Mortgage Choice

Investing in property?

Your choice of loan can be just as important as the property you select.

WHY PROPERTY IS STILL KING OF INVESTMENTS?

BEFORE YOU INVEST, MAKE A PLAN

Important factors

THE RIGHT LOAN IS IMPORTANT

Costs to be aware of

WE'RE HERE TO HELP

Our home loan service is at no charge to you

Better choices for a better life

Home loans | Financial planning | Risk & general insurance | Car loans | Business lending

With the better choice of loan, an investment property can help you build wealth and financial security?

The property you select isn't the only aspect that will shape your success as an investor. Your investment loan can also have a big influence on your cash flow and long term returns.

Mortgage Choice has helped thousands of people, just like you, achieve their goal of becoming a property investor.

People invest in property for many different reasons. We take the time to understand your reasons so we can recommend the loan options that suit you.

Mortgage Choice makes the loan process easy. We can show you how much you can borrow, letting you narrow down your property search. We'll also explain your likely loan repayments, giving you an opportunity to compare rental returns.

We will also explain how different loan features and options can be especially useful for investors, such as interest-only payments or fixed versus variable rate loans.

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The information contained in this booklet refers only to loans provided by our panel of lenders with whom Mortgage Choice Limited has an arrangement under which it receives commissions and other payments. Not all brokers sell the products of all lenders.

The information provided in this Guide is for general education purposes only and does not constitute specialist advice. This Guide has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should consider the appropriateness of the advice to your situation before taking any action. It should not be relied upon for the purposes of entering into any legal or financial commitments. Specific investment advice should be obtained from a suitably qualified professional before adopting any investment strategy. If any financial product has been mentioned, you should obtain and read a copy of the relevant Product Disclosure Statement and consider the information contained within that Statement with regard to your personal circumstances before making any decision about whether to acquire the product.

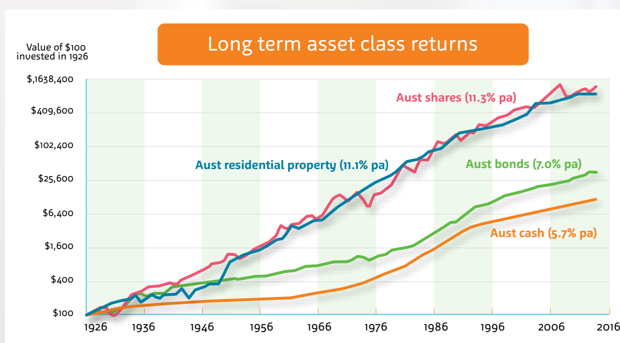
Why property is still king of investments?

When it comes to creating financial freedom, there are a number of ways you can achieve this goal. For many people, property is the preferred investment vehicle to get them where they want to be. Here are some of the reasons why.

1 Property continues to perform solidly

Despite the many warnings about the impending doom of property markets in Australia, the sector has consistently shown solid growth year after year. According to Shane Oliver, chief economist with AMP Capital, residential property values grew at an average of 11.4% annually since 1926. That's despite a number of major disasters, wars and recessions.

Unlike shares, where your fortune could change within seconds, property offers a relatively stable performance.



Source: AMP Capital, RBA, ASX

Investments can go up and down. Past performance is not necessarily indicative of future performance.

2 It's an asset you can easily understand

Unlike shares, where you need to learn highly technical terms and get specialised knowledge, property is less complicated. It's something that you can see and touch and it's familiar to everyone.

"People understand property," explains our property investment expert Jeremy Sheppard. "The share market is a little trickier. It's easy to realise that a property that's built right next to a railway line is going to be noisy. But does a net tangible asset per share, to share price ratio of less than 1.95 mean the company is a good buy or a poor one? Not only does property make simple sense, but the key data of relevance to make informed decisions is readily available to everyone.

3 Property gives you higher leverage

Depending on your borrowing capacity and the property you're planning to buy, banks are likely to lend up to 90% of the value of the property. In contrast, you may only be able to borrow about 50% of the value of your shares portfolio - this is called margin lending.

This means that you don't have to use all your money to grow your portfolio - you're using the bank's money to accumulate your assets at a lower interest rate

Sheppard explains:

If I have $25,000 to invest, I can buy about $100,000 worth of property. This includes payment of stamp duty, legal fees, etc. That's assuming an 80% loan to value ratio (LVR).

If the $100,000 property goes up in value by 10%, I've made $10,000. That's an unrealised pre-tax return of $10,000 for $25,000 invested or 40% return on investment (ROI).

4 You can control the value of your property

By adopting strategies such as renovation, subdivision and development, you're able to add value to your property without having to wait for the natural market cycle to move up, unlike other asset classes where there's nothing you can do to change the value of your currency or shareholding.

"You have more control of the value of your property than you do over the value of your shares, fixed term deposit, foreign exchange holdings and so on," explains Sheppard. "While the market determines to a large extent how much someone is willing to pay for your property, you have some control over that value. Whereas a share's price is purely determined by the market, and you can't influence it at all."

Similarly, Sheppard adds that you can control the cash flow of your property by self-managing or renting out by room or offering the property to tenants fully furnished.

Obviously, you're limited to some extent by the supply and demand of the market in which your property is located, however, you can stretch that price range with your creativity and desire to meet the demands of the market, adds Sheppard.

5 You can negotiate on the price

Unlike shares where prices are fixed, you can always negotiate the price of property. "You can use your research and contacts to buy a property below the market price, and this is perfectly legal," says Michael Yardney, creator of propertyupdate.com.au. "In contrast, using these tactics when buying shares would land you in jail as it's considered 'insider trading' and illegal."

6 You get great tax benefits

Property allows you to claim investment expenses as tax deductions, making your payable tax lower. This makes investing in property more attractive and affordable for the everyday Australian.

If you sell an investment property that you've held for more than 12 months, you pay capital gains tax on only half of the profit.

7 You can claim tax against depreciation

Depending on the age of your property, you may be able to claim thousands of dollars from depreciation or the natural drop in the value of the physical property, as well as the fixtures inside.

"The cost of constructing an investment property can be written off as a tax deduction over the lifetime of the property," explains Sheppard. "If it costs $100,000 to build a house on a block of land and that house is rented out, you can claim $2,500 as a tax deduction each year for 40 years from its construction date. You can claim even more, faster if you choose."

You can also claim a deduction on loads of fixtures and fittings. This includes things like carpet, window coverings, range-hood and so on.

"This means that for a certain period, you're claiming an expense where there is no expense incurred. You get a refund for the money you haven't spent yet. This gives you tax benefits not available to share investors," he says.

Eventually, you will have to replace those items as they deteriorate. But depreciation gives you a cash-flow helping hand in the early years of ownership.

"This allows time for rent and equity to increase to help cover that expense when it eventually comes. It's also possible to have some carpet that is more than 10 years old, but isn't worthless yet, even though you've claimed its entire value as a tax deduction."

8 Stability

Unlike the share markets where fortunes can change within seconds, the property market is more stable due to the time it takes to transact.

It takes around six weeks to settle on a property purchase on average and around three months to sell one. This reduces volatility and wild fluctuations in value and also tends to keep away short term speculators.

But it's not without risk. We'll look at the downsides of investing in property next.

Before you invest, make a plan

Successful investing calls for one key ingredient – planning. A rental property is a substantial financial commitment and the best results come to landlords who take the time to get good advice and plan carefully before they act.

Long before you start checking out 'Open Home' inspections, it's worth considering several important factors:

Your current financial position

- How well placed are you to afford an investment property particularly during the inevitable periods of vacancy?
- Can you afford a quality property that will attract decent tenants and deliver healthy long term price appreciation?

Where are you heading?

- Are you prepared, and you can afford, to hold onto your investment for the long term?
- Will you need access to your capital (money invested) at some point in the near future?

How much money will you need?

As with your home, the purchase of an investment property can involve significant upfront costs and ongoing maintenance expenses.

For a detailed rundown of likely costs associated with your rental property take a look at page 7 – and check that you can meet these.

How much can you afford to borrow?

Getting an indicative idea of your borrowing capacity is a useful starting point in knowing the type of property and location you can afford to buy (see page 6).

Do you need a cash deposit?

If you own your home did you know you may be able to use home equity in lieu of a cash deposit? (see page 6).

Key criteria - affordability and tenant appeal

Your investment property will ideally meet two key criteria – being affordable for you, and holding appeal to a broad spectrum of tenants.

Affordability?

It is likely that in the first few years of being a landlord your property will be negatively geared (for more on this see page 13). This means it costs more to own the property than it earns in rental income. While this can offer tax savings you still need to be confident that your household budget can cope with the outflow of expenses, particularly the loan repayments.

With this in mind, it can be worth focusing your property search on more affordable properties as this will give you the reassurance of a more manageable mortgage, which may not leave you as exposed to interest rate movements.

Even the best properties experience some periods of vacancy, and as it is impossible to sell only part of the place to tide you over through tough times, it makes sense to have a buffer of spare cash. This will cover your loan repayments and other expenses when the property is not generating income.

Home Loan Repayments calculator

Take a look at the Home Loan Repayments Calculator on the Mortgage Choice website ***(https://www.mortgagechoice.com.au/home-loans/calculators/how-much-can-i-borrow.aspx)*** *to see how much your investment property will cost in monthly repayments. Remember, the loan interest can be claimed as a tax deduction.*

Tenant appeal

No matter how affordable a property is for you, it will not be a successful investment if it doesn't attract quality tenants.

Several factors can enhance tenant appeal including a location with good transport links, plenty of local amenities like shops, schools, entertainment facilities and proximity to employment opportunities.

The type of property you invest in is also important.

Look for good security, a pleasant outlook, low maintenance gardens and off-street parking, which is often highly sought after by tenants.

Once you have a clear picture of your current position, your personal goals and your ability to afford an investment property, you are ready to start creating – or adding to - your investment property portfolio.

Decide what you can afford

Looking for the right property is the fun part of the investment process but first you need to have the financial side of things sewn up. The starting point is knowing what you can afford to buy based on how much you can borrow.

Know your borrowing capacity

If you currently own your home you will be familiar with the process lenders use to determine your 'borrowing capacity'. It works in a similar way for investment mortgages with one major difference - along with your regular income (wage or salary) lenders will also consider the potential rental income you will receive.

This increases your income and also your borrowing capacity.

The rent earned by a property can make it more affordable for first time buyers to own an investment property rather than buying as owner occupiers. It may mean missing out on the government's First Home Owner Grant (FHOG) but crunch the numbers - or ask your Mortgage Choice broker to do the sums for you, and you could discover the tax savings and long term returns on a rental property put you in front financially.

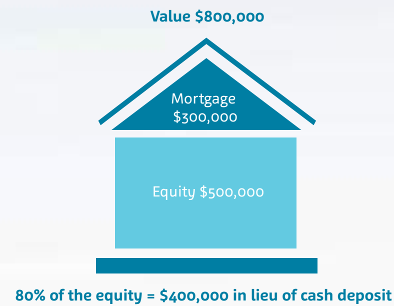
If you are already a home owner, you may not need a cash deposit to fund an investment property.

If you have built up some home equity (the difference between your home's market value and the balance of your loan) it may be possible to use this equity in lieu of a cash deposit.

Here's how it works. Let's say your home is worth $800,000 and the balance of your mortgage is $300,000.

The difference of $500,000 represents your equity.

Assuming you satisfy other lending criteria (such as earning sufficient income), many lenders will let you use up to 80% of that equity as a deposit for the investment property. Use the How much can I borrow calculator (https://www.mortgagechoice.com.au/home-loans/calculators/how-much-can-i-borrow.aspx) on the Mortgage Choice website to discover your borrowing capacity.



Secure pre-approval

Seeking written pre-approval for a loan makes good sense. It sets a clear limit on the price you can afford to pay, which will narrow down your property search, and lets selling agents know you are in a position to buy today. This leaves you better placed to enter serious price negotiations.

Pre-approval also means that you can negotiate with confidence - or bid at auction with the certainty of knowing you have finance in place. Once you select an investment property, your loan approval process will be quick and simple.

Do note, pre-approvals typically last for a specific period and only remain valid if your financial circumstances remain the same

Understanding the costs

An investment property involves two main sets of costs – upfront purchase expenses, and the ongoing costs required to own and maintain the property. Your budget needs to be able to handle both.

Upfront purchase costs

Some upfront costs can be claimed as an ongoing tax deduction – certain borrowing costs for instance can be deducted over a period of five years. Most other purchase costs like legal fees are added to the cost base of the property when it comes to calculating capital gains on the sale of the property (for more details refer to page 14).

The key upfront costs to budget for include:

Pre-purchase inspections

A pre-purchase pest and building inspection is essential to avoid any nasty surprises like building defects, illegal work or pest issues – problems that could be expensive to fix. Allow around $400 for an inspection by a reputable firm.

Strata search

If you are investing in a unit, apartment or another building that is comprised of separately owned units plus common property (and this can include townhouses), a strata search is essential.

It will identify a range of potential problems such as whether there are existing disputes within the building; if there are large outstanding bills for repairs to the property or if the quality of repairs has been substandard.

A strata search can cost around $250.

Stamp duty

Stamp duty is a state government tax based on the price paid for the property. The cost of stamp duty is added to the capital value of your property, so it will reduce any capital gains tax that may apply when you sell your investment.

TIP!

Find out more

For more information on the costs associated with a property purchase take a look at the factsheet ***(https://www.mortgagechoice.com.au/home-loans/first-home-buyers/tips-and-tools.aspx)*** *on the Mortgage Choice website.*

Borrowing costs:

These may comprise:

- **Loan application fee** – allow up to $700
- **Lender's valuation fee** – approximately $300
- **Lenders Mortgage Insurance (LMI)** – this involves a single premium based on the amount you borrow relative to the property's value. It applies only if you borrow more than 80% of the purchase price.

Legal fees

Also known as 'conveyancing' fees, these cover the cost of having the property transferred out of the vendor's name and into yours, which is normally completed by your solicitor. The cost is usually upwards of $1,000 depending on who you use to do the conveyancing and the complexity of the transaction.

Ongoing costs

As a landlord you will incur a variety of expenses associated with owning and tenanting your investment property. Most of these costs can be claimed on tax (always check with your accountant), which makes the bills more manageable.

Typical ongoing costs include:

- Accountant / tax agent fees
- Body corporate fees
- Council and water rates
- **Insurances –** building insurance may cover the value of a structure, however landlord insurance offers a more comprehensive level of protection for investors. It generally provides protection against damage done by tenants as well as legal liability cover if a tenant injures themselves.
- Lost rental income if your tenant moves out unexpectedly may also be included. Building insurance is usually incorporated in the premium. Landlord insurance does not cover a tenant's personal property. Make sure tenants are aware of their personal insurance obligation.
- **Lease expenses –** including legal fees for drafting leases.
- Land tax

- Letting and re-letting costs – including advertising costs.
- Loan interest - factor the possibility of higher repayments into your budget if you use a variable rate loan.
- Management fees paid to real estate agents – expect to pay around 7% of the gross rental if the property is professionally managed. You can cut this cost by managing the property yourself however there can be major pitfalls.
- Repairs and maintenance including cleaning or gardening costs.

Remember, your investment property should be regarded as a long term asset. The upfront costs of a rental property can be substantial and it will take time to recoup these costs under normal market conditions.

It can also take many years to pay off the loan based on rent returns. Bear in mind, while you may not see the gains in your hand for some time, your investment is continually working behind the scenes to build your wealth.

TIP!

Useful links

*Check out the LMI calculator on the website **www.genworth.com.au**. Some lenders will let you add the cost of LMI onto the loan though this adds to the cost as you'll pay interest on the premium over time.*

*Have a look at the LMI factsheet on the Mortgage Choice website **(https://www.mortgagechoice.com.au/home-loans/first-home-buyers/tips-and-tools.aspx)***

TIP!

Worth Knowing

Reduce the chance of loss or the cost of making an insurance claim on your rental property by:

- *Installing deadlocks on doors and windows (which can also provide savings on premiums).*
- *Installing smoke alarms (a legal requirement in some states).*
- *Providing a security system.*
- *Following a regular maintenance program to reduce fire hazards such as leaves in gutters.*

The right loan is important

Choosing the right loan to fund your investment is essential because a flexible, well-featured mortgage can be a useful financial tool. So, just as it is important to research the market for the ideal investment property, it makes sense to shop around for a loan that offers competitive rates and fees while still providing the flexibility you need to make the most of your investment.

Investment mortgages may come with a slightly higher interest rate though this will depend on the lender, the area in which you buy and the type of property you select. Broadly speaking however your investment loan will work in much the same way as a home loan – as a rule, you will be required to make repayments based on the loan principal, interest rate and term.

Options of particular interest to investors

Like an owner occupier, you can choose to use a basic or more featured standard variable rate loan to fund an investment property. However, there are certain loan options that can offer particular benefits to landlords.

Fixed rate loan

Many investors choose to fix their mortgage interest rate, and there are good reasons to do this.

With a fixed rate loan, the annual interest charge for each year is known upfront. This means landlords can prepay up to 12 months of interest each year (if the lender permits this) - a cost that may be claimed as a tax deduction. This can be a way of evening out your tax bill in years when income from other sources (such as wage and salary payments) is higher than normal.

The success of this strategy hinges on having sufficient cash to prepay interest, and it is always sensible to speak with your tax advisor to ensure you can claim the full interest charge as an expense in the current tax year.

Interest only loans

Unlike most other loan types, interest only loans involve payments that solely include loan interest – there is no repayment of the principal. The principal is repaid when the property is sold.

As some investors aim to make a profit on the sale of the property rather than eventually owning it outright, an interest only loan can be appealing for landlords.

This type of loan offers two key advantages – first, the monthly repayments are less than for a principal + interest loan. Secondly, all your repayments are tax deductible as they don't involve capital repayments of the loan.

Most loans permit interest only payments for a limited period, generally up to five years. After this you will need to renegotiate the loan payments with your lender.

Line of credit

A line of credit loan allows borrowers to withdraw cash from their loan up to a certain limit as and when they choose. Each month the loan balance is reduced by the amount of cash coming in and increased by the amount paid for drawings, direct debits or cash withdrawals.

There are usually no set repayments, so this loan is best suited to experienced investors with the discipline to manage the loan carefully.

For more information have a look at the Home loan features factsheet **(https://www.mortgagechoice.com.au/home-loans/first-home-buyers/tips-and-tools.aspx)** on the Mortgage Choice website. Or, for more tailored advice, speak to your Mortgage Choice broker, who can suggest the type of loan best suited to your individual situation, goals and budget.

Select your investment strategy

There is more to investing in property than choosing the place that seems right for you. Experienced investors tailor a strategy to suit their budget, goals and needs.

As noted earlier, your investment property will deliver a combination of two types of returns – regular rental income plus capital growth.

Calculating the return

The rent return is often referred to as 'yield', and it is calculated by dividing the annual rent through the value of the property. For instance, a property with a market value of $500,000 that can be rented for $485 weekly - or about $25,220 annually, would have a gross (before expenses) rental yield of around 5% ($25,000 divided through $500,000, then multiplied by 100). It is useful to know a property's yield as it lets you compare the rent return between properties, and against other types of investments.

$$\frac{\text{Annual rent}}{\text{Market value}} \times 100 = \text{rental yield}$$

$$\frac{25{,}200}{500{,}000} \times 100 = 5\%$$

Yield focused strategy

A focus on yield can be useful if you don't want to borrow heavily, or if you are seeking a source of additional income to live on. In some regional areas, rental yields can be as high as 10%, which is an exceptional return. On the flipside the long term price appreciation is unlikely to be as strong as a metropolitan property. It is even possible to find 'positively geared' properties where the rent covers all the expenses of the property with some extra income left over for you. (For more on 'gearing' refer to page 13).

By contrast metropolitan areas, especially state and territory capitals, tend to earn a rental yield in the order of 4% to 5%. This compares favourably with many cash based investments, but remember you will also get the benefit of long term capital growth that adds to your total returns on the property.

Aiming for capital growth

The right property, in the right location at the right price has the potential to deliver very rewarding rates of capital growth over time.

If you are aiming for capital growth it is vital that you can afford to hold onto the property until you see a substantial rise in the investment's value. For some investors this is not a problem because of the tax relief that comes with negative gearing but do the sums to see if this applies to you.

TIP!

Be prepared

Ask the listing agent of any property you are serious about investing in for a written opinion of the rental income the property can command. Lenders will often ask for this as part of their loan appraisal.

Consider tax concessions

Rental properties enjoy generous tax concessions that can put it ahead of other asset classes and this is one of the reasons why residential property is highly favoured by Australian investors.

As with all matters related to tax, it is important to get professional tax advice tailored to your circumstances as mistakes could mean losing concessions or bring you under Tax Office scrutiny. The cost of having your tax return lodged through a registered tax agent is tax deductible.

A sensible golden rule is to keep good records for your investment property. Keep expenses for your home entirely separate from those relating to the rental property, and hold onto the receipts for any expenses you claim on tax. These will be needed to prove your deductions if you are ever subject to a Tax Office audit.

Gearing

When it comes to investing, the term 'gearing' refers to borrowing to buy an asset. Most investors use some gearing – in the form of their mortgage, to fund their rental property. The loan interest is often a major expense associated with owning the property but it can be claimed as a tax deduction when the property is tenanted or available to let, and this can significantly reduce the cost of the loan.

Negative gearing – claim the cost of your property on tax

Negative gearing occurs when the cost of owning a rental property outweighs the income it generates each year. This creates a taxable loss, which can normally be offset against other income including your wage or salary, to provide tax savings.

Let's say for example that Bill owns a rental property generating $25,000 in rent each year. The costs of holding the property, including mortgage interest, come to $30,000. This gives Bill a taxable loss of $5,000, which he can use to reduce the tax payable on his salary.

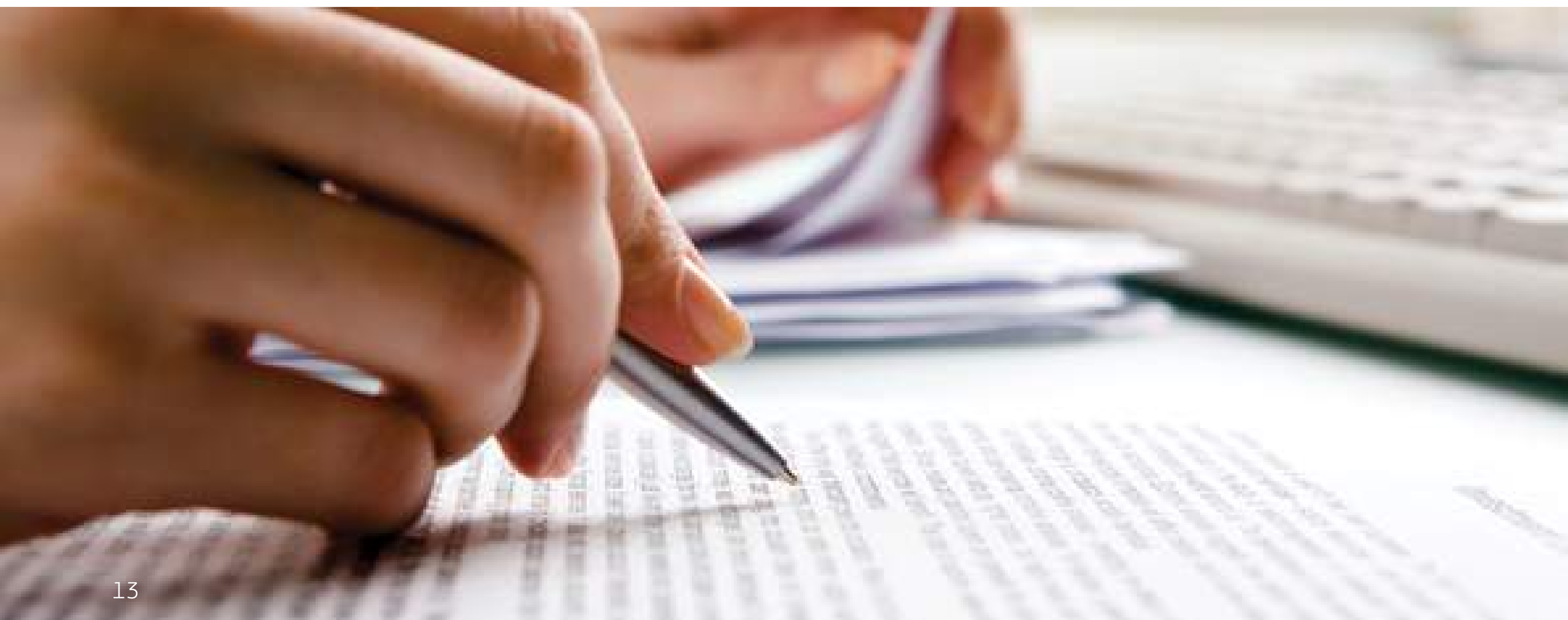
If you know in advance that your investment will record a loss over the financial year, you can apply to the Tax Office to reduce the amount of tax taken out of your salary. This is called PAYG Withholding Variation and it can provide a real boost to your personal cash flow. Speak to your tax advisor or accountant for more details.

That said, a loss is still a loss, and the whole point of investing is to make money at some stage. This can happen when the loan is finally paid off and the rent returns are no longer reduced by loan repayments, or when you sell the property, hopefully at a profit.

Positive gearing - it can be done

An investment is positively geared if it earns more in rental income each year than it costs to own the property.

For example, a landlord may receive $20,000 in annual rent but only spend $15,000 on the property including mortgage interest. In this instance, the difference of $5,000 represents profit – and additional income, to the landlord. As this profit is taxable, landlords of positively geared properties need to set funds aside to cover the tax they will pay on their investment each year.



Ongoing costs that can be claimed on tax

Whether your investment property is negatively or positively geared, a variety of property-related costs can be claimed as a tax deduction as long as the property is tenanted or available for rent. If the property is taken off the market for a period, for example, to undertake renovations, you won't be able to claim the costs that relate to this time span.

Most of the above expenses are normally deductible immediately in the year they are paid, while others such as borrowing costs must be claimed over a period of years.

Costs associated with the purchase of your property including legal fees and stamp duty can only be claimed when you determine any capital gains on sale of the property. Always seek tailored advice from a qualified accountant or tax agent when making a claim for rental property costs.

Capital gains tax

Capital gains tax (CGT) is levied on the profit you make when you sell a property. It is based on the difference between the selling price and the purchase price, which can include the sum paid for the property plus legal fees, stamp duty and other upfront costs as well as the value of any capital improvements (renovations) completed by you.

CGT only applies to properties purchased after September 1985. For properties purchased after October 1999, a discount of up to 50% may be available on the capital gain calculated for tax purposes (eligibility is dependent on the ownership structure of the investment – see your tax accountant for more information).

When it comes to calculating capital gains tax, the Tax Office will regard the date you entered the contract to buy the property as the date of purchase - not the settlement date. Check the calendar before you sell – the discount only applies if you have owned the property for a minimum of 12 months. Capital gains tax can be complex, so be sure to get good advice from your accountant when selling your investment.

Depreciation

Depreciation is a valuable tax advantage of property investment. Unlike many of the costs relating to your rental property, which require you to spend cash to secure a deduction, depreciation can be claimed with no cash outlay.

Two main types of depreciation can be claimed. The first applies to fittings and fixtures like stoves, hot water heaters, light fittings and carpets. The second relates to depreciation of the building itself. If your property was constructed between 1985 and 1987 the building cost can be depreciated by 4% annually. Those built after 1987 can be depreciated at 2.5% each year. Have a look at www.ato.gov.au for a list of rates and effective life of depreciable items.

Depreciation is an area where it pays to get professional assistance. A quantity surveyor can inspect your rental property and draft a complete depreciation schedule that ensures you are neither missing out on depreciation deductions nor overstating your claim (which could result in tax penalties). Trying to estimate your own depreciation charge could leave you facing tax penalties if you get the figures wrong.

Ownership options

How to invest

Real estate can be held through a variety of titles – owned in your name; through a trust; a company; or a self-managed super fund. It is important to get the ownership structure right at the time of purchase as it can be costly to alter title deeds later on.

Investing as joint tenants

Ownership of the property is split equally between two or more people, with income and expenses divided the same way. The arrangement usually works best if all owners expect to receive similar annual taxable incomes for the foreseeable future otherwise the tax benefits of negative gearing can be diluted.

Investing as a sole (private) purchaser

Here the property is registered in one name only. Under this arrangement, rental income is received by you only, and expenses relating to the property can only be offset against your income.

Investing through a company

There can be advantages to using a company structure for a rental property especially if there is a large number of co-owners – and the property will generate fully taxable profits. It is easy to sell shares if one owner wants to exit the arrangement and the company tax rate is lower than the top personal tax rate. However, companies are very costly to set up and maintain, and they must be run in accordance with strict legal requirements.

Note too, it is not usually possible to distribute taxable losses among shareholders. That makes it worth speaking to your accountant if you are thinking of using a company structure for your rental property.

Investing through a trust

A trust may be a suitable ownership structure for a positively geared property as trusts can be useful for distributing income in a tax effective manner as well as offering asset protection. However trusts can be complicated to establish and maintain, and it is critical to speak with your accountant for tailored advice on whether a trust could work for your property investment.

Investing as tenants in common

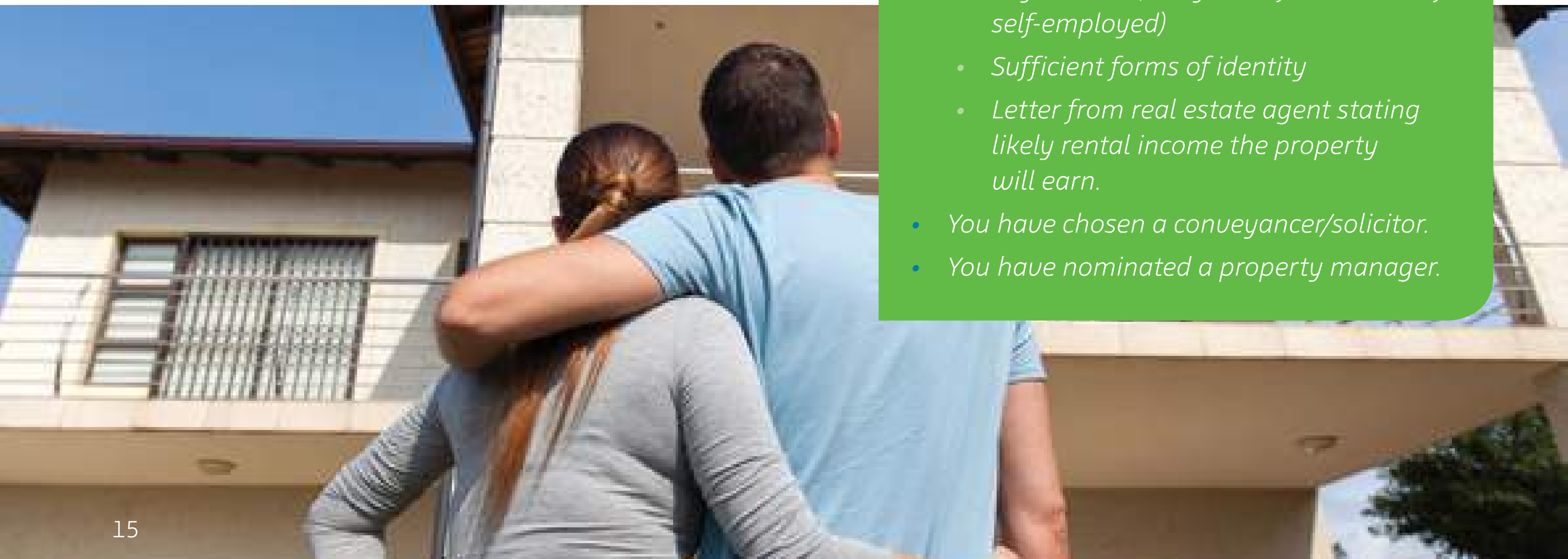
Here the ownership is divided into units, with the level of ownership defined differently for each party. For example, if one of the parties is on a higher income, ownership of the property can be divided in the proportion 75/25. This way, three quarters of the losses can be allocated to the higher income earner. Of course, the same ratio would apply to income generated.

TIP!

Worth Knowing

Take a look at our checklist to see if you are ready to take the plunge as a property investor:

- *You have prepared a purchase budget and are confident you can afford the ongoing costs of a property.*
- *You have drafted a personal balance sheet showing what you owe and what you own, and are confident an investment property will fit into this balance sheet.*
- *You have researched the market and different suburbs, and you have a clear idea about the type of property you want and can afford.*
- *You have gathered adequate information for your loan application:*
    - *Pay advices (or 2 years of tax returns if self-employed)*
    - *Sufficient forms of identity*
    - *Letter from real estate agent stating likely rental income the property will earn.*
- *You have chosen a conveyancer/solicitor.*
- *You have nominated a property manager.*



Jargon explained

Application fee / Establishment fee

Fee charged to cover or partially cover the lender's internal costs of considering and processing a loan application. The fees are sometimes required to be paid upfront and are not usually refundable unless the loan is refused.

Assets

A list of what an individual currently owns, such as real estate, savings accounts, cars, home contents, superannuation, shares etc.

Capital gain

The monetary gain obtained when you sell an asset for more than you paid for it. Such gains may be taxable.

Deposit

An initial cash contribution towards the purchase of the property, usually payable on exchange of contracts.

Equity

The value of an asset not subject to any lender's interest, e.g. a property worth $500,000 with an outstanding mortgage debt of $150,000 - equity is $350,000.

First Home Owner Grant (FHOG)

Various State Governments provide financial grants to purchasers of their first home, to assist in meeting the purchase costs.

Interest Only (IO)

A loan in which only the interest on the principal is repaid with each repayment for a specified period.

Joint tenants

Equal holding of property between two or more persons. If one party dies, their share passes to the survivor/s. This is a common arrangement for married couples.

Lenders Mortgage Insurance (LMI)

A form of insurance taken out by the lender to safeguard against a financial loss in the event of a security being sold due to the loan going into default.

The borrower pays a once-only premium. The insurance covers the lender, not the borrower.

Line of credit

A flexible loan arrangement with a specified credit limit to be used at a borrower's discretion. Also referred to by some lenders as an Equity loan or All in One loan.

Mortgage

A form of security for a loan, usually taken over real estate. The lender (mortgagee) has the right to take the property if the mortgagor fails to repay the loan.

Mortgagor

A person who borrows money and grants a mortgage over their property as security for the loan.

Offset account

A transactional account linked to the home loan. The balance held in this account offsets the balance in the home loan, helping to reduce the interest paid and the overall term of the loan.

Principal

The outstanding loan amount on which interest is calculated.

Redraw facility

A loan facility whereby you can make additional repayments and then access those extra funds if necessary.

Security

Usually the property offered as security for a loan.

Stamp duty

Calculated on a sliding scale based on the purchase price of the property. Significant concessions on transfer stamp duty may be available for First Home Buyers. The amount varies from State to State.

Strata title

The form of property ownership most commonly associated with units, apartments and townhouses, where the owner holds title to a particular unit, which is called a lot, in a strata plan.

Survey

A plan that shows the boundaries and the building position on a block of land.

Tenants in common

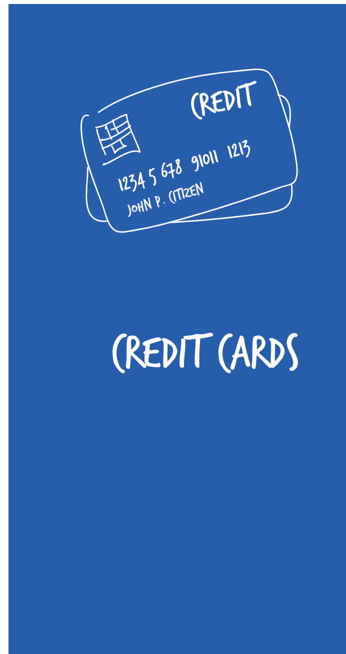
Where more than one person owns separate, defined portions of a property. If one person dies, the relevant portion passes through the deceased's estate rather than to the other property owner/s as with joint tenancy. Each owner can hold a specific share of ownership and has the right to dispose of their interest.

Term

The length of a loan or a specific portion within the loan.

Valuation

A report required by the lender, detailing a professional opinion of property value.



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