Invest in *property*. **Build your portfolio.**

Loan Market™

make it yours

Invest in property, **Build your portfolio.**

Investing in property has long been a strategy for Australians to build wealth. From purchasing a small unit while rentvesting to managing a portfolio of properties - the key to success is to make wise, educated decisions. That's where a Loan Market broker can help.

Here we look at:

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Why a Loan Market broker?

01 *Getting* started.

If you haven't invested in property before, there are a number of ways you can get started. The important thing is that you make informed choices and ask any and all questions along the way. Some key considerations include:

- Do you own your own home, or are you considering rentvesting?
- What is your budget?
- What property type works best for you?

We'll explore all these topics in this ebook to help you lay the foundations of a solid investment property portfolio.

To get started, we'll look at rentvesting vs purchasing an investment as your second (or third, fourth, etc) property.

Rentvesting

Rentvesting is where you purchase property in an area you can afford, while choosing to rent and live in an area you want to be in. This can be a good strategy for people looking to get into the property market with a smaller deposit. It requires researching property sales, vacancy rates and rental prices to find an area you want to invest in. The benefit is you are not limited by areas you want to live in, so can remove the emotional component of buying your first home.

Using equity

If you already own property, you may be able to use equity to top up your deposit. You'll need to work out how much equity you have in your home, and how much "usable equity" lenders will consider (more information on this below). You will likely need to get a valuation on your property to determine its current value. This can be arranged by your broker.

The size of the deposit you will need varies from lender to lender, but in general lenders require a 20% deposit to avoid paying lenders mortgage insurance (LMI), which provides cover for the lender. Don't forget, if you access equity from your property, it increases the size of the loan which increases your repayments.

What is equity?

Equity is the difference between the money you owe on your property and what a lender thinks your property could sell for. For example, if you had a loan balance of $500,000 and your property was valued at $800,000, you would have $300,000 of equity and a loan-to-value ratio (LVR) of 62.5%.

Note your usable equity is a little lower than this. A lender usually calculates usable equity as 80% of the value of the property minus the loan balance.

02

Crunching the numbers.

Before purchasing your property, you will need to have a look at your budget and crunch some numbers to determine what you can realistically afford.

Purchasing an investment property carries many of the same initial costs as a property you live in, but there are a few ongoing costs you need to keep on your radar.

Nail your budget

The costs to consider when crunching your own numbers include:

- **Insurance:** It is a good idea to consider landlord insurance to providefinancial protection from damage caused by tenants or missed payments. If the property is a house, you will also want to consider building insurance. Chat to us for help with this.

- **Land tax:** If you are liable for land tax, this is paid annually to your state government.

- **Strata fees:** If your property is an apartment, townhouse or part of a strata,you will need to pay body corporate fees. This usually includes fees for management, sinking fund and building insurance.

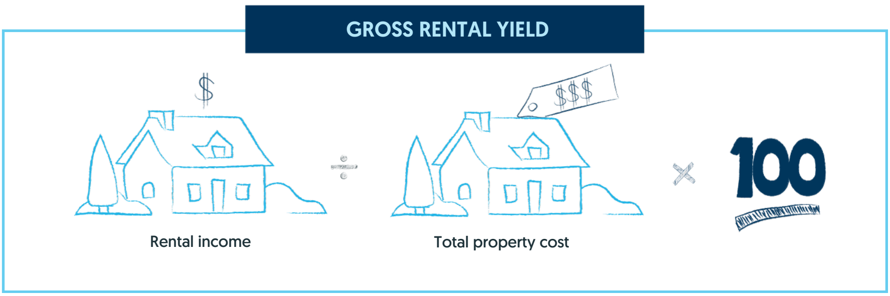
- **Rental management:** Most investors choose to pay a property manager to look after the property, at a fee. The management includes finding tenants, regular inspections and fielding tenant requests on your behalf.

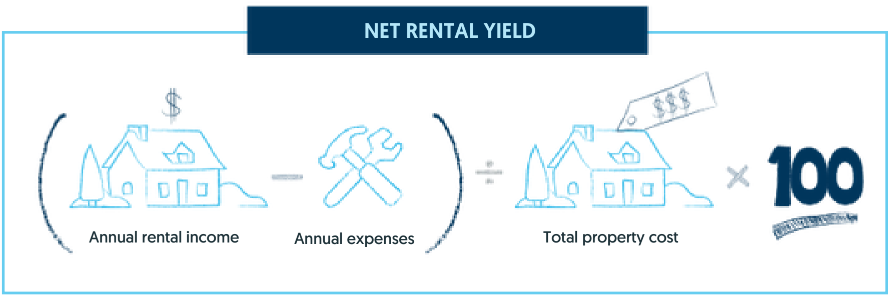
- **Maintenance:** As the owner, you are responsible for ensuring everything remains in working order.

Also keep in mind that typically investment properties attract a higher home loan interest rate than owner-occupied properties. It's important to do your homework to make sure the loan you choose is competitive and suits your needs. Your broker can prepare a shortlist for you and play hardball with lenders on your behalf.

What is rental yield?

Rental yield is the money you earn from rental income minus any expenses you have to pay. It can be calculated as a gross percentage (before expenses are deducted) or as a net percentage (with expenses included).





03

Choosing the ultimate **investment property.**

Choosing an effective investment property is more about the financial potential it carries than emotional appeal. This is where research comes in. As your broker, we can help you crunch the numbers of any properties you are interested in and also discuss the strategy that could work best for you.

As a property investor, the dream is a high yield property in a location with big capital gains, strong rental return, low vacancy rates and low maintenance costs - simple, right? The benefit of an investment property is you are not restricted by location where you want to live. You can even look interstate for the right opportunity.

Property buying checklist

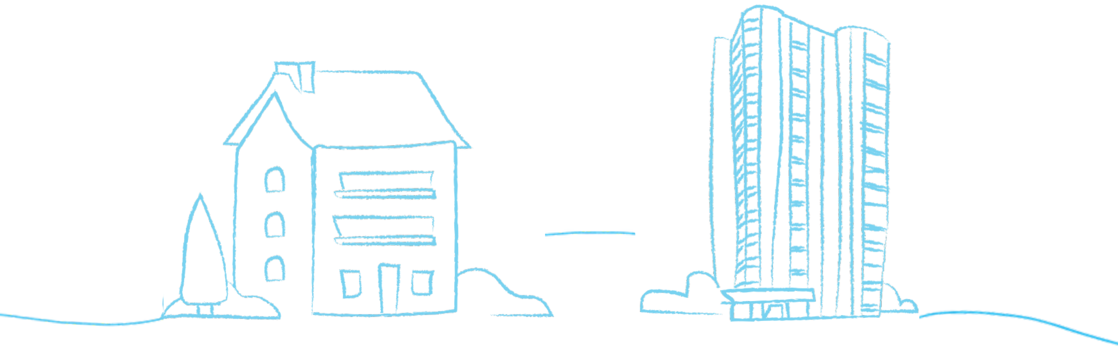
Here are some key considerations when looking for property to buy:

- What is your borrowing power?
- How much rent do you need to make the investment feasible?
- What area do you want to purchase in (this could be based on accessibility for yourself, potential rental yield, demand, demographic, etc)?
- Would you rather a house, apartment, townhouse or student housing?
- What facilities do you want to be close to to attract tenants (such as public transportation, shops, cafes and schools)?

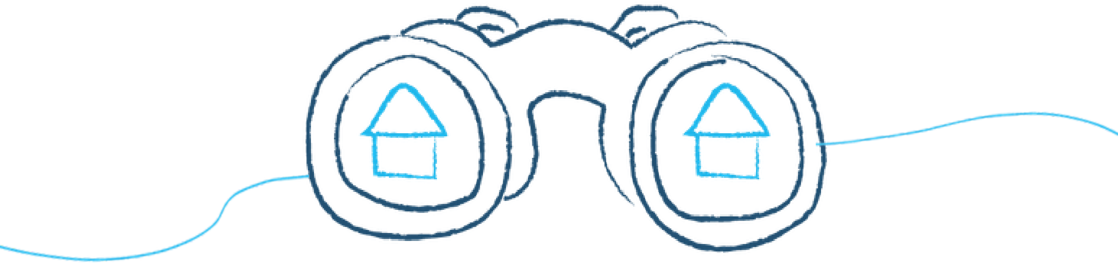
Once you have narrowed your search, consider:

- What state is the building in? Look for structural defects including cracks in the wall, termites, wiring and dampness.
- Are there any developments planned nearby? Check your state government or local council's websites.
- Are there parking spots?
- Is the property at risk of flooding or natural disasters? You can get free insurance quotes online or ask us to get a quote on your behalf.
- What are the ongoing costs for the property (such as council rates and body corporate)?
- Are there zoning or building restrictions on the property? You can check this with your local council.
- Will updates need to be made such as to the bathrooms or appliances?
- Is there much growth potential in the area? Consider past price growth (though past performance is not an indicator of future performance). If it is near a major industry, is it stable (such as mining)?

Once you've set your budget and have an idea of where you want to buy, it's time to start looking. Find out what the future plans are for the suburb and think about what your priorities are in a home. If you're unsure what type of property you may want, here is a breakdown on buying a house vs a unit/townhouse and buying new vs existing.



BUYING A HOUSE	VS	BUYING A UNIT
+ Historically has seen greater potential to grow in value + More scope to improve value and appeal through renovations, additions and landscaping + Not limited by body corporate		+ Often cheaper to buy + Owners can share some repair costs through the body corporate + There could be shared facilities such as a pool or gym to entice tenants
- Usually costs more to buy and you are responsible for all repair costs - Council rates can be higher - Requires building insurance		- Body corporates may limit renovations and additions - You may need to pay money to the body corporate including for strata insurance



BUYING NEW	VS BUYING EXISTING
+ There shouldn't be many repairs or maintenance required immediately and there may be a warranty on the build	+ Could be more choice in the location you want to purchase in
+ Amenities and technology will be modern	+ Greater potential to renovate to add value
+ Likely higher energy standards which can be appealing to tenants	+ More straightforward process and can be a shorter timeframe to move in
+ May be able to negatively gear	+ More evidence of value growth - new apartments can be in overdeveloped areas or new houses can be on smaller land plots
- Construction timelines may not run to plan	- Likely to have more need for repairs and maintenance
- There is less opportunity to add value through renovations and improvements	- Amenities and technology may be older and less modern
- Often new apartment complexes can mean a higher supply of identical properties and therefore more competition for tenants	- No ability to customise the floorplan outright, any changes will need to be done by you
	- Negative gearing not available beyond 1 July 2027.

04

Finding the **right loan.**

There are a lot of home loans out there. It isn't quite as simple as deciding you need a loan and going out to get just any one.

To help you understand the difference between your options, we've listed the variations in this cheat sheet.

Variable-rate loan:
The interest rate varies over the life of the loan. If interest rates rise, you pay more, and vice versa.

Fixed-rate loan:
The interest rate is locked at an agreed rate over the specified term (usually one to five years). This means repayments remain the same until the end of the term where the loan will transfer to a variable rate or you can choose to refinance.

Split loan:
You can choose to have a portion of your loan with a variable rate and the remainder with a fixed rate. This can enable you some certainty with the fixed rate, but access to features attached to a variable-rate loan.

Packaged loan:
You have the option to package your home loan with other banking products such as an offset account, credit card, car loan, savings account and insurance (home and contents, car, etc). These can offer discounted rates however often come with a package fee charged annually.

Introductory rate loan:
Also referred to as 'honeymoon rate loans', these offer a lower interest rate for a short period (such as a year) before converting to a standard variable rate.

Principal and interest repayments:
This is where your repayments go toward paying off the principal (which is the loan amount) as well as the interest charged on the loan.

Interest-only repayments:
Some lenders may enable you to only make interest repayments, without paying down the principal, for a set period of time. This could help lower the repayments, however it means you are not making progress toward paying off your home loan principal.

Construction loan:
These are designed for people who are building a home. The lender will provide the money in instalments as it is needed for each stage of the construction. You only pay for interest on the amount you've drawn down and these loans are often interest-only for the first year while the construction is underway.

There are also a few options that can accompany the loan, potentially helping you to pay it off sooner. These are:

Offset account:
This is attached to the home loan but sits separate. Any money you deposit into your offset account counts towards money paid off for your loan, meaning you don't need to pay interest on that amount. However, it usually is accessible, so you can withdraw it if you need to. These more commonly accompany variable-rate loans and can come with fees.

Redraw facility:
This enables you to make extra repayments toward your loan (which reduces the amount of interest you pay), but also withdraw any additional repayments you made if you need it.

Additional repayments:
Some loans allow you to make additional repayments toward the loan. Doing this could save you thousands of dollars in interest.

Pre-approval

When you are looking for an investment property, it can be very helpful to understand how much a lender is willing to allow you to borrow. This is where pre-approval comes in. A conditional pre-approval is an indication from a lender that they are comfortable at that point in time to loan up to a certain limit to you based on your current circumstances. It is important to be aware you're under no obligation to take the loan, and the lender has no obligation to lend you that amount. Depending on the lender, further conditions will have to be met including verification of the information you have provided and confirmation on the suitability of the property prior to formal approval being issued.

As your broker, we can help you get pre-approved for your finance, giving you confidence to move quickly when you find the right property. Pre-approvals can be provided within a few days of application and are usually valid for around three months.

05

Why a Loan Market broker?

There are a lot of moving parts when it comes to buying investment property. A mortgage broker can help you understand your financing options and find the right loan structure to suit your circumstances and goals. As a Loan Market broker, we offer you:

Putting you first

We don't work for shareholders or a bank – we work for your best interest.

Experience that counts

We've been helping Aussies and Kiwis achieve their ambitions since 1994.

More choice

With 100+ banks and lenders on our panel, we can find competitive solutions for most scenarios.

For your home and other loans

From buying a car to growing your business, we can help you with a wide range of loans.

Free for you*

We get paid by the lender you choose.

*We may charge a fee to cover additional time required by our team. Any fees will be discussed with you in advance so you can make an informed decision before proceeding with your application.

Ready to get started?

Make informed decisions to grow your investment portfolio with a Loan Market broker by your side.

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