of trusted professionals who can assist with the various aspects of the purchasing process (as required).

Our trusted network includes conveyancers, buyers agents, property investment specialists, quantity surveyors, financial planners, accountants and other people who can help make purchasing and maintaining your property easier and more effective for you.

With us on your side, you reduce the likelihood of buying a 'lemon' of a property, and you increase the chance of having a property that can experience great capital growth.

For many investors, their first property purchase dramatically increases the potential and speed they can build their property portfolio. Buying a property that grows in value means it will generally be easier to leverage the equity to acquire further properties.

Obviously, your serviceability on the loans must be considered to determine how much you are eligible and able to borrow. But generally, once you've taken that first step into property investing, you'll never look back.

Organising the right finance solution for you

The keyword here is 'solution', because setting up the right lending structure for clients requires understanding their personal circumstances and goals.

In consultation with you, we will discuss your existing assets and liabilities, preferred property type, affordability, longer-term goals, and more.

With consideration of these variables, we will then liaise with the appropriate lenders on your behalf and present to you a recommended strategy to help you fund your investment property.

And, because we know what lenders look for in each new application, we can package and present your application to the lender of your choice in the way they prefer, so it makes it easier to review and approve.

Naturally, we have access to very competitive interest rates. However, we find that having the right investment strategy is more critical to help you achieve your financial goals and build your wealth.

A popular loan type for investment properties is an interest-only loan, and that too will be discussed with you to ensure the loan reflects your serviceability and your personal objectives.

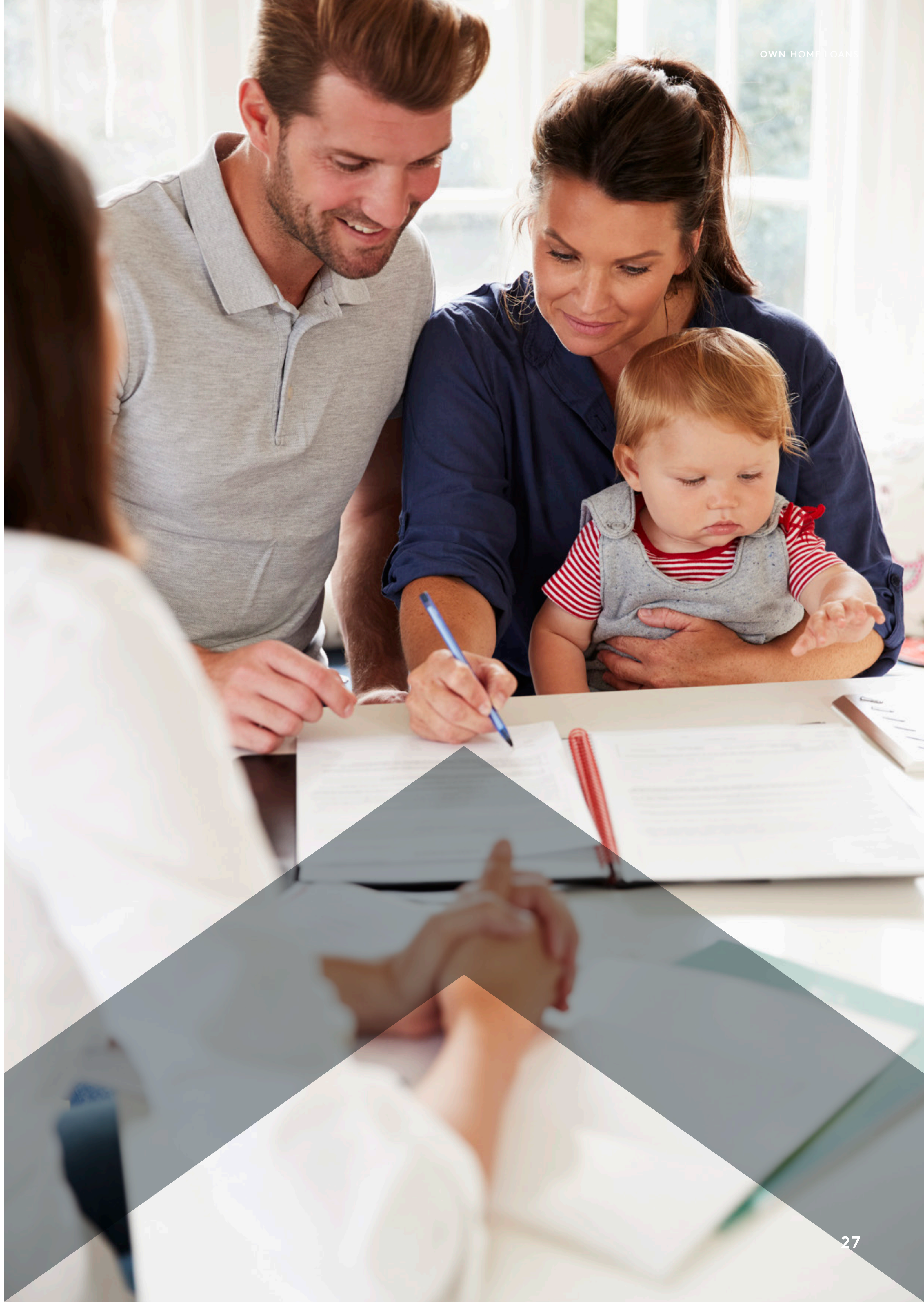
In terms of arranging the deposit, there are several ways to do this. The most common option for existing homeowners who have accumulated equity in their property is to draw a portion of that equity as a deposit for the next property.

The reason for suggesting this approach is that it reduces your exposure and protects your family home instead of cross collateralising your investments, whereby you put up your home as security for the investment, all with the one lender.

Though we are enthusiastic about you improving your financial wellbeing, we are also cautious about reducing your risk, so your investment doesn't cause you unnecessary stress or concern.

Of course, if you don't yet have an existing property, we will need to look at how much deposit you have saved to provide guidance around how much you are eligible to borrow.

That way, you have a clear picture of what you can do, the time frame you can expect to do it, and how to make it happen.



Why shouldn't I just go direct to the bank?

The lending landscape has changed significantly over the past few years, with tighter criteria being introduced as a way to manage risk.

This means what worked before may not work now — and without proper guidance, you could end up being declined or getting a loan that works against your property investment strategy. Banks are product-focused, whereas we are solution-focused. We'll never recommend a loan product to you unless it's completely fit for purpose.

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Because of our vast experience helping property-investing clients grow their portfolio, you will benefit from our knowledge, our networks and the results we can deliver for you.

So, if you:

- Want professional guidance to set up your investment portfolio right the first time
- Value having an expert who can guide you through the maze of lending options
- Need a lending structure that accommodates your goals
- Feel overwhelmed and just want clear answers to your questions
- Want to work with someone you can trust

Then let's arrange a consultation to map out a plan for your investing journey.

Next steps

Purchasing an investment property or refinancing your existing loans can provide a range of benefits, but it isn't a decision to take lightly.

If you want to learn more about how we can help you on your property journey, contact us for a complimentary and obligation-free conversation to discuss your options.

BOOK YOUR FREE FINANCE SESSION

*All advice in this guide is general and doesn't take your personal circumstances into account.
Rory Sercombe (Credit Representative Number 372552) is a Credit Representative of Mortgage Specialist Pty Ltd (Australian Credit Licence Number 387025).

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