Property Investment Guide

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Want to Invest?

Let a Loanseeker Broker Help.

As with any investment, markets can rise and fall. There can be bumps in the road and periods when property values plateau.

But if you're prepared to take a longer-term approach, property is still considered one of the more solid and less volatile ways to invest for your future. We've helped investors looking to get their first foothold in the market and helped others build multi-property portfolios.
So whatever you've got in mind, we've probably done it before. Your Loanseeker Broker can save you valuable time by searching and comparing hundreds of loans from up to 40 lenders including the big banks and many other lenders.

At LoanSeeker we have Some of the most experienced Mortgage Brokers In Australia waiting to help you.

Why Invest? The 3 Key Reasons

Capital Growth.

Where you can benefit from the property increasing in value.

Rental Income.

Where you can benefit from an ongoing income stream

Tax Benefits.

Where you can benefit from favourable tax treatment by savvy investing.

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CAPITAL GROWTH

Historically, property has increased in value over time. If you buy at one price and then sell at a higher price it delivers a profit to you. And that, in a nutshell, is capital growth

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

Want Expert Advice?

Talk to your LoanSeeker Broker Today.

While capital growth certainly seems like a sure thing if you look at recent activity in some markets, it's important to understand that when it comes to property, there are no guarantees. That's why your investment strategy should consider both sides of the story.

Short term dips in market values make it essential to regard residential property as a long term investment, and you should be prepared to hold onto your rental property for at least five to seven years. This will smooth out the returns on your asset and help to maximise capital growth.

At LoanSeeker, our mission is a simple one. We want to make the process of finding the right investment property loan as pain-free and simple as possible.

To do that, your LoanSeeker Broker will first take the time to get to know you and get a clear picture of where you're at now and where you want to be in the future.

We are with you every step of the way. Whether its your 1st investment property or your 101st we are here to help find the right loan for you.

RENTAL INCOME

Unlike capital growth, rental income is generally a more certain thing. Once again, a well-located property in an area that's in demand by renters is most likely to deliver the returns you are after.

Once a tenant signs a lease, they are committed to paying rent for the duration of the lease agreement. Depending on the property and the rent you can attract, rental income may equal or even exceed your mortgage repayments.

When planning your investment strategy, you need to consider the rental yield of your property, not just the rental income. In simplest terms, yield is the percentage of the annual rent a property generates, calculated against its market value.

Your net yield also needs to take into account your expenses along the way such as loan costs, agency management fees, council rates or strata fees. It's a good idea to do your sums to ensure your investment won't place you under financial strain. Keep in mind that if tenants move out, you could be faced with a period of no rental income.

A regular stream of rental income One of the really appealing aspects of investing in property is the ability to earn a regular stream of rental income.

Unlike other investments like a term deposit or shares, you can expect to receive rent payments weekly, fortnightly or monthly rather than having to wait for six to 12 months or a far longer period to see some cash flowing your way. Property has the potential to deliver a return from day one.

The rental income helps with your personal cash flow, and even better, it is fixed for the term of the lease. Residential tenants typically sign leases for terms of six to 12 months, so you know how much rent you will receive and this makes personal budgeting easier.

Even when the lease expires, many tenants continue to pay week-to-week rent until a new lease is signed

TAX AND YOUR INVESTMENT PROPERTY

Tax is an important consideration for any investment, and a rental property can deliver generous tax benefits. It means more of the returns stay in your pocket rather than being paid to the tax man.

Tax Deductions

For starters, when your property is leased to tenants or available for rent, there are a wide range of expenses that you, as a landlord, may be able to claim as a tax deduction. We'll always recommend that you seek tax advice for your individual circumstances, but generally investors may be able to claim these expenses: (see next page)

Capital Gains

The day may come when you're ready to cash in your chips and sell your investment property. If your strategy has all gone to plan, you could be making a profit on the sale which, in technical talk, is known as a 'capital gain'.

First the not so great news, capital gains are taxable. The net proceeds you receive from selling your property, which is the sale price after you take away any fees or costs directly related to the sale, is compared to the total cost you originally paid to purchase the property, when you would also have paid other costs like stamp duty and legal fees. The difference between the two total amounts is the net profit, or 'capital gain' you've made. In your tax return this is added to any other income you've made in that financial year, and then the marginal income tax rates apply to the combined amount.

The good news is that if you own the investment property for more than 12 months, generous tax concessions can work in your favour. You may be entitled to claim a 50% discount on your capital gain, which means only half of the net profit from the sale is taxed. It's one more good reason to think about hanging on to your investment property for the longer term.

Negative Gearing

Negative gearing is another strategy that can work in your favour when it comes to tax time. When all the associated costs of owning your rental property exceed your rental income your property is negatively geared. The difference between income and your costs may be offset against other income like your salary, allowing you to pay less tax overall.

Of course, there are many rules around what you can or can't claim, which is why it's best to seek professional tax advice.

It is a commonly held misconception that all investment property is negatively geared. If your rental income exceeds your costs, the property is positively geared and you can expect to pay tax on any profit your property generates.

Over time, the losses that allow for negative gearing will hopefully be outstripped by the growing value of your property. In the meantime, the tax savings can make owning your rental property much more affordable. Therefore, it could be worth looking for a property that you're confident you can negatively gear.

More about Deductions?

Let a Loanseeker Broker Help or Talk to you Accountant.

The following expenses can normally be claimed on tax:

- Advertising for tenants,
- Property management fees
- Accounting fees
- Borrowing costs like valuation fees
- Loan establishment/ registration fees
- LMI premium (these may need to be claimed over a period of five years)
- Interest payments and ongoing loan fees
- Council rates
- Body corporate fees
- Land tax and strata fees
- Repairs M
- Maintenance
- Pest control
- Cleaning and gardening
- Electricity, gas and water (part of these costs may be paid by the tenant in which case they cannot be claimed by you, the landlord)
- Insurance premiums for building, contents, public liability and landlord insurance
- Stationery, phone costs, book keeping fees and any travel relating to the property
- Depreciation of items such as stoves, fridges and furniture plus the building

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.

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.

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CHOOSING AN INVESTMENT PROPERTY

How do I choose my Property?

Use your head not your heart.

If you were considering a share market investment, you would have a vast array of choices. And all very different. Mining or banking, manufacturing or technology? When it comes to property investing, you also have many choices – house or unit, town or country, off the plan or a character classic?

Best areas for capital growth?

Markets can be hard to pick and even regional pockets can deliver rewarding results. As a general rule, however, if you're looking for capital growth, it's worth aiming for properties close to busy CBDs. As population and demand grow, values can be pushed up.

Best areas for rental income?

On the other hand, if you're looking for steady cash flow and good rental returns, consider investing in suburbs and regional centres. Look for areas popular with young families or regional centres with universities where the demand for rentals is strong. You may also be able to invest for less as prices in these areas tend to be cheaper.

Keep in mind that you are investing as a moneymaking venture and that's what should be informing and inspiring your property choice.

Choosing an investment property is different from finding a home of your own. Staying close to Gran isn't a priority. And an easy commute to your work doesn't need to be a part of the equation. Nor does your passion for art deco or your need for an acre of lawn.

The point is, with an investment property you can take a more pragmatic approach. Sure, you want the location and the property to be appealing to the rental market, but that's where your emotional connection can end. The investment strategy that you've decided will work best for you — either capital growth or rental income — will also play an essential part in your decision

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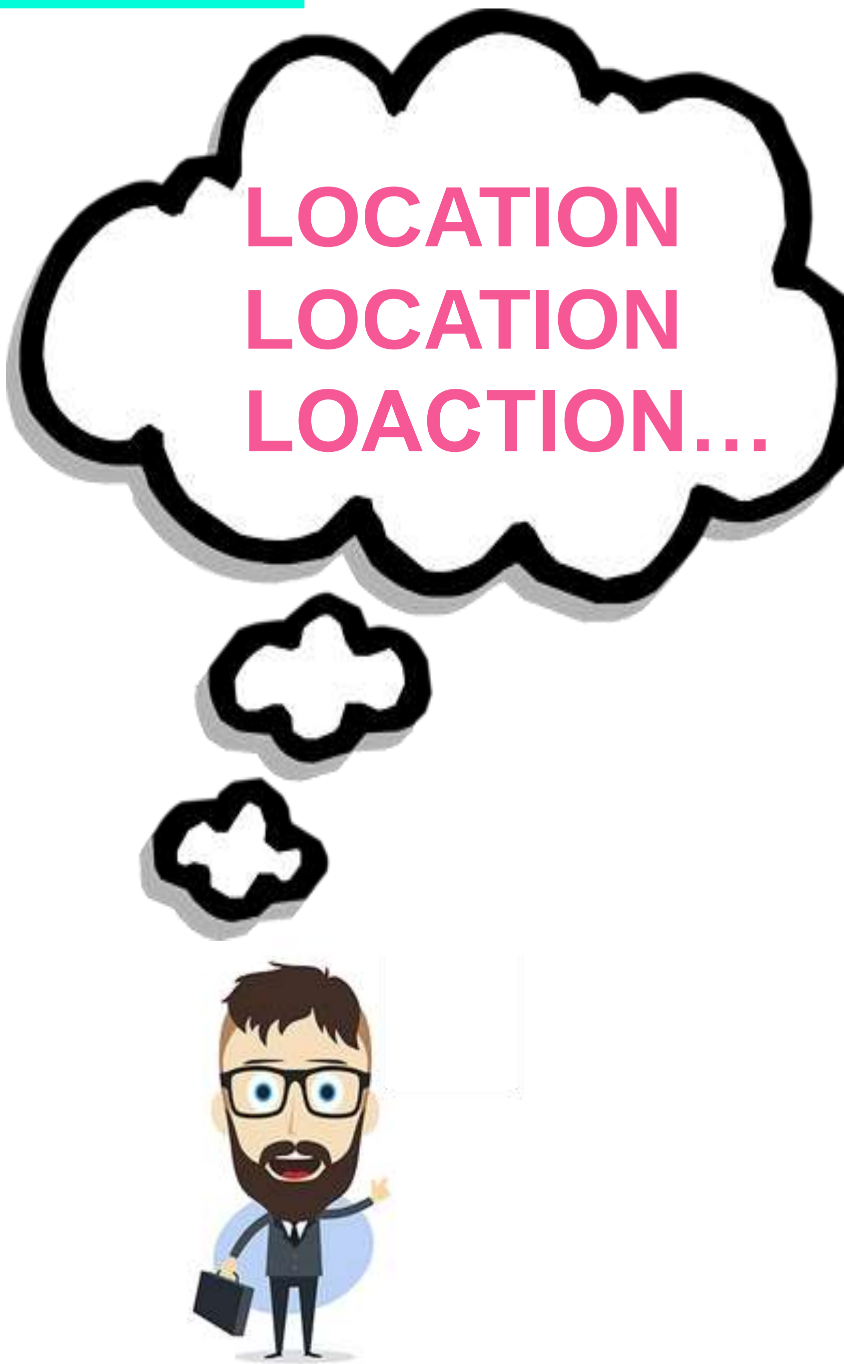
HOW DO I CHOOSE WHER TO BUY?

Location - the key driver of property

Location is probably the single biggest factor that will impact the future value of your investment. So irrespective of the type of property you're thinking about, aim for the best location you can afford – preferably one offering good transport links, proximity to lifestyle features like shops, restaurants and parks, plus public amenities like schools and hospitals.

A good location will maximise rent and capital growth while minimising rental vacancies.
Around 90% of Australia's population live within 80kms of the ocean. This gives coastal areas, in particular metropolitan centres, the weight of numbers. Properties do cost more here but as a landlord you will have a broader pool of tenants to draw on and greater potential for capital growth.

Outer suburbs and regional areas are more affordable – and the rental yields are typically strong, but for rents and values to rise, an area must experience growing demand, and this relies on population growth. Check that any regional location you are considering is supported by a range of industries and business activities that provide a robust local economy that provides jobs and supports rental growth



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WHAT TYPE OF PROPERTY?

Deciding between a house or unit is just the start of your property choices. Do you buy an established property or off the plan? Are you looking for holiday renters or permanent tenants? Here we look at some of the ins and outs of your options.

Buying a Unit

- A popular choice for a wide range of renters
- They tend to be cheaper so you could enjoy a higher yield
- Strata management look after much of the upkeep
- Costs of certain repairs or upgrades may be split between all owners
- Council rates are generally lower than for houses
- Strata fees in addition to council rates
- Sinking fund contributions
- Fewer renovation options down the track

Buying a House

- The extra land value may provide greater capital growth
- Houses are in demand from growing families
- Future renovation potential to add value
- Maintenance can be costly
- You will be responsible for hot water systems and heating or cooling systems
- Gardens and lawns may need upkeep. Can you count on tenants?

.....MORE PROPERTY YYPES

You may even be looking beyond the residential market to commercial properties, offices or shops. As most investors favour residential property, this guide focuses on that, but your LoanSeeker Broker may be able to help with other types of property loans, too. Just ask

Buying of the Plan or New Build

- A brand new apartment or home may attract a premium rent
- As a new build you should expect fewer maintenance issues
- Could be a higher initial outlay than buying an existing place
- Building could be delayed
- Unexpected expenses could arise
- You face the risk of developer of builder insolvency

Holiday Rentals vs. Permanent Tenants.

- If you can afford a great location, holiday rentals can command higher rents
- You could charge premium rent in popular seasons
- You can access the property for your own enjoyment
- Income may be seasonal so not sufficient to cover your lending costs
- You will probably need to pay fees for a local manager or agent
- Advertising costs to promote your property
- Many apartment properties will not allow short term rental

Be A TOUGH negotiator.

Don't be ashamed to negotiate. Its business and the money is better in your pocket than in someone else's.
There are many factors that prompt someone to sell a property, and it is in your interest to have a clear understanding about the reasons behind a property being placed on the market.

These can be useful when it comes to negotiating the price.
Dodgy neighbours; flooding from a creek running behind the property; or just a change in an area's demographic make-up can all be reasons why a property is on the market.
Local shops are usually a great source of handy information. Take the time to go and chat.

Enquire at the local council if there are any development applications in the area or environmental issues that could affect the property. Check local crime statistics too.
Never make an offer on a property until you have taken steps to determine its true market value, and how viable it is as a rental investment. Research recent sales values and current weekly rents in the area, and make enquiries about the tenant history of the property you are interested in.

If you are satisfied that everything stacks up, you can start your negotiations with an offer that is 10% below the asking price. However in a sluggish market it can be worth pitching your first offer at 15% below the listed price

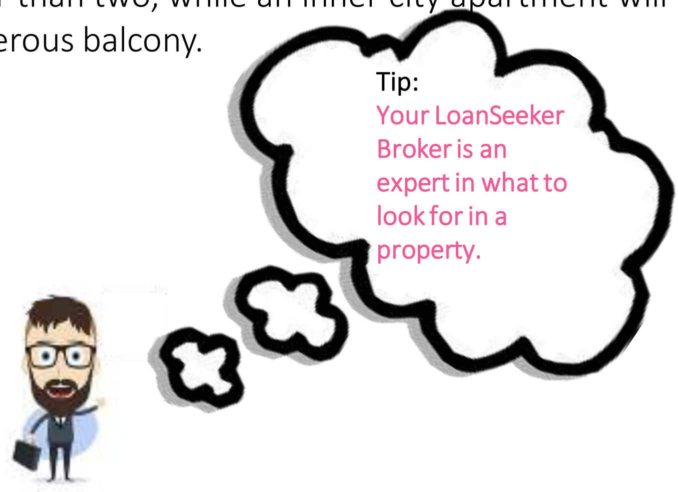
Tip: Your Loanseeker Broker can prepare a property report for you.

What to Look For…

There are lots of places where you can find properties listed for sale - from local real estate agents and newspapers through to online sites like www.realestate.com.au and www.domain.com.au and sale-by-owner sites.

- Security – whether it is a safe, quiet street with good lighting or a home security system, tenants like to feel safe, just as landlords do.
- Storage – ample storage is a plus for tenants who may otherwise have to pay for off-site storage of personal belongings.
- Low maintenance – many tenants prefer low maintenance homes that will not require a significant investment of their time for upkeep. Unless you are willing to pay for a gardener to maintain gardens, pools, spas and other features, stick to properties that can be easily and cheaply maintained.
- Parking – off street or undercover parking will add value to your property and attract a greater range of tenants.
- A pleasant outlook – You're likely to pay more for a property with views or a pleasant outlook but it will be easier to tenant and command a higher rent.

Think about the features that will appeal to the sort of tenant most likely to be interested in your type of property. A house in the suburbs for instance may be easier to rent if it has three bedrooms rather than two, while an inner city apartment will be more appealing if it features a generous balcony.



INVESTOR CHECKLIST

- If you think you've found a 'doer-upper', think carefully. Renovations can be costly and you could be at risk of overcapitalising.
- Make statistics your friend. Organisations like CoreLogic RP Data are a great source of property data, analytics and insight.
- Think about the needs of families who might be your new tenants. Are there schools, shops, community and sporting facilities nearby?
- Look for locations where employment is steady and accessible or with good public transport connections for residents commuting to employment hubs.
- If the property has been rented previously, try to find out more about its rental history – type of tenants, rents they paid, tenancy periods and turnover.
- Try to avoid places on busy roads or directly under flight paths.
- Consider the condition of the property. Most properties will require some maintenance or repairs at some time. As a landlord you'll be obliged to provide or pay for repairs

Tip:
Buy with your brain and not your heart.
Have a friend do you Bidding at Auctions

....INVESTOR CHECKLIST

- It may stretch your budget, but remember Australians are pretty keen on being close to water. Any water. Whether it's in cooee of a harbour, beach, canal or river, suburbs close to water are appealing to both renters and future buyers
- Wherever you're looking, dig a little deeper. Keep an eye on the going rates and availability for both rentals and sales. Drop in for a chat with local rental agents to ask about demand and what people are looking for.
- Find out what's happening. Is the population growing? Are new transport links coming? Does the government, local or otherwise, have plans for the area? You could be first in and best dressed for the next big thing.
- Properties that will appeal as much to families as retirees or professional couples as singles, increase your likelihood of finding tenants easily
- Look for property features that are likely to have broad appeal – a second bathroom, a leafy outlook, a lock up garage or balcony
- Think outside your own box. You have the freedom to buy anywhere. So don't rule out buying interstate or in suburbs or towns you don't know. But do your homework on any location you're not yet familiar with.
- Consider Buying a property in a location you like to holiday or visit. There are tax incentives for travelling to your investment property and you can also use the property to stay in your self if you rent it as a holiday rental.

Tip:
The more you learn the
More you earn.
Do your research and seek
advice from the experts

CHOOSING THE RIGHT INVESTMENT LOAN

Talk to you your LoanSeeker Mortgage Broker

What Loan is right for me?

Let a Loanseeker Broker Help

Property investment loans are not too different from regular loans and give you all the usual choices between fixed and variable rates or a combination of the two.

Like choosing the right investment property, it pays to do your homework and choose the right loan for your circumstances. Actually, at LoanSeeker we'll do the homework for you. All you need to do is call up

Interest Only Loans

Interest only loans tend to be the type favoured by many investors. With most standard home loans, repayments are made up of interest charges plus a small repayment of part of your loan principal — the original amount borrowed.

Over time, you slowly chip away at that original amount. If you opt for an interest only loan, your loan principal remains the same for the agreed period unless, of course, you decide to make extra repayments.

Not all lenders offer these loans and those that do will offer a set period for interest only payment — often between five and ten years. After your agreed period, you will need to renegotiate another interest only period or start making principal repayments as well as interest.

Interest Only Loans

Why they work for investors:

- Because you're not paying off principal as well, your monthly repayments are lower
- Without principal repayments you may have better cash flow to build other investments or start looking for your next property
- You may be entitled to a tax deduction for the interest payments. Deductions don't apply to principal repayments.

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APRA CHANGES AND WHAT IT MEANS FOR INVESTMENT LENDING

Talk to you your LoanSeeker Mortgage Broker

APRA Changes and You...

In 2015 the Australian Prudential Regulation Authority (APRA) set new limits and expectations on lenders to slow down growth in investment property lending. As every lender has responded to APRA's expectations in their own way, the home loan market has become more complex.

But no need to fear!

Many banks and lenders announced changes for home owners and investment properties which include:

– Higher interest rates for new and existing borrowers

– Lower minimum loan-to-valuation ratios so borrowers will need larger deposits

– Tougher criteria for assessing investment loan affordability.

What to Expect from the Banks

With a few exceptions, most lenders are keen to lend to good borrowers and the market remains competitive. The key is to be prepared. Some potential challenges to be aware of:

- **You may face tougher eligibility criteria**
- **Some lenders will not lend more than 80% of an investment property's value**
- **If you have a smaller deposit your options may be limited. On the flip side, if you have a substantial deposit or security, more lenders may consider your application**
- **You may be required to show you could meet repayments if interest rates rose to 7 or 7.5% or if your property is untenanted for an extended time**

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