



Investment Property for Beginners

Investing in property can be an excellent way to build wealth and secure your financial future. For beginners, the process can seem daunting, but with the right guidance and a solid understanding of the basics, it becomes an achievable goal.

**Simplify
Finance.**



Why Property is a Powerful Wealth Creation Tool

Capital Growth

One of the most compelling reasons to invest in property is capital growth. Real estate has historically shown a steady increase in value over time, creating opportunities for significant long-term financial gains. This is influenced by factors such as location, demand, infrastructure development, and economic conditions.

Rental Income

Investment properties offer the advantage of generating a consistent income stream through rent. This income can be used to cover mortgage repayments, property management fees, and other ongoing expenses. In many cases, the surplus rental income can become a source of passive income.

Leverage

Real estate allows investors to use leverage, meaning you can borrow funds to purchase property while only using a portion of your own capital. This amplifies your purchasing power and potential returns, as any increase in property value benefits the entire investment, not just your initial deposit.

Understanding the Jargon

Equity

The difference between your property's current market value and the amount you owe on your mortgage. For example, if your home is valued at \$500,000 and your mortgage is \$300,000, your equity is \$200,000.

LVR (Loan-to-Value Ratio)

This ratio represents the amount you are borrowing compared to the property's value. For instance, borrowing \$400,000 on a \$500,000 property equates to an 80% LVR.

Negative Gearing

A situation where your rental income is less than your expenses, including loan interest and maintenance costs. While it results in a short-term loss, it may offer tax benefits by reducing taxable income.

Depreciation

A tax deduction that accounts for the decline in value of a property's structure and its fittings over time. This can reduce your taxable income.

Funding Your Investment

Cash, Equity, or Family Guarantee

Cash

Paying for a property outright with cash eliminates the need for a mortgage, reducing financial risk and interest costs. This is ideal for investors with substantial savings but limits liquidity, tying up funds in a single asset.

Equity

Using the equity in your existing property is a common way to finance an investment. For example:

- If your home is valued at \$600,000 and your mortgage is \$300,000, you have \$300,000 in equity.
- Most lenders allow you to access up to 80% of your home's value, so in this scenario, \$180,000 could be used toward an investment property purchase.

This strategy enables you to enter the property market without needing a large cash deposit.

Family Guarantee

A family member can act as a guarantor by using their property as security for your loan. This approach reduces the deposit requirement and may eliminate Lenders Mortgage Insurance (LMI). However, it involves risks for both parties and requires clear communication and planning.

Tax Benefits of Property Investment

KEY TAX DEDUCTIONS

Depreciation

Includes deductions for the building structure (for properties built after July 1985) and for assets like carpets, appliances, and blinds.

Interest Expenses

Loan interest costs on the investment property are fully deductible.

Property Management Fees

Costs associated with hiring a professional property manager.

Maintenance Costs

Repairs, such as fixing a leaking tap or repainting walls, are deductible.

Insurance

Premiums for landlord insurance can also be claimed.

Building Your Team of Experts

- **Mortgage Broker:** Your broker will assess your financial situation, recommend suitable loan products, and handle the application process to secure the best loan terms.
- **Buyer's Agent:** A buyer's agent can provide market insights, identify potential investment properties, and negotiate on your behalf.
- **Accountant:** An accountant ensures you are maximising tax benefits and complying with tax regulations.
- **Conveyancer:** Responsible for managing legal documents, conducting property title searches, and ensuring a smooth property transaction.
- **Property Manager:** If needed, a professional manager handles tenant selection, rent collection, and property maintenance.

Case Study: Using Equity to Purchase Your First Investment Property

SCENARIO

Home Value: \$700,000

Mortgage: \$400,000

Accessible Equity: \$160,000 (80% LVR)

STEPS TAKEN

- **Mortgage Assessment:** A mortgage broker calculated the borrowing capacity and determined how much equity could be accessed without exceeding the lender's LVR limit.
- **Equity Utilisation:** \$100,000 of equity was allocated as a deposit and to cover transaction costs such as stamp duty and legal fees.
- **Property Purchase:** An investment property was purchased for \$500,000, providing potential for both capital growth and rental income.
- **Tax Strategy:** An accountant helped claim deductions for depreciation and interest expenses, reducing the investor's taxable income.
- **Professional Support:** A property manager was engaged to handle tenant selection and ongoing property maintenance.



OUTCOME

The property generates \$25,000 in annual rental income. After deducting expenses and claiming depreciation, the investor achieves a positive cash flow and benefits from long-term capital appreciation.

CONCLUSION

Investing in property can be a rewarding journey when approached with knowledge and a well-planned strategy. By leveraging available resources, understanding financial concepts, and assembling a team of professionals, beginners can confidently navigate the property investment landscape and achieve their financial goals.

DISCLAIMER

This ebook provides general information only and does not constitute financial advice. You should seek professional advice tailored to your specific circumstances before making any investment decisions.





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