START BUILDING YOUR WEALTH

Property investor guide

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Preparing to buy

Whether you're thinking about your first property investment or your next one, there are many important things to consider.

This guide has been developed by Westpac's experienced team to help you understand the process ahead, explain the essentials of property investing, and help you to buy with confidence.

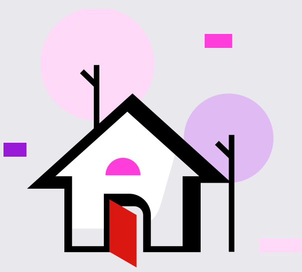
Like anything worth doing properly, it's essential to do your homework before you start looking for your investment property. By carefully considering the deposit you can afford and how much you're comfortable repaying, you can establish a price range for your property search. You'll also need to think about any other upfront or ongoing costs that could be associated with your property choices.

Affordability

Preparing a good budget means you can start your search for an investment property with a realistic figure in mind. Take the time to understand how much you can comfortably afford to repay, factoring in your everyday living expenses, existing debts and other financial commitments as well as a realistic estimate of both income and expenses for your future property investment.

The deposit

Generally, you'll need 20% of the purchase price as your deposit to avoid paying Lender's Mortgage Insurance (LMI). Don't forget to factor in other significant upfront costs such as stamp duty and legal fees. If you don't currently have a 20% deposit, there are other options available that could help you buy a property sooner.



Saving for a deposit?

Find out how we can help you reach your goals sooner with savings accounts or term deposits at westpac.com.au

Is using equity an option for you?

Many property investors choose to use the equity in their existing home towards their next property purchase. Equity is the difference between your property's current market value and what you still owe on your home loan.

How does it work?

If you've been paying down your home loan or the value of your property has increased, you may have equity that can be used towards the purchase of an investment property. To access any equity, you'll need to refinance your mortgage to its current market value.* Ask Westpac or your current lender about the current market value of your property and the potential to access equity. It could help you find a bigger deposit towards your purchase.

Unlocking your equity

- In this example, John and Sarah's home is valued at $800,000 with a $440,000 mortgage balance.
- After a review of their financial situation, the lender will allow up to 80% of the current home's value to be borrowed (80% x $800,000 = $640,000).
- These homeowners will have useable equity of $200,000 ($640,000 – $440,000)

80% of the property's value = $640,000

Mortgage balance = $440,000

Usable equity = $200,000

*Standard lending criteria apply.

Preparing to buy continued

Other deposit options

Lender’s Mortgage Insurance (LMI)

If you do not have a 20% deposit, you may be able to reduce the deposit needed to purchase a property by paying LMI. LMI protects the home loan provider against the additional risk involved with lending a higher portion of the property value. This charge is passed on to the borrower who can pay this charge up front, or elect to include it in the total loan amount to be paid over the remaining loan term.

Parental Guarantee

Your parents may be able to help you access the property market by using the equity in their home. This option may eliminate the need to pay LMI. There are risks associated with Parental Guarantee, primarily that if the borrower defaults on their loan, the guarantor is liable to pay up to the maximum of the portion of security they have put forward as a guarantee. Westpac recommends guarantors obtain independent legal advice.

Calculate stamp duty and other government fees with our Home Loan Calculators.

Find our Tools and calculators at westpac.com.au

Purchase costs

As well as your deposit, when you’re working out your budget you’ll need to consider other costs and fees associated with your purchase. These can include:

Building and pest inspections

While these may seem expensive upfront, think about inspections as an important insurance against potentially far bigger expenses down the track if you discover building issues or pest infestations. To help keep costs down, you may be able to combine pest and building inspections from suitably qualified professionals.

Mortgage establishment fees

Depending on your loan type, you may need to pay additional costs such as application, valuation and loan settlement fees.

Legal costs

You will need to engage a solicitor or conveyancer to manage the legal steps involved with buying a property. These important responsibilities include:

- Reviewing and exchanging the contract of sale.
- Completing a property and title search to ensure the seller is legally entitled to sell the property, and to check if there are any covenants or caveats on the property.
- Arranging a strata inspection and review of body corporate records if you are buying a property that’s part of a strata scheme. This essential step could help identify any upcoming or required building work that could mean higher levies or contributions in the future.
- Arranging payment of stamp duty.
- Transferring the title of the property from the seller to you.

Title transfer

The cost of this government fee for transferring the property title from the seller to the buyer can vary between states and territories. Find details of these charges on your state or territory’s revenue office website.

Mortgage registration fee

Also varying by state or territory, this is another government fee to officially register the property as security for the mortgage. This allows any future buyers to check for any prior mortgages on the property.

Stamp duty

When working out your budget, it’s essential to factor in the significant cost of stamp duty. This government tax is calculated on the purchase price of the property and varies between the state or territory in which the property is located.

Knowing your strategy

For property investors, there are three key areas of potential: capital growth, rental income and tax benefits. In planning your investment strategy, it's important to understand which benefits – either individually or working together – are most important for you.

Capital growth

With any property purchase, buyers ultimately want the property's market value to rise. You need to keep in mind, however, that capital growth is never guaranteed. Over time, markets and property can go up or down in value. Demand can also rise and fall. Remember that regardless of the property's current market value, you will still need to be able cover the costs of your home loan.

Rental income

As an investor, you are likely to be looking for an ongoing income stream from your investment property. Gross rental yield is the amount of rental income you can receive over a year, measured against the market value of the property. It's commonly used as a way to compare properties with different values and rental returns.

While gross rental yield is an important measure, you also need to consider your net rental yield. This is the money that's left from your gross rental yield after you deduct all the fees and expenses associated with your investment property. These could include council rates, strata fees, management fees if you're using an agent, and general maintenance and upkeep of the property. As these costs are variable, they can be difficult to estimate, but it provides a more accurate idea of actual rental return.

An example

- George purchases an apartment as an investment for $600,000
- He rents the property out at $450 a week
- The gross rental yield is (450 x 52) = $23,400/ $600,000 = 3.9%

Rental income
= $23,400

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Property value
= $600,000

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Gross rental yield
= 3.9%

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Knowing your strategy continued

Tax benefits

The third factor that needs to be considered by any investor is tax implications. As tax rules change constantly and every individual has a different financial position, we recommend you seek advice tailored to your situation from your own tax adviser.

Gearing

Negative gearing is a strategy that can allow you to use a loss on your investment property to offset other earned income and reduce the overall amount of tax you pay. A property is negatively geared when the costs of owning your investment property are higher than the rental income you receive. These costs can include council rates, maintenance costs and even the interest on your loan.

If rental income exceeds the associated costs, your property is positively geared and you can expect to pay taxes on the extra income you generate.

An example

- Katie receives rental income of $300 per week ($15,600 per year)
- Katie's property expenses include interest repayments, council rates, water bills and property management fees, totalling $24,000 per year
- Katie's property is negatively geared by $8,400

Rental income = $15,600 per year

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Total expenses = $24,000 per year

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Negatively geared by $8,400

Capital Gains Tax

When the time comes to sell your property, you will hopefully be selling for a higher price than your original purchase. This results in a capital gain, which needs to be reported as part of your income for that financial year when you submit your annual tax return.

If you have owned your investment property for more than 12 months, you may be eligible for a capital gains tax concession. Be aware that even with any concession, a capital gain can significantly increase the amount of tax you need to pay. Ask your tax adviser for advice.

Tax Deductions

If you rent out your investment property you will be able to claim a tax deduction against rental income for expenses that may include:

- Management and maintenance costs
- Borrowing costs including interest on your investment loan
- Water costs
- Building insurance
- Council rates

Rules around tax deductions often change

Ask your tax accountant for advice or visit the Australian Taxation Office website at ato.gov.au

Researching the market

There are many factors that will influence your search for the ideal investment property. Your budget for one. As you start your search, two of the first things to consider are the location and type of property.

Choosing the location

Location is always a key factor in choosing where you want to live. Choosing a property investment is no different, though you may have more flexibility to look at areas that offer good investment potential. For example, properties in thriving communities close to schools, shopping centres and public transport, are more likely to provide consistent rental income.

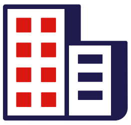
Tip

To help with your search, use our free Property Market Research tool on westpac.com.au/freepropertyreports to find useful information including:

- **Estimated property value**
- **Suburb trends and demographics**
- **Suburb rental income and yield**
- **Similar properties for sale**

Choosing the type of property

Deciding between a house and a unit is just the start of your property choices. Do you buy off the plan or take the plunge and build a new home yourself? Your choices will usually depend on the amount you want to invest and the type of tenants that you'd like. Here are just a few things to consider with each type of property.



Apartments

+ Tend to be more affordable than houses
+ A popular choice for renters
+ Tend to have lower maintenance costs
- Strata fees payable
- Generally fewer opportunities to renovate

Houses

+ Greater flexibility for renovations and property improvements
+ Tend to be in greater demand from families looking to rent or buy
- Maintenance costs tend to be higher

Buying off the plan or building new.

+ Can increase rental income short term as tenants may prefer new homes
- Building delays or additional costs could result in expiry of your Approval in Principle.

Ready to buy

Just as you'll take the time to decide which investment property is right for you, choosing the home loan that's best for you can provide a range of long-term benefits, including saving money.

Choosing your loan

Like a home loan, an investment property loan generally offers choice between fixed or variable interest rates, allowing you flexibility in how you can structure your repayments.

Fixed interest rate

Fixing your interest rate for a set period can provide repayment stability. It gives you more certainty over your repayments, making it easier to plan your budget.

Variable interest rate

While a variable rate can move up or down in response to market interest rates, it may give you more flexibility. You can generally make additional payments and access more features such as redraw or offset accounts and the ability to repay your loan faster.

There are two main types of loan to consider:

1. Principal & Interest

- Paying both Principal & Interest can help pay down your loan faster so you own your investment property sooner.

2. Interest Only

- Your monthly repayments will be lower for a set period.
- During the Interest Only period, the amount of money you owe does not reduce.
- It could help you get into the property market without having to spend so much initially.

Offset accounts

With an offset facility linked to your loan, you can use your savings to reduce the interest payable on your loan. It's a way to make your savings work harder while still letting you access those funds when you need them. Offset accounts can be setup for both Principal & Interest and Interest Only loans.

Here's how it works

Any funds in your offset account (or the combined balance if you have multiple) work to reduce your home loan interest, as you only pay interest on the difference between the loan amount and the amount in your offset accounts.

With multiple offsets you can distribute funds into different offset buckets, like income, expenses and savings goals. Great for tracking.

Interest is calculated daily and charged monthly on the net amount, which is your loan balance minus the balances in your linked offset accounts for that day.

Offset accounts work best when your balance grows, so withdrawing from them frequently will reduce their effectiveness: the longer funds stay in your offset accounts, the more they can reduce interest payments on your home loan balance.

Settlement and beyond

Settlement is an exciting time for any property buyer. Before you get the keys to your new property, it's important to arrange insurance to protect your investment. It's also time to think about how you will rent out the property and plan your budget for any ongoing costs.

Insurance

There are a range of insurance options that can help protect your investment, no matter what's around the corner.

- Landlord insurance provides cover for loss of rent or accidental damage.
- Mortgage and income protection could help keep up your repayments in case of unforeseen circumstances.
- Building insurance may be required as part of your mortgage agreement. If you are purchasing a unit, this may be covered under strata.

Renting

If you're planning on renting out your investment property, you'll need to weigh up the options of managing the process yourself or leaving it in the capable hands of a professional property manager.

Here are just some of the things to consider:

Self-managed

- Could be an option if you're looking to avoid agent fees.
- You will need to establish a clear process for collecting rent from your tenants.
- You may need to advertise the property to ensure you get a good choice of potential tenants.
- You will be responsible for managing maintenance and repair requests.
- All of these processes can be time consuming. Do you have that time available?

Property Manager

- Managers look after the relationship between you and your tenants and any day-to-day communications.
- Agent responsibilities can include finding and vetting tenants, collecting rent, dealing with maintenance and repairs, looking after all the paperwork such as leases, and collecting rental income.
- Property managers or agents will charge fees for management and administration, though these should generally be tax deductible.

Ongoing costs

The most common ongoing costs you may face as an investment property owner:

Council rates

Calculated on land valuations and rating categories, rates help fund local infrastructure and services. Usually paid quarterly.

Tax

Rental income will need to be reported as part of your annual tax return.

Insurance

Landlord and/or building insurance helps protect your investment.

House costs

You will be responsible for repairs and maintenance.

Body corporate/strata fees

If you are investing in an apartment or townhouse, these fees may apply. Paid by all owners, they go towards maintenance of the building's common areas, building insurance and other shared costs.

Property management fees

If you rent your property through an agent or property manager, fees will apply.

Utilities

While tenants are generally responsible for household utilities, you may be liable to cover some such as water.

Settlement

Settlement is the day you pick up the keys for your new investment property.

Generally, the legal and financial representatives will meet on behalf of you and the seller to finalise the transfer of property ownership.

Congratulations, you are now officially a property investor.