Altus Financial

The Property Investors' Lending Guide

Take the first step on your investment journey today.

Contents

Investing in property is one of Australia’s most popular investment options, with low interest rates and a booming market, what’s not to love?

Property investment is becoming more and more achievable to Australians wanting to get ahead and safeguard their future. You don’t need to be retired, wealthy or part of the building trade to invest in real estate.

In This Guide

We help you cover the fundamental considerations when investing in property, like your overall goals, understanding the costs, finding the right loan for you, your investment strategy, tax considerations and protecting the assets you’ve acquired.

1.

Why Invest in Property?

Many Australians wanting to create wealth and financial freedom are choosing property as an approach to investing. Let's take a closer look at the benefits and the risks involved.

→ Property is a fairly safe investment, albeit it's a long-term strategy and commitment

→ It's a visible and solid asset that can earn significant cash flow that could cover loan repayments and other costs

→ If you sell it in the future, you could benefit from significant capital gains

→ Equity in your home or an increase in property value may allow for you to use your equity for an investment

→ Gaining equity in your investment loan gives you the chance to build on your portfolio with further investments

→ With taxation and gearing, property can give you further financial benefits

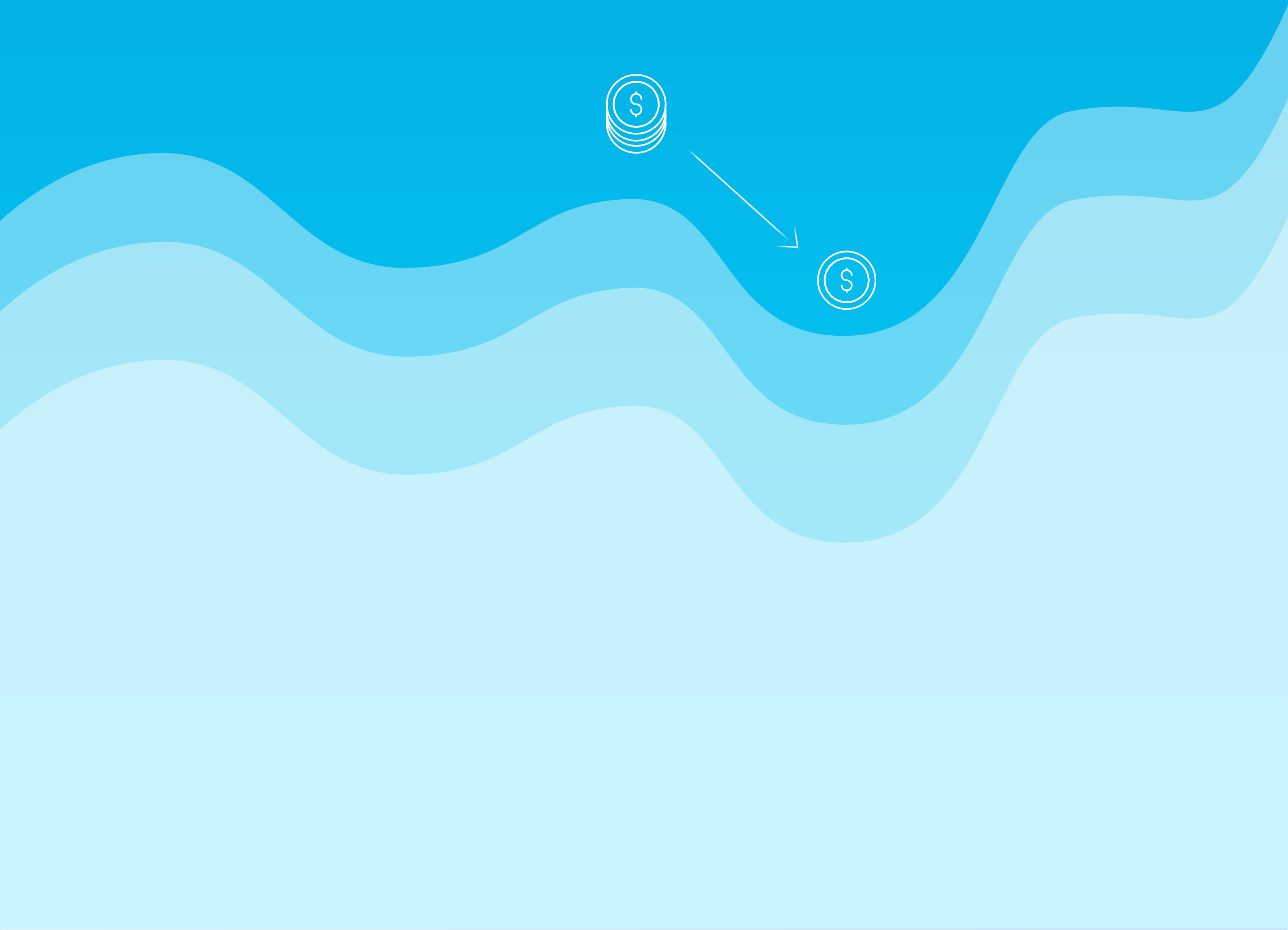
→ You can offset expenses associated with investment properties against rental income, and you can also claim depreciation benefits on assets like furniture, fixtures, carpets and white goods

→ Having a diversified investment portfolio is a great way to reduce risk, and investing in property can be another way for further diversification, especially if you have other investments like cash, shares or managed funds

Are You Aware of The Risks Involved?

There can be risks involved in any investment. In the case of property, your rental income may not meet your needs, or the property's value may reduce at certain times. You might not have access to your money quickly and may earn higher returns on a different type of investment.

Talk to our loan specialists to see if buying an investment property is right for you.



2.

Your Home Buying Journey

In This Chapter:

A.

Your Goals and Your Plan

B.

Affordability and Tenant Appeal

C.

Finance and Equity

D.

Loan Options That Suit Investors

E.

Some Investment Approaches to Consider

F.

Consider The Tax Concessions

G.

Ownership Structure Options

H.

Are You and Your Assets Protected?

A. Your Goals and Your Plan

Before you start inspecting properties, ensure your goals and overall financial plan are considered. For instance, if you are looking to achieve a short-term gain, say over 1 to 3 years, then property may not be the right investment strategy for you.

Here are some considerations you need to take into account:

What Is Your Current Financial Position?

Can you afford to buy an investment property? Can you afford the property when it is vacant, which is inevitable at some stage? What quality of property can you afford? Will it attract decent tenants?

Where Are Your Goals and Future Plans?

Property tends to be a long-term investment. Are you able to own the property for the long term? Are you prepared, and you can afford, to hold onto your investment for the long term? Will you need to access significant funds in the future, bearing in mind property is not particularly liquid.

Do You Know How Much Money You Will Need?

Purchasing an investment property will require significant upfront and ongoing costs. Do you need a cash deposit? Are you aware how much you can afford to borrow for your investment? If you own your current home, did you know you might be able to use some equity from your home in lieu of a cash deposit?

"IF YOU ARE LOOKING TO ACHIEVE A SHORT-TERM GAIN, SAY OVER 1 TO 3 YEARS, THEN PROPERTY MAY NOT BE THE RIGHT INVESTMENT STRATEGY FOR YOU"

B. Affordability and Tenant Appeal

In the first few years of owning an investment property and becoming a landlord, your property will most likely be negatively geared. The means the costs involved in owning the property outweigh the earnings from rental income.

A negatively geared property can offer tax savings, however, you still need to ensure your household budget can cope with expenses, particularly loan repayments and unexpected costs. Ensure you have a buffer of spare cash that can recover the loan and any other expenses if and when the property is not generating income.

Additionally, regardless of how affordable the property is, if it doesn't appeal to tenants, it will not be a successful investment.

Look for features that can increase tenant appeal like a location with good transport, shops, schools, cafes, employment hubs and entertainment facilities.

Don't forget to consider the type of property to invest in. Look for a safe area, an appealing view, low maintenance gardens and street parking, which is often highly desired by tenants.

C. Finance and Equity

Using Equity to Buy Your Investment Property

Many Australians are finding that by tapping into the equity in their home it will allow them with alternate investment options.

Example

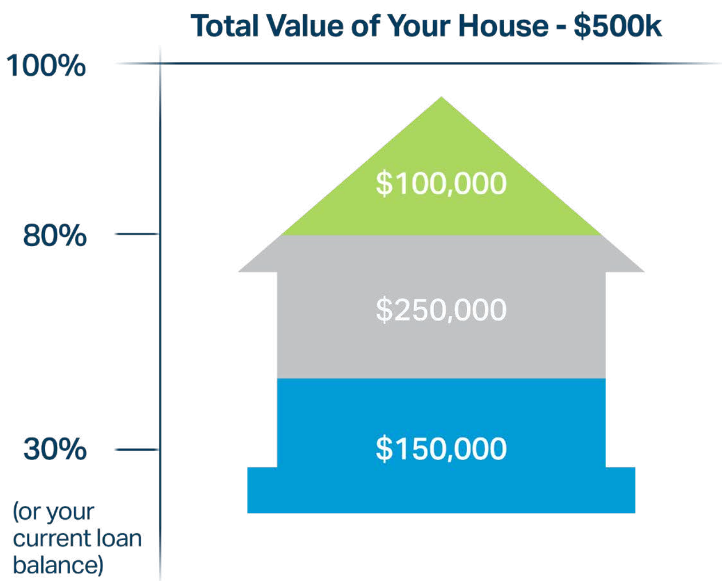
If your home is valued at $500,000 and you have $150,000 remaining on your mortgage, you would have $350,000 equity which you could invest some of that equity into another property.

Here's a breakdown below:

Your Existing Loan

Your existing loan is the blue section and is not usually tax deductible (unless you decide to purchase an investment property). So, if your home is valued at $500,000 and you have $150,000 remaining on your mortgage, your existing loan is equal to 30% of your home value.

DIAGRAM 1:



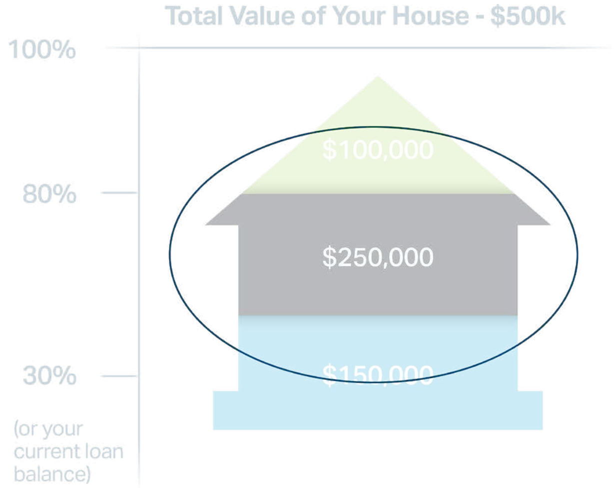
20% Equity

Your safety net (20% equity) is the green section in diagram 1, which in this example is $100,000. Lending institutions like you to have this safety net that protects against the borrowings on your home. This amount cannot be touched unless you want to pay Lenders Mortgage Insurance (LMI).

Remaining Equity

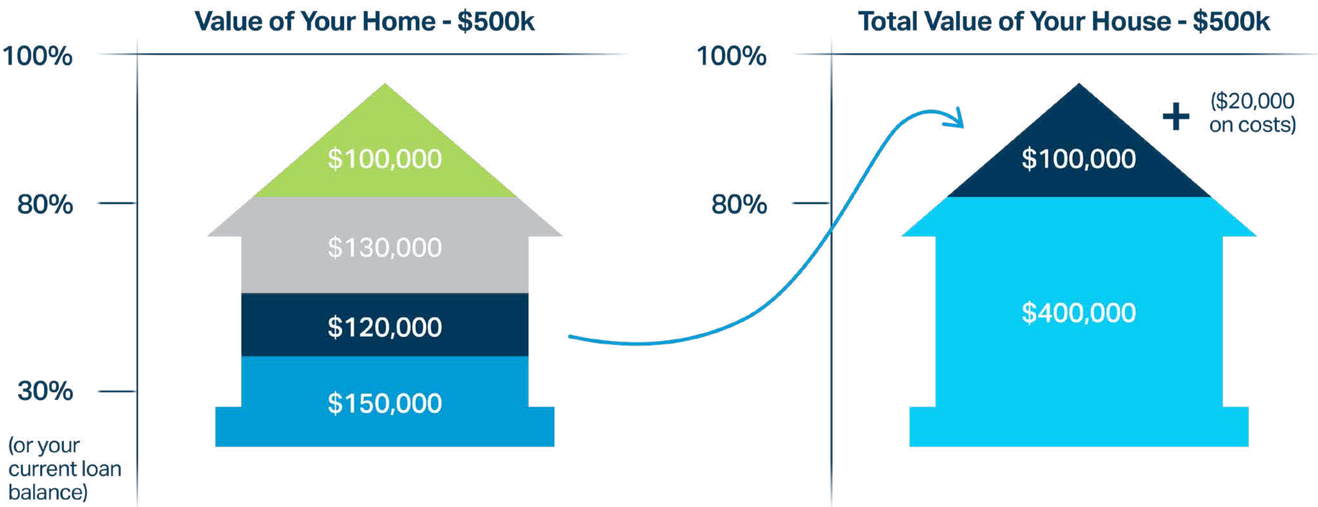
Your remaining equity is the amount you have already repaid on your loan, or through capital growth on the property (which is shown in grey).

Diagram 1 shows the remaining 50% of the value of the home is available to use as equity for another purchase. If you would like to access this remaining equity for an investment property can either establish a line of credit or apply for a loan that has the product features you require such as redraw facility or an offset account.



Often the existing loan and the new portion of the loan would be refinanced. However, it is common to split these to keep the non-tax-deductible amount separated from the deductible investment amount (which we can help you with).

DIAGRAM 2: **DIAGRAM 3:**



There are some funding options available, once you find an investment property you want to buy:

1.

If the investment property is $500,000, the loan amount is $400,000 (which is usually 80% of the purchase price, if you want to avoid LMI) and is shown by the light blue section in Diagram 3.

2.

The grey section represents the remaining equity in your home. The remaining 20% of the purchase price (your "deposit") as well as stamp duty, conveyancing costs and other associated expenses can be taken from this equity, represented in dark blue in diagram 2.

We'll Explain Further...

In the example of the $500,000 investment property, you would need to draw $120,000 (on the assumption of $100,000 is your 20% deposit and $20,000 would be required for approximately 5% total acquisition costs). This would be taken from the $250,000 equity, which is available in your home (shown by the dark blue section in Diagram 2) which leaves $130,000 of the remaining equity (shown by the grey section).

Don’t forget, your serviceability of the loan will be assisted through your tenants (paying rent) and any available and relevant tax rebates.

There is often a shortfall that needs to be considered and taken into account to cater for any unexpected expenses or interest rate rises.

Find The Right Loan

Selecting the right loan to fund your investment is essential because a flexible mortgage with a variety of features that suits your lifestyle and financial goals can be more important than you realise.

In the same way you would research the market for an ideal investment property, a similar approach should be taken for searching for the right loan. Luckily, this is where having a mortgage and financial specialist on your side helps you by giving a contextualised loan structure that optimises your financial arrangements to suit your entire financial picture and group structure.

D. Loan Options That Suit Investors

Like a homeowner, you can choose from a basic or a featured standard variable rate loan that might offer you a benefit as an investor.

Fixed Rate Loan

Interest-Only Loans

Line of Credit

Fixed Rate Loan

Some Advantages Around a Fixed Interest Loan Include:

Budgeting and Cash Flow Certainty

You know the exact repayment amount, which allows you to plan ahead financially.

Increases to Interest Rates Won't Impact You

If interest rates increase, this can work to your advantage as you will retain a low rate, regardless of how steep the increases are. This could lower your repayments over the long term.

There Are Some Disadvantages You Need to Consider:

You Won't Benefit From Decreases In Interest Rates

Unfortunately, you won't benefit from any falling interest rates if your fixed rate is higher than the variable rate.

Restrictions On Additional Repayments

Additional loan repayments are often not an available feature of a fixed rate loans. Similarly, repayments could be capped at a lower amount or with a fee.

Break Fees

There might be penalties incurred if you decide to change or pay off your loan within the fixed rate period.

Interest-Only Loans

An interest-only loan allows for payments that only cover the loan interest on the amount borrowed. This is for an agreed period of time. Don't forget that you are not paying anything off the principal, so ensure when you loan reverts to a principal and interest loan, that you can afford the repayments.

Some Advantages of an Interest-Only Loan Include:

Lower Repayments

The monthly repayments are less than if you had an interest and principal loan. You use some of the extra funds (that would normally go on paying the principal) could go towards paying off another debt you might have like a credit card or a personal loan.

Tax Deductible

An interest-only loan can maximise your tax benefits as the repayments are tax deductible.

Some Disadvantages of an Interest-Only Loan Include:

Eventual Higher Repayments

There will be higher repayments when the interest-only period ends.

More Expensive Over The Life Of The Loan

It's more expensive over the lifetime of the loan.

Principal Will Not Reduce

Although you're making regular repayments, you're not really putting a dent in your mortgage.

Many loans allow interest-only payments for a short period of time, generally up to 5 years. After this time, you will need to renegotiate the loan payments (which our loan specialist can help you with).

Here's an example:

JOURNEY OF INTEREST-ONLY LOAN BORROWERS

Each borrow $500,000 at 6% over 30 years [1]

	Principal & Interest	Interest-only for 5 years	Interest-only for 10 years	Interest-only for 15 years
	Thomas & Jane	Alex & Lee	Kelsy	David & Juan
MONTHLY REPAYMENT **DURING** INTEREST-ONLY PERIOD	$3,000	$2,500	$2,500	$2,500
MONTHLY REPAYMENT **AFTER** INTEREST-ONLY PERIOD	$3,000	$3,220	$3,580	$4,220
TOTAL REPAYMENTS MADE	$1,079,000	$1,116,000	$1,159,000	$1,209,000
ADDITIONAL INTEREST PAID DUE TO INTEREST-ONLY PERIOD	$0	$37,200	$80,500	$130,200

(1) Calculations using ASIC's MoneySmart interest-only mortgage calculator (excluding fees)
Source: www.moneysmart.gov.au/borrowing-and-credit/home-loans/interest-only-mortgages/australias-interest-only-mortgages

Line of Credit

A line of credit is a flexible loan agreement with a specific approved limit that you can draw on piece-at-a-time or all at once. You only pay interest and fees on the portion of funds you borrow.

If you are considering using a line of credit, consider these benefits:

- There is a higher credit limit compared to a credit card or a personal loan
- You'll have access to lower interest rates compared to credit cards or personal loan
- They're flexible and accessible

Some disadvantages of a line of credit include:

- The interest is higher compared to other loan types available
- If you have little financial discipline, a line of credit is not for you

E. Some Investment Approaches to Consider

Here are some approaches that many investors use today to increase the value of their investment or reach their financial goals through a property portfolio.

Buy and Hold

Buy and hold means buying a property in order to create long-term capital growth. In a nutshell, the approach is the property you purchase increases in value over time and your tenants assist you in paying off your mortgage.

Buy and hold investors tend to use the equity they have earnt to purchase the next property for their portfolio.

Negative Gearing

Negative gearing is simply a property investment where the annual expenses are higher than the rental income. Based on current tax law, because the investor has a "income loss" from the property, this can be claimed as a tax deduction.

Positive Cash Flow

Positive cash flow is similar to positive gearing, in that they earn cash after depreciation and tax deductions. New properties or properties that are newly renovated are the most likely to achieve positive cash flow as they have the largest depreciation benefits.

Renovation

Renovating your property can significantly increase the property's value, which can ultimately allow you to "create" increased equity in your property. From your newly renovated property, you can receive higher rent, or sell the property and get a higher price.

It sounds easy to renovate, but ensure you factor in all of the costs, the effort needed (including your own labour and time). It is difficult to make money this way when you compare what you could make using other investment strategies. However, if you are skilled at renovations, or have access to the right people who are, renovation might be the right investment approach for you.

“RENOVATING YOUR PROPERTY CAN SIGNIFICANTLY INCREASE THE PROPERTY’S VALUE, WHICH CAN ULTIMATELY ALLOW YOU TO “CREATE” INCREASED EQUITY IN YOUR PROPERTY.”

Passive Property Development

In today's property market, there are new property developments popping everywhere you look. You might consider investing in projects like these, where you invest money to a property developer.

In this instance, you are not responsible for the elbow grease or the expertise, which might be more suited to you. Passive property development might be faster and profitable, however, it can have a substantial amount of risk if the development doesn't go to plan.

Calculating The Return

The purpose of investing in property is to generate an improved financial outcome aka to make money. In this instance, the rental return is the income and it's referred to as the "yield".

To calculate the yield or "your return" on the property, you can divide the annual rent by the value of the property.

For example, if your property is valued at $500,000 and you can rent it for $485 per week ($25,220 annually), your rental yield (before the expenses) is approximately 5%.

Annual Rent / Market Value x 100
= Rental Yield %

$25,200 / $500,000 x 100
= 5.04%

Positive Gearing

Positive gearing is where your property creates a higher income than the annual expenses. This is before tax is considered. Positive gearing is less common as they are hard to find, and if you do find one, there's usually a downside like poor capital growth. Over time, your property may become positively geared as the rent income surpasses the expenses.

Capital Growth Goals

If you purchase a property for the right price and in a lucrative location, it could have the potential to deliver great capital growth.

If capital growth is your goal, it's important you can afford to hold onto the property until you can see a rise in the property's value.

F. Consider The Tax Concessions

Properties that are rented can enjoy tax benefits that other assets classes can't compete with. With all tax-related matters, you must speak to a tax specialist who can tailor advice to your circumstances as mistakes could mean you lose any concessions or you may fall into the spotlight by the ATO.

A good rule of thumb is to keep good records for your investment property, which includes receipts for any expenses which you can later use for deductions.

Capital Gains Tax

Capital Gains Tax (CGT) is based on the profit you make when you sell your property. It's the difference between the price you purchased it for and the price you sell it for. This can include the amount you paid for the property, any legal fees you paid, stamp duty, any other upfront costs and renovations you carried out on the property.

If your investment property was acquired after the 20th September 1985 any gains realised will be subject to CGT.

But if you sell your investment property after owning it for at least 12 months, then any gains realised are first discounted by 50% for individual tax payers i.e. individuals will only pay CGT (at their marginal tax rate) on 50% of the gain.

CGT is complex and there are many factors to consider so ensure you seek advice when selling your investment property. This is something your Altus adviser can help you with.

If you sell your investment property after owning it for at least 12 months, then any gains realised are first discounted by

50%

for individual tax payers

Gearing

As we discussed under investment approaches, gearing refers to borrowing in order to purchase an asset. Most investors will use some gearing to fund their rental property. The interest earned on the loan is a major cost in owning an investment property, however, it can be claimed as a tax deduction if the property is tenanted, which can significantly contribute to the cost of the mortgage.

Depreciation

Depreciation can be a big help to your tax position for your property investment. Depreciation can be claimed without any financial spend, which is unlike other related costs that require you to spend money in order to see a return.

There are two types of depreciation that can be claimed. The first covers fittings and fixtures, such as stoves, water heaters, carpet and light fittings.

The second type of depreciation is relevant for the actual building. For instance, if your building was built between 1985 and 1987, the building cost can be depreciated by 4% annually. Buildings built after 1987 can be depreciated at 2.5% annually.

With any tax implications, it's imperative you seek advice from an Altus adviser as you could be left with tax penalties if you get the numbers incorrect.

BUILDING COST CAN BE DEPRECIATED

4%

Annually, if your building was built between 1985 and 1987

BUILDING COST CAN BE DEPRECIATED

2.5%

Annually, if your building was built after 1987

G. Ownership Structure Options

An investment property can be held through a variety of titles – owned by you, through a trust structure, a company or even through a self-managed superannuation fund (SMSF). Let's look at the ownership structure options available to you.

Investing as a Sole (Private) Owner

Investing as the sole owner means you are the only owner and it's registered to your name only. You will receive the rental income and any expenses incurred will be paid by you and can be tax deductible.

Investing as Joint Owners

Investing as joint owners means the property is split equally between 2 or more people. The income and expenses are split equally across the owners.

Investing Through a Company

Investing through a company could be a great opportunity if you have access to this. If there are a large number of co-owners and the property can create taxable profits, it may provide some significant benefits to the amount of tax you pay. If 1 owner wants to exit the ownership arrangement, it's easy enough to sell the shares.

The downside is that companies can very costly to set up and maintain. They also need to meet strict legal requirements.

Also worth noting is you usually can't distribute any taxable losses among the shareholders and you must seek advice from your Altus Adviser if you are Investing through a company.

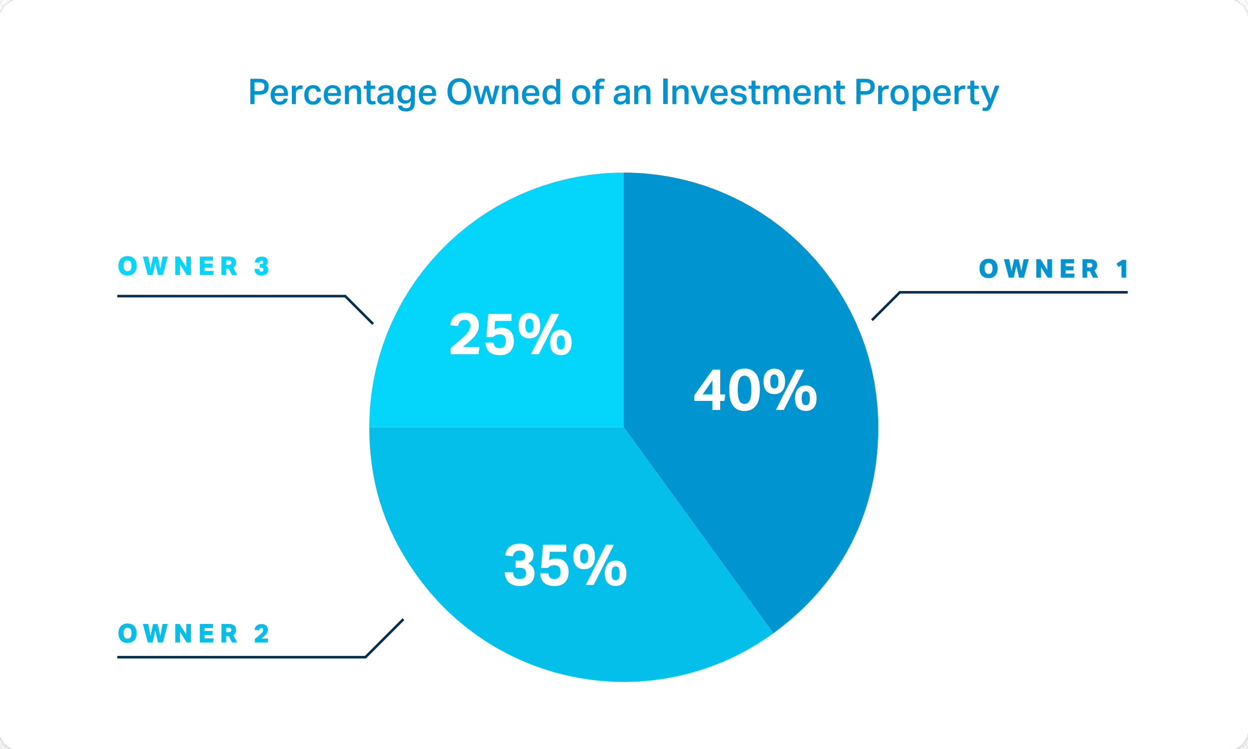
Investing Through a Trust

Investing through a trust could be suitable for properties that will be positively geared. This is because trusts can be suitable for distributing income and offering asset protection, in a tax effective way.

Trusts can be complicated, so ensure you speak to your Altus Adviser.

Investing as Tenants in Common (TIC)

Investing as tenants in common or TIC is simply co-owners of an investment property that own separate and possibly unequal amounts of the property. For example, owner 1 may own 40%, owner 2 could own 35% and owner 3 could own 25%. There is a deed that outlines the specific details. The same ratios will apply to the income earned for the property, and for any expenses.



Investing Through Your SMSF

Investing through your self-managed superannuation fund is possible, it's important to note that it is a complex area and is done with very strict rules. These strict rules are called a limited recourse borrowing arrangement and it can only be used to buy one asset. If you are considering investing through your SMSF, you must speak to an Altus Adviser to understand if this is right for you and your situation.

H. Are You and Your Assets Protected?

Whether you're managing a family or a young single, the right insurance provides great peace of mind.

Successful people know that life is inherently unpredictable. Asset protection is all about the professional management of this uncertainty - protection from unnecessary risks that may adversely affect your plan. Insurances you need to consider include:

Personal Insurances:

Life Cover

Also known as term life insurance or death cover, pays a set amount of money when the insured person dies. These funds will go to beneficiaries nominated on your policy.

Income Protection

Replaces the income lost through your inability to work due to injury or sickness.

Trauma Cover

Covers you if you're diagnosed with an illness or injury specified in the policy. These usually include major injuries or illness that significantly affect a person's life, like strokes and cancer Trauma cover is often referred to as 'critical illness' cover or 'recovery' insurance.

Estate Planning

Is the process of preparing the transfer of assets and wealth to beneficiaries following your death. Wills are often considered in estate planning discussions but are only one element of your estate plan. In reality, Estate Planning is a holistic planning process that implicates all aspects of your finances, including legal, superannuation, tax, real estate, individual belongings and debts.

Total and Permanent Disability (TPD) Cover

Insures you for the costs of debt repayments, rehabilitation, and future living costs if you are disabled. TPD cover is frequently offered with life cover.

Home and Contents Insurance

Insures you for the cost of damage or loss of buildings you own. Contents insurance insures you for the cost of damage or loss to your possessions. These are usually bundled together in a package, but they are in fact separate policies, so you'll need to decide on the cover you need for each.

"WHETHER YOU'RE MANAGING A FAMILY OR A YOUNG SINGLE, THE RIGHT INSURANCE PROVIDES GREAT PEACE OF MIND"

3.

Our Property Investor Checklist

Points to Consider

Your loan specialist is there to make your investment property journey easy. Points you should consider:

- ☐ I have a purchase limit and I know I can afford the ongoing costs
- ☐ I have a personal budget and balance sheet that shows me what I own and what I owe
- ☐ I have done my research on the market and the suburbs and I have a clear picture of the type of property want and can afford
- ☐ I have chosen a conveyancer/solicitor
- ☐ I have the relevant information for my loan application (next page):

Yourself

- [ ] Photo ID - (i.e. Your driver's licence or passport)
- [ ] A non-photo – (i.e. A credit card or a bill)

Your Income Information – Salary and Wages

- [ ] Your payslip/bank statement (showing 3 months of salary credits)

Your Earnings (Self-Employed)

- [ ] Your personal/business tax return (including financial statements)
- [ ] Your latest ATO Notice of Assessment

Your Earnings - Rental Income

- [ ] A statement/letter (this could come from the managing/real estate agent or current lease agreement

Your Earnings - Government Income

- [ ] Bank statement (This must show 3 months of payment credits of a letter from Centrelink that confirms the benefits you receive)

Your Assets

- ☐ Statements (3 months of statements that show savings and/or investments)

Your Borrowings

- ☐ Your existing loan statements (6 months of loan statements or line of credit)
- ☐ Any other debt statements (3 months of credit card/personal loan/or other fixed repayment loan statements)

Other Important Information

- ☐ Your monthly living expenses estimate (i.e. food, clothing, transport, utilities, health care, education etc)
- ☐ Insurance information (i.e. building insurance)
- ☐ Contract of Sale

4.

Why Choose Altus Financial

At Altus Financial, we understand your goals and we know your financial world.

In our experience, there is every chance your existing loan arrangements are not structured in the most effective way possible.

Right Loan Structure

We give you a contextualised loan structure that optimises your financial arrangements to suit your entire financial picture and group structure.

Right Loan

As your loan specialist, we ensure your loan is the most appropriate for you and your situation.

Wide Selection

We have access to a range of banks and lenders and can compare a great variety of competitive loan options.

Less Stress

We are committed to making the complex simple. We know how stressful settling a loan can be, which is why we are focused on providing exceptional service to ensure everything goes according to plan and on time.

Less Data Collection Hassles

One of the biggest frustrations when organising lending is the collection of your information for applications. If you are already a client of Altus, we already know your world, and that includes a substantial amount of your financial information, which can significantly reduce the frustration of form filling.

Right People

Your adviser has made it their business to understand you, your goals, and your financial world. It makes sense that we consider your loan arrangements as a part of your financial considerations.

Loan and Financial Specialists

Make confident financial decisions with our loan specialists who are your guide and guardian, every step of the way.

No Cost to You

We offer a personalised service that has no charge to you.

Altus Financial

Our Services Include:

HOME & INVESTMENT LOANS

- New Home Loan
- Investment Loan
- Refinance Loan
- Construction Loan
- Debt Consolidation
- Car Loan
  - A Chattel Mortgage
  - Commercial Hire Purchase
  - Novated Lease
  - Vehicle Finance Lease

BUSINESS LOANS

- Small Business Loans
- Equipment & Asset Finance
- Car Loan
  - A Chattel Mortgage
  - Commercial Hire Purchase
  - Novated Lease
  - Vehicle Finance Lease

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Disclaimer

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