

# Investing In Property 101

**Investing in property** is a great way to build wealth. It's stable, you earn passive income, and it's tax-deductible. You can use your investment property as collateral for another loan or leverage it by buying another property with the equity you have built up from your first investment.

# How Do You Make Money From Investing In Property?

Now, before you start your property investment journey, you need to set your investment goal by choosing the [right strategy](#).

The strategies you choose determine how you make money from your property investment. Common strategies are:

 <b>Capital growth strategy</b>	 <b>Cashflow strategy</b>	 <b>Value-adding strategy</b>
<p>Capital growth is the increasing value of the property over time.</p>	<p>Earning rental income from the property.</p>	<p>You renovate or upgrade properties and sell them.</p>
<p>You make money by holding the property until its value has increased and then selling it.</p>	<p>You make money by taking in more rental income than it costs to own the property.</p>	<p>You make money by selling the property after you have increased its value with renovations.</p>

# How To Understand The Property Market.

The performance of your investment property hinges on demand and supply. Property prices and rents rise if there is high demand with limited supply.

When you invest in property, you are paying for two things: the value of the land and the value of the property on the land.



The land rises in value due to its limited supply to accommodate the growing demand.



Buildings depreciate over time and have a limited lifespan. They can be demolished to accommodate new housing projects.

A better way to understand Australia's property market is to understand the property cycle.

# Understanding The Property Market Cycle.

As the [property cycle](#) is long-term and recurring, you will notice certain patterns and activities that will happen reliably during each phase. Knowing the ins and outs of the property cycle will help you determine the right time to invest.

There are four phases: boom, slump, stagnation and upturn.

**1**

**The boom** starts the cycle, as prices and demand are high amidst limited supply.

**2**

**The slump** follows, due to an oversupply of properties in the market; prices fall and demand is low.

**3**

**The stagnation** phase is next; prices level off or even start falling, as there are very few buyers in the market.

**4**

**The upturn** phase, the property market slowly starts recovering and more investors and buyers enter the market.

There is no end to the cycle. It will start afresh after the end of the last phase.

**This is why time in the market is more important than timing the market.** Once you know the signs that show which phase of the property cycle you are in, you can gauge which areas are ripe for growth and when sellers will be motivated to sell to you.

# When Is The Best Time To Invest?

You can use the cycle to analyse where the property market is now and determine if there's going to be an upswing or downturn.



A boom is not always the best place to start. Look at when markets are stable and poised for growth. This way, you enter the market when prices are more affordable and can sell when there's a boom.



When there is a boom, you can use the equity from an existing property to grow your investment portfolio.



Take note of early market upswings, not just peaks.



Waiting for prices to cool down will take time. Investing in property is a relatively low-risk bet, as land is scarce and demand for it will continue to grow.

Each suburb goes through the real-estate cycle on its own timetable, with its own demographics, property types and prices. This is why, when you are considering purchasing within a particular suburb, it's important to know what stage of the property cycle surrounding suburbs are in as well.

## Prepare Your Finances.

Organise your finances as early as you can to maximise how much you can borrow.

## What Deposit Is Required For An Investment Loan?

You will need a minimum deposit of 5-10% of the property value. If your deposit is less than 20%, you might need to pay [Lenders Mortgage Insurance \(LMI\)](#). You can use the equity in your existing property as a deposit.

You may also qualify for a low-deposit investment loan. Smart property investors often use a small deposit when they start their investment journey. Let's look at a simple example:

You're buying an investment property valued at \$500,000 in NSW.

Associated Costs	Buying An Investment Property With A 10% Deposit	Buying An Investment Property With A 20% Deposit
Deposit Required	\$50,000	\$100,000
Stamp Duty	\$17,805	\$17,805
Lenders Mortgage Insurance	\$9,982	-
Other costs	\$3,000	\$3,000
<b>Total Costs</b>	<b>\$80,787</b>	<b>\$120,805</b>

While you save almost \$10,000 in LMI with a 20% deposit, you end up paying about \$40,000 more in total upfront costs.

With a smaller deposit:

- You can buy your investment property sooner.
- You can use the equity from your investment property to purchase another one.
- You can use the extra savings to build your property portfolio.

# How To Qualify For An Investment Loan.

Lenders consider [investment loans](#) a higher risk than owner-occupier home loans, so you have to be in a particularly strong financial position. Here are the key factors lenders consider:



**Your borrowing power:** Your investment property borrowing power, or serviceability, is an indicator that determines your capacity to afford an investment loan.



**Genuine savings:** Many lenders will require you to have accumulated a certain amount of cash in an account for at least three months, as a deposit.



**Your Loan-to-Value Ratio (LVR):** The lower your LVR, the more likely a lender is to approve your loan application and the better terms you are likely to get.



**Your credit history:** Most lenders want to see a clean credit history.



**Your credit score:** Your credit score is one of the first things lenders consider. A low credit score might signal you're a high-risk borrower.



**Your employment:** A strong employment history and income prove that you can afford the investment loan.

## How To Qualify For An Investment Loan.

**Debt-To-Income (DTI) Ratio** is becoming more important for property investors. Basically, if you have a lot of debt, then DTI tends to be high. If your DTI ratio is higher than 6 to 1, major banks usually will not approve your loan. Fortunately, there are lenders that can help if you can afford the investment loan.

Before you start saving for your investment property, figure out your expenses, income and total assets. This gives you a rough idea of how much you can invest. Get pre-approved for an investment loan to get an even more clear picture of how much you can borrow. Pre-approval lets you know how much a bank is willing to lend, and you can start to look for properties in that price range.

# How Much Can I Borrow For An Investment Property?



**100% with a guarantor:** If you have parents who own property in Australia, you can borrow 100% of the property value. You do not need to pay LMI if you have a guarantor on your investment loan.



**95% investment loan:** Some lenders can go up to 95% LVR, but the lending criteria can be strict. They require a clean credit history and a good investment portfolio.



**90% investment loan:** Show that you have a clean credit history and are buying a standard investment property.

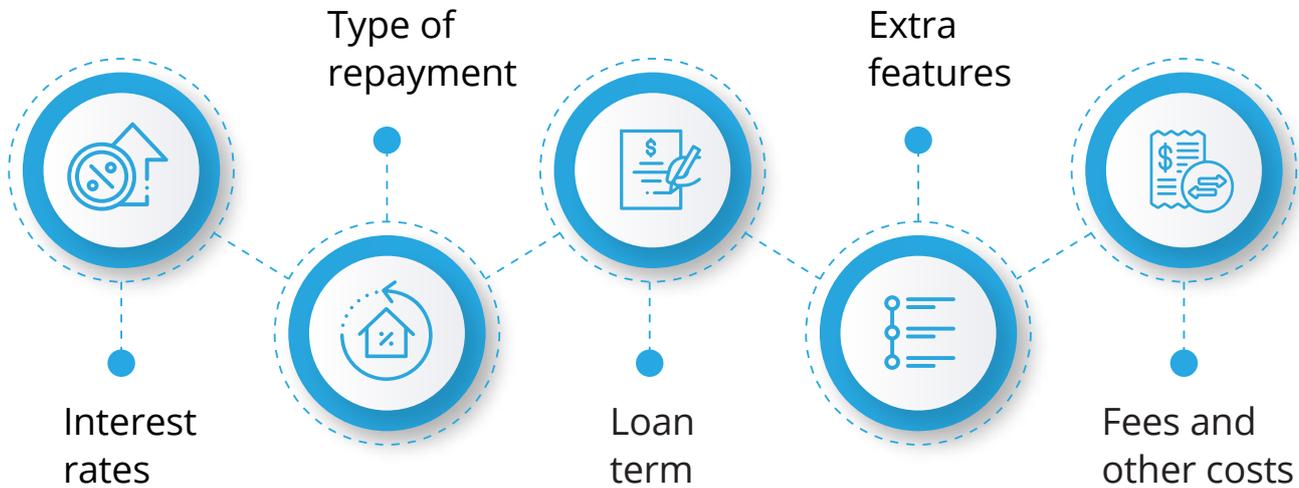


**85% investment loan:** If you have at least a 15% deposit saved, you can get approved for an 85% investment loan.

Overall, 90% is a sweet spot for people who want to build their portfolio aggressively. The loans are fairly priced, and the deposit size is small. Going to 95% means it gets quite expensive. Going to 80% means you can't buy as many properties without larger amounts of cash, as you need more in savings. Finally, 90% is great for investors in the early growth phase of the portfolio, and as their portfolio gets larger, they trend towards 80%.

# How To Choose An Investment Loan.

Look at five key areas when choosing your investment loan:



## What Costs Are Involved?

There are certain upfront and ongoing costs associated with buying and owning an investment property.

The upfront costs include:

- 1 The deposit
- 2 Connection fees to activate utilities and services
- 3 **Stamp duty**, which varies depending on the state and purchase price
- 4 LMI

Please note that some lenders let you capitalise LMI to the loan amount or pay it monthly. If you choose these options, LMI becomes an ongoing cost.

## How To Choose An Investment Loan.

The ongoing costs of owning an investment property include:



Building and landlord insurance (or other insurance) for unforeseen situations like fires, floods, thefts and tenants refusing to pay; premiums are usually paid annually.



The weekly, monthly or fortnightly repayments on your investment loan.



Property management fees if you hired a property manager.



Repairs and maintenance fees.



Fees for water and sewage, or anything that does not have separate metering.

Before you start your property search, make sure to budget for these upfront and ongoing costs. When budgeting, keep in mind whether each expense is due monthly or annually.

## Decide What To Buy

Take note of two important things when deciding what to buy: location and type of property.

# How To Choose The Right Location.

Consider these factors when choosing a location for your investment property:



**Property values:** Look at suburb sales data and see which postcodes are rising, falling or stagnant. This can help you make an informed prediction about where there will be a boom in the future.



**Vacancy rates:** Low vacancy rates or falling rates dictate high demand for rental properties. If a particular property is vacant for too long, it's harder to find the right tenant.



**Auction clearance rates:** A higher rate indicates a hot market. An auction clearance rate is the percentage of the total number of properties available at auction over a week or month that it is sold.



**Days on market:** If properties are selling quickly, it's a sign of a strong market.



**Population growth:** A growing population will drive demand for property.



**Diverse economy:** Look for a diverse local economy that is not reliant on one major industry.

## How To Choose The Right Location.



**Infrastructure development:** Find out if there are any infrastructure developments coming to the area. Get in touch with local councils to hear about planned development projects. Talk to locals to find out how they feel about the projects.



**Tenant appeal:** Look for areas and features that tenants favour. While renters in Melbourne need transport facilities, the same principle may not apply to renters in Perth or Adelaide who prefer to drive. For them, a garage is more important than having good public transport.

## What Type Of Property Should I Buy?

### Houses Vs Apartments

Why Invest In Houses?	Why Invest In Apartments?
You're looking for capital growth more than a rental yield.	You're looking for a rental yield over capital growth.
You want more freedom to make changes (renovations or even adding a granny flat).	You want a lower entry price.
	You found an apartment that has the features tenants desire.
You can make a deposit and manage the maintenance fees of owning a house.	You want to avoid renovation projects.

## What Type Of Property Should I Buy?

### New Vs Established

Why Invest In New Properties?	Why Invest In Established Properties?
They usually have more features to attract the right tenant. People are willing to pay a higher rent for these amenities.	They are located in well-established suburbs that have enjoyed consistent growth.
You enjoy depreciation tax benefits longer, which helps with monthly cashflow.	You might be able to add value to the property through renovations.
If repairs are required, builder's insurance will cover the costs (assuming the builder did not go under).	When you sell a property, the depreciation is factored in when calculating capital gains tax. The high depreciation of a new property is a positive for ongoing cashflow and a negative for capital gains tax when you sell.



# Who Should Be On Your Investment Team?

Investing in property in Australia can be an arduous process if you don't have the right people to help you. It's a mistake to start looking for investment properties before you assemble your team of professionals. Here's whom you should have on your investment team:



A **solicitor** provides you with extensive legal advice. There's more to buying a property than signing a few documents. A solicitor will look over any sale or offer documents for caveats or easements.



A **mortgage broker** helps you get approved for the right investment loan. Besides getting you the right loan, a mortgage broker looks through your finances to present you as an ideal borrower and wades through the paperwork and documents required to get approved.



An **accountant** advises you on the right property structure for maximum tax benefits.



A **building inspector** provides you with reports on the property's structural integrity to ensure it is in top condition before you buy it.



A **real estate agent** helps you buy (and sell) properties.

## Who Should Be On Your Investment Team?



A **buyer's agent** helps you find and purchase an investment property that meets your goals.



A **property manager** will find you the ideal tenant and handle the day-to-day administration and upkeep of the property. The quality of property managers varies greatly. You want to find someone proactive and professional. It's better to pay a little more for someone who does a great job than pay less for someone who doesn't screen tenants properly or check on the property regularly.

At Home Loan Experts, our mortgage brokers are seasoned property investors. We will answer all your questions about investing in property and also help you:

**01**

Get the best deal on your investment loan at competitive interest rates.

**02**

Find out how much you can borrow and afford.

**03**

Determine the true costs of getting an investment loan, from completion costs to LMI.

**04**

Organise your documents and submit them for the loan application.

**05**

Get valuation reports for your investment properties.

A good mortgage broker gets you a competitive loan. However, a great mortgage broker understands your investment objectives and underlying needs. They're your partner that enables you to get there. It's about much more than the loan itself.

We're here to help.

Call us on **1300 889 743** or [enquire online](#).

## Disclaimer

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We hope you liked our guide!

For more information, visit our [Home Loan Experts website](#).

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