Property investment Guide.

Aussie
We'll save you

Before you invest, invest a little time with Aussie.

Contents.

We've been helping Australians invest in property for 25 years.

Over that time we've seen it all. 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.

With Aussie's long experience in the investment property market, we've built deep insight into how the market works and how we can help make it work for you. This guide contains the best of our collective wisdom to help you invest with clarity and confidence and avoid potential pitfalls — especially when it comes to your financing.

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 local Aussie Broker can save you valuable time by searching and comparing hundreds of loans from over 20 leading lenders* including the big banks and our own award-winning loans. Because we get paid commission by lenders, our expertise won't cost you directly.

For first time investors and seasoned investors alike, your Aussie Broker will be pleased to take the time to listen to your plans and recommend a home loan that's right for you. Make a date with Aussie to talk about your future today.

The holy trinity of property investing.

Investors tend to like property investment for three key areas of potential:

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.

Understanding each of these individually and how they work together is essential in planning your investment strategy.

Over the next few pages, the Aussie team shares their insights into the things that you should know before you invest.

Let's start making plans.

Visit **aussie.com.au** or call **13 13 33** to meet with your local Aussie Broker.

*Not all lenders are available through all brokers.

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.

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.

To make a capital gain on your property, its value will need to rise more than the costs associated with buying and selling. Here we're talking costs like stamp duty, legal fees and the commission you will pay to the agent selling your property.

These costs can add up to tens of thousands of dollars. That is why capital gain should generally be considered a long-term benefit of property investing, not a quick win.

With a well-located property in an area in demand from a growing population, there is a good chance you can benefit from capital growth in the longer term. In the ten years to July 2016, property values across Australia's combined state and territory capitals rose by an average of 5.5% p.a.

If you buy a two bedroom apartment close to the city for:

$650,000

You rent the apartment for:

$550 pw

Which gives you a return or yield on your investment of around:

4% yr

After five years, your apartment is valued at:

$800,000

Delivering Capital Growth of:

23%

The simplified scenarios shown here and opposite demonstrate the importance of weighing up short-term yield with potential long-term gain. You need to find the balance between seeking capital growth and rental income that's comfortable for you and seek financial, legal and taxation advice before making an investment decision.

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.

If you buy a two bedroom unit in a regional centre that costs:

$300,000

You rent the apartment for:

$400 pw

Which gives you a return or yield around:

6.5% yr

After five years, your apartment is valued at:

$330,000

Delivering Capital Growth of:

10%

Tax and your investment property.

The third part of the equation that makes property such a popular investment strategy is the range of potential tax benefits.

While any investment should be chosen on its potential to generate returns and longer-term gains, tax benefits can play a very handy part in helping you to achieve your financial goals.

Tax deductions that add up.

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:

- Advertising for tenants and property management fees
- Loan interest and ongoing loan fees
- Council rates, land tax, water and strata fees
- Building depreciation and depreciation of fittings and fixtures like stoves, carpets and hot water heaters
- Repairs, maintenance, pest control and gardening
- Building and landlord's insurance.

This list doesn't cover all expenses that you may be able to claim. Ask your tax adviser before you complete your tax return.

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.

Capital gains tax.

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.

Choosing your investment 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?

Keep in mind that you are investing as a money-making 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.

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.

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 rentors or permanent tenants? Here we look at some of the ins and outs of your options.

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 local Aussie Broker may be able to help with other types of property loans, too. Just ask.

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?

Buying off the plan or building new.

- 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 property
- Building could be delayed
- Unexpected expenses could arise
- You face the risk of developer or builder insolvency

Buying for 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
- Further to travel to inspect or maintain the property (especially if you buy interstate or overseas)
- Many apartment properties will not allow short term rental

The investor checklist.

Whether you're looking for capital growth or steady rental income, here's a handy list of things to consider when you're looking for the right property.

It's by no means definitive and for every 'rule' there can always be an exception, but it's a great place to start.

- Look for locations where employment is steady and accessible or with good public transport connections for residents commuting to employment hubs.
- Think about the needs of families who might be your new tenants. Are there schools, shops, community and sporting facilities nearby?
- Try to avoid places on busy roads or directly under flight paths.
- Make statistics your friend. Organisations like CoreLogic RP Data are a great source of property data, analytics and insight.
- 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.
- 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.
- If you think you've found a 'doer-upper', think carefully. Renovations can be costly and you could be at risk of overcapitalising.

- 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 you don't know. But do your homework on any location you're not yet familiar with.

Choosing your investment loan.

Aussie can help you with your homework.

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.

You can find out more about the types of loans available in our Finding the Right Property and Refinancing guides. Ask your local Aussie Broker or download a copy at **aussie.com.au**

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

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.

Spotlight on investment lending.

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! The expert advice and insight of your local Aussie Mortgage Broker can help negotiate the path ahead.

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

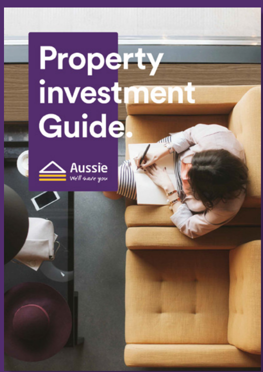
- Higher interest rates for new and existing borrowers
- Lower minimum loan-to-valuation ratios so borrowers will need larger deposits
- Tougher criteria for assessing investment loan affordability.

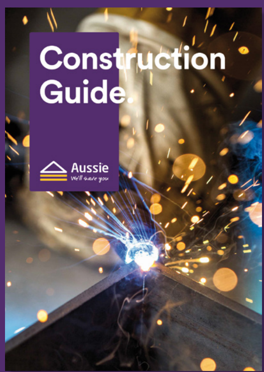
With a few exceptions, most lenders are keen to lend to good borrowers and the market remains competitive. The key is to be prepared. Some potential challenges to be aware of:

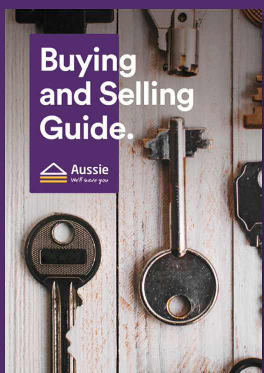
- You may face tougher eligibility criteria
- Some lenders will not lend more than 80% of an investment property's value
- If you have a smaller deposit your options may be limited. On the flip side, if you have a substantial deposit or security, more lenders may consider your application
- You may be 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.

Already thinking about what's next?

At Aussie, we're here to help. Download another one of our Property Guides at aussie.com.au:







Find out more at aussie.com.au or call 13 13 33.

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