AssetBase

2021 EDITION

Property Investment Guide

7/1 Danks St, Waterloo NSW 2017
585 Little Collins St, Melbourne VIC 3000
P: (02) 8387 7948

Congratulations!

On taking the first steps towards your securing your financial freedom. The team at AssetBase have helped hundreds of everyday Australians navigate the complexities of property investment, ensuring you access the best investments & utilise any available government grants correctly.

We've written this document to help you master several key concepts that you must absolutely understand before you spend a dollar on beginning a property portfolio.

We're going to walk you through everything from choosing which type of property to buy, to which area you should buy in; and then drill down with specific examples to help you understand exactly what's involved with getting into the property market as an investor.

We advise you read this short report and keep it on hand for reference as you start your own exciting property investment journey.

If you have any questions about what you read, don't hesitate to give the AssetBase team a call.

You can reach us at 02 8387 7948.

Remember, you don't need to be an expert to make it happen, you just need to have the right team around you.

Investment Principles

Thinking of investing but not sure where to start? You're not alone, most of our clients all began in the same position. Looking in from the outside, most people know they need to do something smart with their money but lack the information, education and understanding to get things done.

The problem is that most people end up saying, "I wish I had of done something sooner". With the complexities of researching what grants you can access, how to access them as well as the right property investment for your situation - it can be pretty overwhelming. Add setting up the correct home loan, organising a property manager that you can trust and securing a reliable tenant, most people are left scratching their heads and doubting they have the time to take that next step. Wouldn't it be nice to have a helping hand to assist you at each step and answer those questions that are keeping you from reaching your future goals? Well - the team at AssetBase have it covered.

Within this guide, we hope to give you a breakdown on the basic principles of property investment, your entitlements & considerations you should make which will give you the confidence and understanding to take that next step.

Capital Growth vs Rental Return

While there are many different strategies that you can employ to make money out of property, there are really only two ways to make a profit: the first is from rental income, the second from capital growth. Investors need to consider both the rental return of their investment property as well as the potential capital growth. Seeing as different types of properties veer towards capital growth or rental return, is one *'better'* than the other?

Most market experts recommend pursuing a growth strategy, as the higher capital growth tends to be more effective for investors trying to build a portfolio of properties. It is this AssetBase, that will ultimately lead to further wealth creation. However, cash flow properties can be suitable for certain investors: beginners on moderate incomes looking to break into the market, retirees looking to fund lifestyles and investors with a largely growth-focused portfolio looking to offset the holding costs of their negatively-geared properties.

Positive Cashflow

While all investment properties eventually provide positive cash flow in theory (once you've paid off the debt owing on the property), not all properties produce a positive cash flow to begin with. Indeed, most do not and investors may have to search hard to find properties that will create an income from the outset.

Typically, these properties are located in regional areas, so they tend to have lower entry prices as well as lower stamp duty and land tax. For investors who don't have much equity or income it is easier to get started. Moreover, you can use the surplus cash flow to pay down principal to generate more equity for future investment. However, because you are generating an income from the positive cash flow, you'll need to pay income tax along the way. Extra money in the taxman's pocket is going to make it harder for you to create serious wealth. A further consideration is that many cash flow positive properties are in regional or outer areas and can be quite sensitive to economic cycles; plus, while they do increase in value, their capital growth tends to be relatively slow. It can also be trickier to obtain finance for regional properties.

Capital Growth

The strength of making profits through capital growth is that you can potentially make significant gains – particularly where properties are held for the long term. In fact, this is where most property investors make the bulk of their money.

The main advantage with these types of properties is that they are usually close to the city, with a higher population density which generally means higher and consistent capital growth over the longer term. Investors can generate more equity in a quicker period of time which can allow them to invest further. The big disadvantage with these properties is the fact that, while you eventually make money in the long term, they typically cost you more money to hold in the short term, as the rental income is unlikely to cover holding costs – especially if you take on a mortgage at a highly leveraged level.

To counter this, the government makes it attractive for investors to purchase these types of properties by offering tax benefits via negative gearing – allowing you to claim the difference between costs and income as a tax deduction, delaying capital gains tax until you sell the property, and other benefits such as depreciation. These properties are usually more expensive than cash flow positive properties, in terms of purchase price, stamp duty and land tax and it can be harder for beginners to enter the market.

Unit, House or Townhouse?

Most investors have their hearts set on buying a house when they first start out. Generally, you will find that houses offer greater long term capital growth because as a land based asset it is the land that appreciates over time. It is however wise to take a look at your budget in order to realistically determine what you can afford as well as what best suits your needs and your property investment goals. Townhouses and apartments offer a cheaper entry price into the market and generally offer a better rental yield, lending themselves to a greater cashflow for investors. There is generally higher rental demand for apartments too, as the price point is more attractive for tenants.

New vs Old

One of the biggest questions investors try to tackle is whether to purchase an existing property or buy brand new. As with all things there are pros and cons to each. An existing property generally lends itself to a larger block size and an established area. There is the potential for investors to renovate the property and add their own touches to it. The downside is that it can come with unforeseen issues like termite damage, water penetration and deteriorating plumbing and wiring. With newer properties, you have the benefit of the latest fixtures and fittings, are able to get a slightly better rental yield with a better quality tenant and claim depreciation come tax time.

There is no right or wrong strategy, but more a question on whether you are a hands-on type investor or an investor that wants a set and forget asset with minimal maintenance.

Location

Location is a critical factor in determining the success and growth of your investment property. As a golden rule a property that is close to public transport, community amenities, shopping centres, businesses and popular schools will always be an attractive choice with potential renters. It is infrastructure that draws population growth to an area and increases the rental pool.

Time Frame

Although you might not know what will happen in five years time, it is still a good idea to think about how long you intend to hold onto your investment property for. When making this decision you should also take into consideration your original investment goals as well as your financial position, as both of these factors will have an influence on the term of your investment. Keep in mind that property investing is a long-term investment and if you sell your property in the short term you may not be able to recover all of your fixed costs.

Vacancy Rates

If there is a low number of rental properties on the market, then there will be a high level of demand and as a result rental prices will rise. If there is a large number of rental properties available and not enough tenants looking to rent, then the opposite will occur - rental prices will fall. Vacancy rates can also differ slightly from suburb to suburb and they are driven by market conditions. It is important to talk to property managers to get an indication for demand within an area before committing to the purchase.

Equity & How To Use It

Your home equity is the difference between your property's value and the balance of your mortgage. If you've owned your home for a few years, there's a good chance you've built up some reasonable equity, and this can be a valuable resource when it comes to property investment.

How It Works!

Let's say you want to buy an investment property with a market value of $400,000. There are also additional purchase costs (legal fees, stamp duty and so on) of $20,000, bringing the total cost to $420,000.

Assuming that you meet the loan approval requirements, a lender will fund 80% of the property's market value - potentially more if you're prepared to pay Lenders Mortgage Insurance (LMI). That is, the bank will lend you $320,000 to buy the investment property. As the total cost of the property is $420,000 you still need an additional $100,000 for the deposit and other upfront expenses. This can come from the equity in your existing home.
Let's say the market value of your existing home is $500,000 and the balance of your mortgage is $300,000. The difference between the two is $200,000, which is your home equity. As an investor you can access up to 80% of your home equity (without the need to take out LMI), which equates to $100,000 in this example. Instead of coming up with a cash deposit for the additional $100,000 needed to buy the investment property, you can take this from the $100,000 of accessible equity in your existing home.

Alternatively some lenders will lend up to 95% of the property value less the existing mortgage, where LMI would be paid on the amount borrowed over 80%.

Positive & Negative Gearing

No doubt you've heard the term negative gearing before.

But what is it exactly?

First things first – negative gearing can only apply if you are renting out your property. Gearing basically means borrowing to invest and positive gearing is when your rental income is greater than your investment expenses. Negative gearing is when your investment costs are higher than your rental income. That's right. You're losing money.

So why is it so popular? Because when you're negatively geared, you can deduct the costs of owning your investment property from your overall income – reducing your taxable income. High-income earners will benefit the most, because they're in a higher tax bracket. It's best to think of negative gearing as a tool for reducing your losses. That way you don't lose sight of the fact that you are actually making a loss.

Don't wait to buy Real Estate.

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Buy Real Estate & Wait.

Cashflow Example & Comparison

Set Up Costs / Funding Position

Purchase Price	$550,000
Stamp Duty	$7,500
Legal Fees	$2,500
Lenders Mortgage Insurance	$10,500
Total Cost	**$570,500**

Actual Deposit Required	**$75,500**
Loan Amount:	$495,000

*Based on NSW House and Land Package with land value of $250,000

Cashflow Example Holding Costs

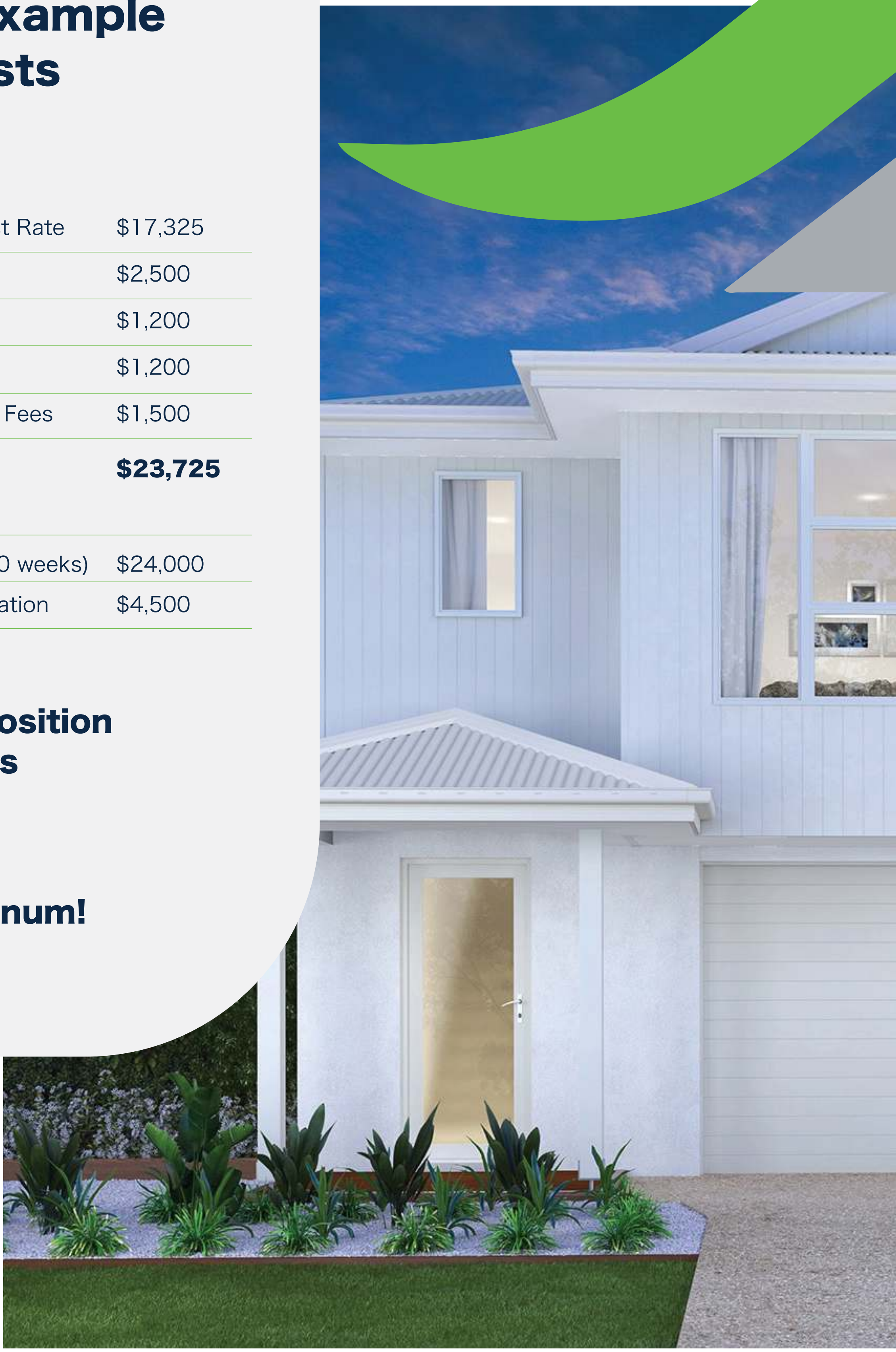
$495,000 @ 3.5% Interest Rate	$17,325
Council & Water Rates	$2,500
Insurances	$1,200
Repairs & Maintenance	$1,200
Real Estate Management Fees	$1,500
Total Cost	**$23,725**

Rent ($480 per week x 50 weeks)	$24,000
Tax Refund from depreciation	$4,500

Net Cashflow Position after tax breaks $88 per week

OR

+$4,575 per annum!



Client Journey

To date, Jack is one of AssetBase's youngest investors. At just 20 years old, Jack with the guidance of his mum, approached AssetBase for some advice. Like you, he had done his own research and had been interested in doing something smarter with his money. He had heard about a variety of ways he could do this but had always been interested in property.

He was overwhelmed with information and unsure of who to speak with, who to listen to or who to trust.

With the help of AssetBase, Jack was able to clearly understand his entitlements and get access to some government grants that he wasn't even aware of. AssetBase then developed a detailed strategy to support his goals and sourced a beautiful spot for him in New South Wales.

Jack secured a brand new 4 bedroom home that cost only $454,490. The most recent comparable sale for a similar home in the same street has been for $530,000. That is a huge equity uplift of $75,510!

"Very surreal buying my first property at 20... The confidence that AssetBase gave me through the attention to detail... you just never had any second guesses about what you're doing or where your money is going. To have that confidence is just great."

- Jack Roberts

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MEET THE TEAM

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