MMI FINANCE

# Looking to invest in property?

Getting smart when it comes to financing your property investment.

# Is property the place to build your wealth?

Australia is a country of homeowners.

If we haven't already bought a home, chances are we're trying to find a way to buy one. Perhaps, it's this familiarity with the real estate market that makes property a place many Australians choose to invest. But it's important to know that buying an investment property is quite different from buying a home to live in.

We're here to walk you through a few of the things to consider when it comes to financing an investment property.

# Why do people invest in property?

Over the last few decades, the values of some properties have often risen more than the rate of inflation.

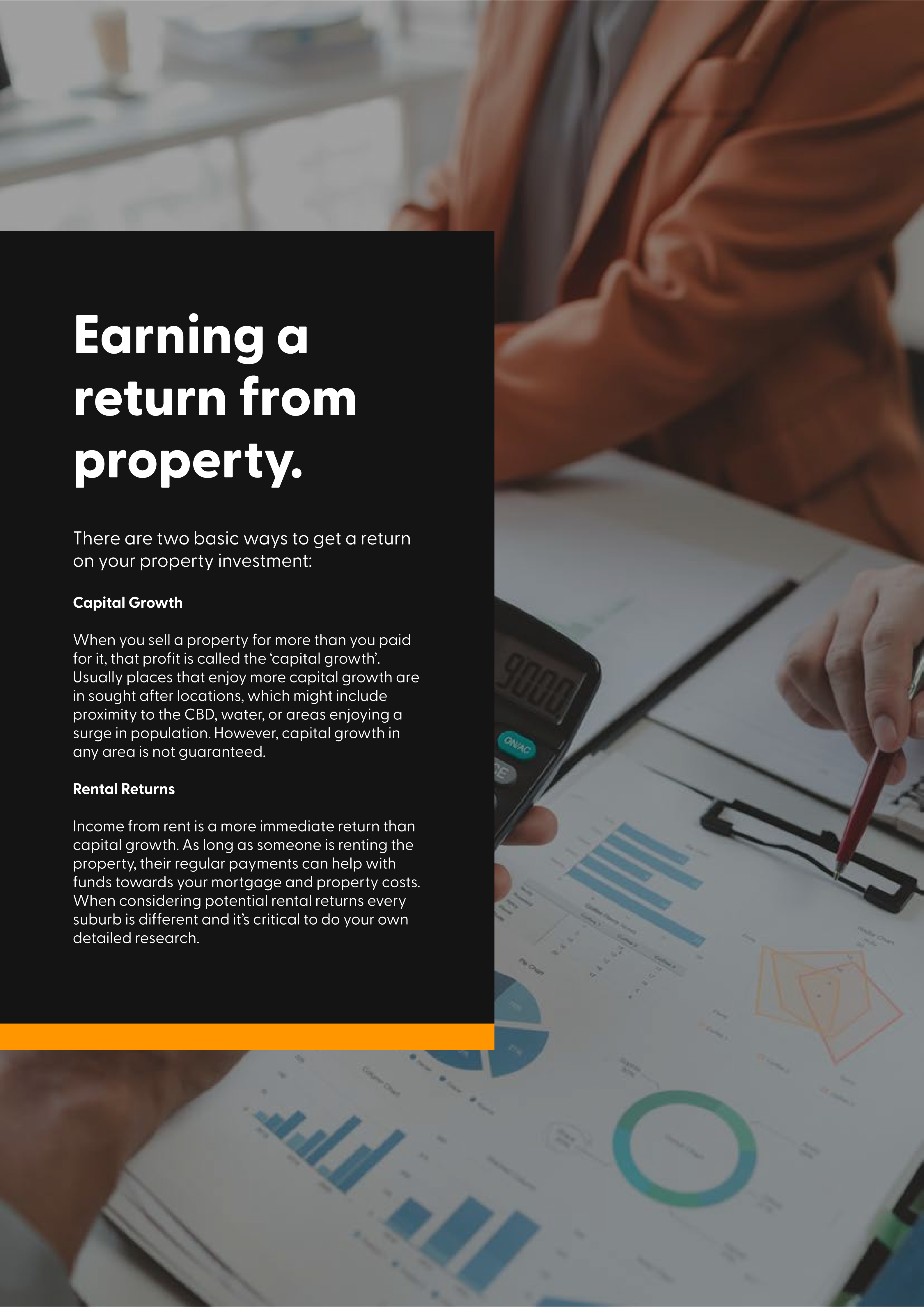
Some say property ownership is a national obsession, with affordability issues, house prices, and interest rate movements constantly in the news.

Apart from a common general understanding of the market, there are other reasons people like to invest in property. Some common ones being the potential for capital growth (how much the property rises in value over time), return from rent, and tax benefits. You'll find more about these over the next few pages.

Another plus is you don't need to be a long time investor with lots of funds on hand to start investing. If you already own a home that's increased in value, you can potentially unlock this equity to help purchase another property. Or, if you've yet to buy your own home you can use the rent to help pay the mortgage on an investment property and get a start in the market.

# Why using a broker is the smart way to go.

- ✓ We provide real choice, looking to find you the right deal.
- ✓ We work with multiple lenders, not just one – keeping competition alive.
- ✓ We may negotiate a better outcome.
- ✓ We help at a time and place that suits you, doing the legwork for you.
- ✓ Our aim is to save you time and stress, and get things moving as quickly as possible.



# Earning a return from property.

There are two basic ways to get a return on your property investment:

**Capital Growth**

When you sell a property for more than you paid for it, that profit is called the 'capital growth'. Usually places that enjoy more capital growth are in sought after locations, which might include proximity to the CBD, water, or areas enjoying a surge in population. However, capital growth in any area is not guaranteed.

**Rental Returns**

Income from rent is a more immediate return than capital growth. As long as someone is renting the property, their regular payments can help with funds towards your mortgage and property costs. When considering potential rental returns every suburb is different and it's critical to do your own detailed research.

# Have us onside as your mortgage broker

If you're thinking about borrowing for a property investment it's a good idea to speak to a mortgage broker like us first.

We offer a wealth of information and expertise for you to draw on. Not only will we help you find the right loan, we'll aim to make the whole application and approval process much easier.

The first thing we will do is meet and chat about your needs, personal goals and investment objectives. We can then give you an accurate idea of your borrowing potential and can also start the ball rolling to find a loan that suits you. So when you find the right place, we can sort out your finance as quickly as possible.

We can also point you in the right direction when it comes to relevant data about the property market. Historical data about an area's value, population changes and projections, average rental returns and fluctuations over the last few years, can assist you to make an informed decision and to give yourself the best opportunity to make a smart investment.

Choosing the right loan might be as important as choosing the right property. There are literally hundreds and hundreds of different loan products out there. It's just a matter of finding one that meets your needs.

# Why not go straight to a bank?

Of course you can go to a bank, but this can be trickier than it sounds.

Firstly, which one do you choose? Which of their products is right for you? And what about other lenders, building societies and credit unions?

There are a lot of options out there and, with regularly moving interest rates and new products, it's an ever-changing market.

Australia is indeed the lucky country. We are blessed for choice when it comes to the amount of competition that exists when it comes to the mortgage market. With so many lenders, and so many products under each of their brands, it's important you make the most of this regarding who and what you choose when it comes to your home loan.

That's why a broker makes sense. We do this day in and day out. We know the lenders and their products, and we keep up-to-date with any changes. We help choose what's right for you. Banks enjoy working with brokers, as we do a lot of the banks' work for them and making their jobs much easier and may help speed up the application process and get you the top-notch customer service you deserve.

In the simplest terms, having a broker in your corner makes finding the right loan easier and can save you time and, hopefully, money.

# Where and what to buy.

One of the most common and consistent pieces of advice you'll hear when it comes to investing in property is to choose with your head not your heart.

You need to be objective in choosing and weighing up the benefits and drawbacks. It should never be emotional, but when it comes to choosing a location, it may be worth considering an area you know. You'll still need to do your research and observe the market to get a good idea of what's good value and what's not.

Of course, it's important to get as much information about an area as possible, so ask around and do some digging using the relevant data available to help you make an informed decision. As we mentioned earlier, some areas may have more potential for capital growth and others may be more likely to enjoy greater rental returns. So it's good to know exactly what you're looking for from your investment.

Another decision is whether you're going to buy a unit, a house, or some land. One may outperform the other depending on things like size, cost, location, supply, demand and other market conditions.

A home may be easy to rent but it could have a higher purchase cost. A unit may be cheaper and have lower maintenance costs but there may be an oversupply in an area. A block of land won't generate any rent but if the location has potential then there may be an opportunity for capital growth.

Also, you should consider the appeal of the property for potential renters, and buyers for when you want to sell. Again, there are so many factors in play that it helps to have as much information as possible.

As always we would encourage you to get an independent valuation of a property to make sure you're not paying above market value, and ensure you've had the right financial advice.

# What mortgage type suits your needs?

As with all loans, there's more to finding the right investment loan than just searching for the most attractive rates and fees.

Obviously a low rate is important but it's not everything. Your new loan will probably be different from your current home loan as it's for a very different purpose.

The types of loans available are generally the same as the types of loans you'd use to buy your own home, but with different advantages and drawbacks for investors.

## 01. Variable

The interest rates go up and down depending on factors such as the official cash rate, market conditions and each lender's decisioning. When the rate goes down, so do your minimum repayments. But when the rate goes up, your payments will too.

## 02. Fixes

The interest rate can be fixed for one to five years. Even if rates change, your repayments stay the same. This helps manage your household budget by knowing exactly what you'll have to pay. Of course you won't benefit if interest rates drop and there may be significant break costs to change the loan before the end of the fixed term.

## 03. Split Rate

One part is variable, the other is fixed. This lets you enjoy the benefits of an interest rate drop but also protects you from being affected fully if they rise.

## 04. Interest Only

You only pay the interest on your loan but not the principal loan amount. Your repayments are less but you still have the same level of debt at the end of the interest only period. However, an interest only loan will usually cost more over the term of the loan as you won't start paying off the principal until after the end of the interest only period.

## 05. Line of Credit

You can pay into and withdraw from this account as long as you keep up with the required repayments. You can have your income paid into this account to help pay off the mortgage sooner but interest rates are usually slightly higher.

# Looking to maximise your tax benefits?

One of the reasons property investing is attractive to people is that there are currently a number of tax benefits that may improve the return on your investment.

### Deductions

There are a number of costs associated with owning an investment property that you may be able to claim as a tax deduction. You may already realise that the interest payments and fees of the loan may be deductible, but other costs may also be as well. It's a bit of a moving feast given state and national legislation have been changing so please check in with your accountant or financial adviser to find out more about what you may be able to claim, as these items may well add up to a valuable saving on the cost of your investment.

### Negative gearing

When your costs of owning your investment property are greater than the income you get from rent, you may be able to 'negative gear' your investment. This is when the loss you have from owning the property is offset against your annual income, reducing your taxable income and potentially providing you with tax savings.

### Capital Gains Tax

A property may increase in value over time. When it comes to selling your investment property, any rise in value from when you bought it is called the 'capital gain'. The costs of buying and selling the property are subtracted from the gain, and what's left is added to your annual income. Which means capital gain is taxable.

The good news is that a profit is a profit (even if it's taxed) and if you've owned the home for more than 12 months you may be able to claim a 50% discount on the gain.

Obviously these are very simplistic descriptions of the potential tax benefits, and you should always speak to a tax expert to understand the tax implications of owning an investment property.

# We’re here to help make it easier.

If there’s something you don’t understand or need more of an explanation, please just pick up the phone or email today.

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