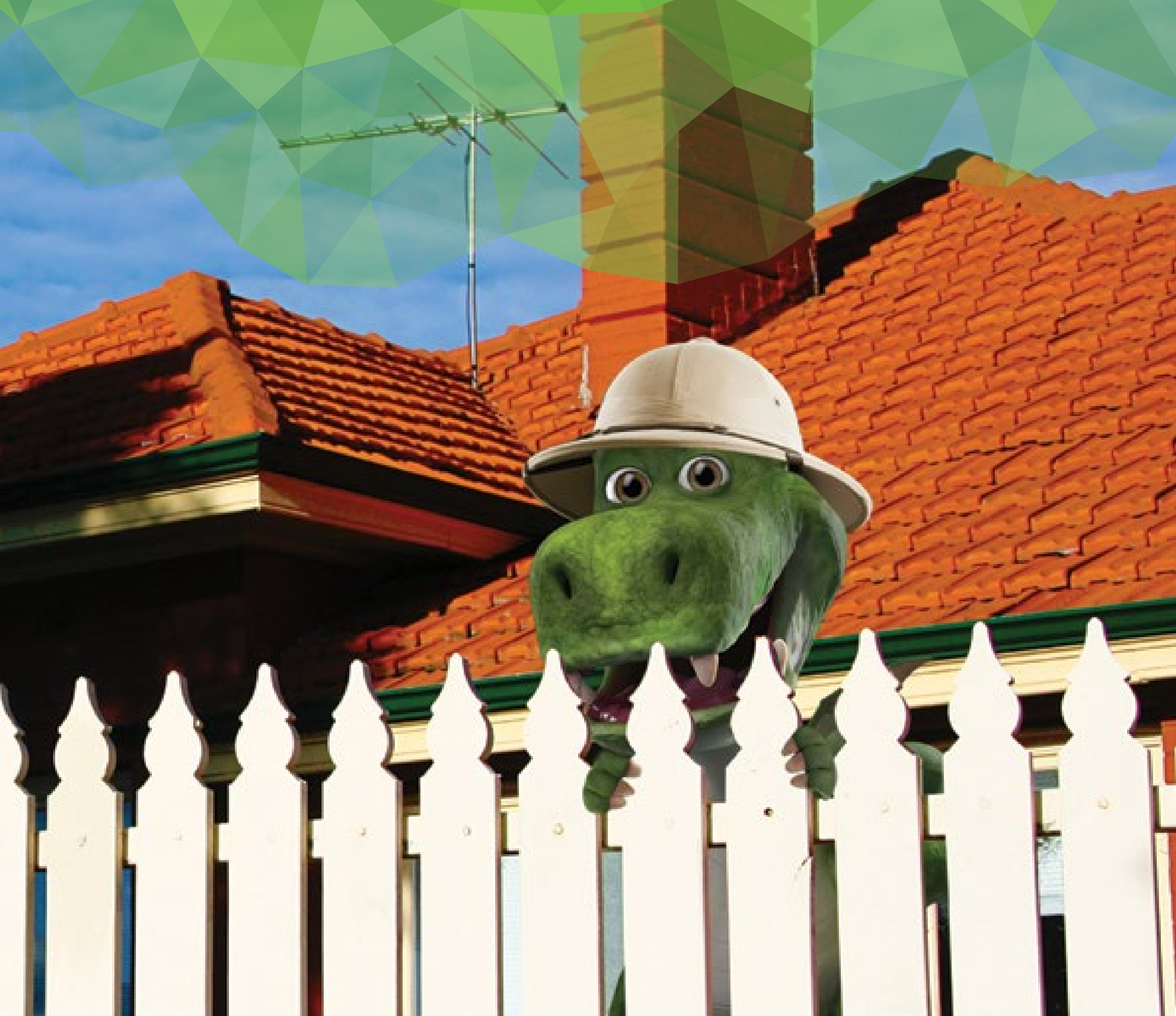
Let’s start hunting for that investment property

Get started



There's a lot to consider when buying an investment property. So, we've put together this handy guide to help you buy with confidence.

Contents

Preparing to buy

Before starting your hunt for an investment property, you should first calculate how much you're able to spend, and decide on a price range to work within. You'll need to consider the deposit amount required, and any upfront or ongoing costs associated with the property.

Affordability

Preparing a good budget comes down to knowing just how much you can comfortably afford to repay, by factoring in your everyday expenses as well as any existing debt or financial commitments. By starting with a realistic figure, you're more likely to find an investment property that's just right for you and your lifestyle.

The deposit

Next, you'll need to get your deposit together. To purchase an investment property, you generally need 20% of the property purchase price, but don't forget to factor in other upfront costs like stamp duty and legal fees.

Saving for a deposit?

St.George has some handy savings accounts to help you reach your goal sooner.

Find your closest branch | Phone us

Deposit option:
Use equity in your existing property

Equity is the difference between your property's current market value and what you still owe on your home loan. If the value of your property has increased, you may be able to use some of this equity towards the purchase of an investment property.

How does it work?

- Speak to your lender about the current market value of your property to see if there is potential equity you could access.
- To free up any equity, you'll need to refinance your mortgage to its current market value.*
- This equity can then be put towards the deposit for an investment property.

Here's an example:

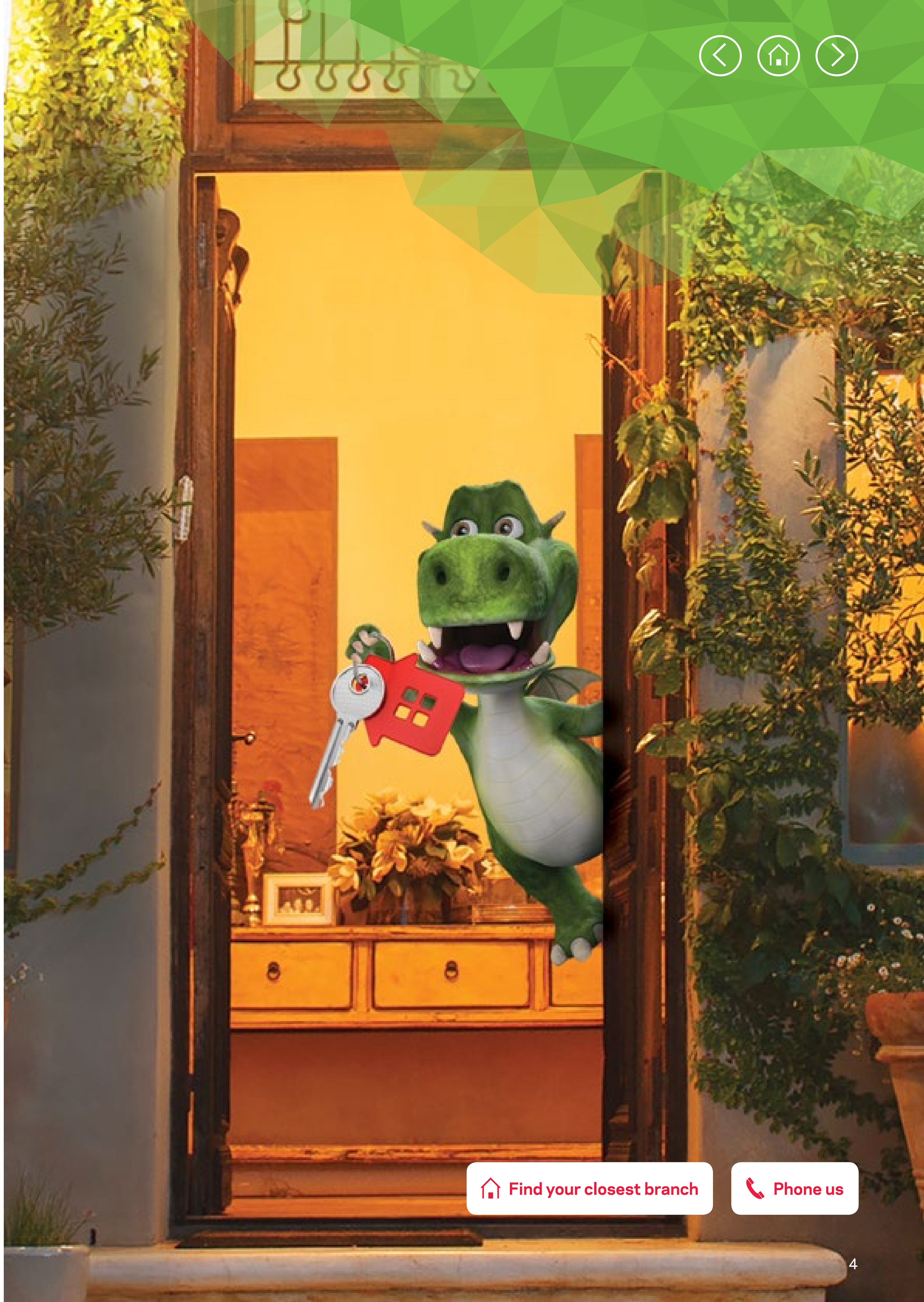
- Claire's home is valued at $800,000 and has a mortgage balance of $440,000.
- After a review of her financial circumstances, Claire's lender will let her borrow up to 80% of her current home's value (80% x $800,000 = $640,000).
- Claire will have useable equity of $200,000 ($640,000 - $440,000).

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

Mortgage balance = $440,000

Usable equity = $200,000

*Standard lending criteria applies.



Purchase costs

Aside from the deposit, there are other costs associated with buying a home. Here are some of the most common fees to be aware of:

Building and pest inspections

Although inspections may seem a little expensive, the price you'll pay for these reports could be a fraction of the cost (not to mention headache) if you find pest infestations or building issues after you've bought. In some cases, you may be able to combine both the pest and building inspections, which can help keep costs down.

Mortgage establishment fees

Depending on your loan type, there may be various fees involved in establishing your mortgage. These could include an application fee as well as valuation and loan settlement fees.

Title transfer fee

The title transfer fee is a state/territory government fee for transferring the property title from the seller to the buyer. The cost can vary depending on which state or territory the property is in. You can find details of the charges on the local state/territory revenue office's website.

Mortgage registration fee

This is another state/territory fee. As the property is the security for the mortgage, the state/territory government needs to officially register the home loan so that any future buyers can check for any prior mortgages on the property.

Legal costs

There are a few legal steps involved with buying a property, so make sure you engage a solicitor or conveyancer. These include:

- Reviewing and exchanging the contract of sale.
- Completing a property and title search to make sure the seller is legally allowed to sell, and to check if there are any covenants or caveats on the property.
- If you're buying a property that's part of a strata scheme, a strata inspection will need to be arranged, as well as a review of the body corporate records. An example of a red flag to watch out for would be a recent increase in levies, which could mean major work is about to happen and may need more funding.
- Arranging to pay stamp duty.
- Overseeing the transfer of the title of the property from the seller to you.

Stamp duty

Stamp duty is a tax that is calculated based on the purchase price of the property and where that property is located. It's paid to the state or territory government the property is in.

Stamp duty is a significant cost, so it's vital you take it into account when working out your budget. Our upfront costs calculator can give you an indication of how much stamp duty you could have to pay as well as other government costs to consider.

Tip

Calculate the stamp duty and other government fees

stgeorge.com.au/stamp-duty-calculator

Find your closest branch

Phone us

Knowing your strategy

Take some time to consider your investment strategy by identifying which benefits are most important for you and your situation, such as capital growth, rental income or tax benefits.

Capital growth

When purchasing an investment property, you ultimately want the property to go up in value. Capital growth is an increase from the original purchase price to a new, higher market value – but this is never guaranteed. You need to remember that the market, and your investment property, can go both up and down in value over time, but you'll need to be able to cover the home loan regardless of the property value.

Rental income

Gross rental yield is how much rental income you receive for the year measured against the market value of the property. It is most commonly used as a way to compare properties with different values and rental returns.

Here's an example:

- George purchases an investment property for $450,000.
- He decides to charge $400 a week rent.
- The gross rental yield is ($400 x 52) = $20,800 / $450,000 = 4.6%.

÷ =

Rental income = $20,800

Investment property = $450,000

Gross rental yield = 4.6%

Net rental yield is the gross rental yield minus expenses. It takes into account all fees and expenses associated with the investment property. This provides a more accurate idea of the actual rental return, but is harder to calculate as most costs are variable.

Find your closest branch

Phone us

Tax benefits

When you're investing in property there will be tax implications, and these will change depending on your individual situation. For information tailored to you, be sure to speak to your accountant.

Gearing

Negative gearing is when the total costs of owning your investment property (such as the interest on the loan, council rates and maintenance bills) are higher than the rent you receive from the property. You can use your investment loss to offset other income you earn, resulting in less tax to pay.

However, if rental income exceeds the costs, your property will be positively geared, and you can expect to pay taxes on the extra income you generate.

Here's an example:

- Jackie receives rental income of $300 per week ($15,600 per year).
- Her expenses include interest repayments, council rates, water fees and property management fees, totalling $24,000 per year.
- Jackie will be negatively geared by $8,400.

Rental income = $15,600 per year – Total expenses = $24,000 per year = Negatively geared by $8,400

Capital Gains Tax

When it comes to selling your investment property, you will hopefully sell for a higher price than you bought, resulting in a capital gain. Any capital gain will form part of your income for that financial year and will need to be reported when your tax return is submitted.

Things to be aware of:

- A capital gain may significantly increase the amount of tax you need to pay.
- If you have held your property for more than 12 months you may be eligible for a capital gains tax concession.

Tax Deductions

If you rent out your investment property, you can claim a tax deduction for expenses.

Tax deductible items may include:

- Management and maintenance costs.
- Borrowing costs including interest on loans.
- Legal fees from the sale or purchase.
- Water costs.
- Building insurance.
- Council rates.

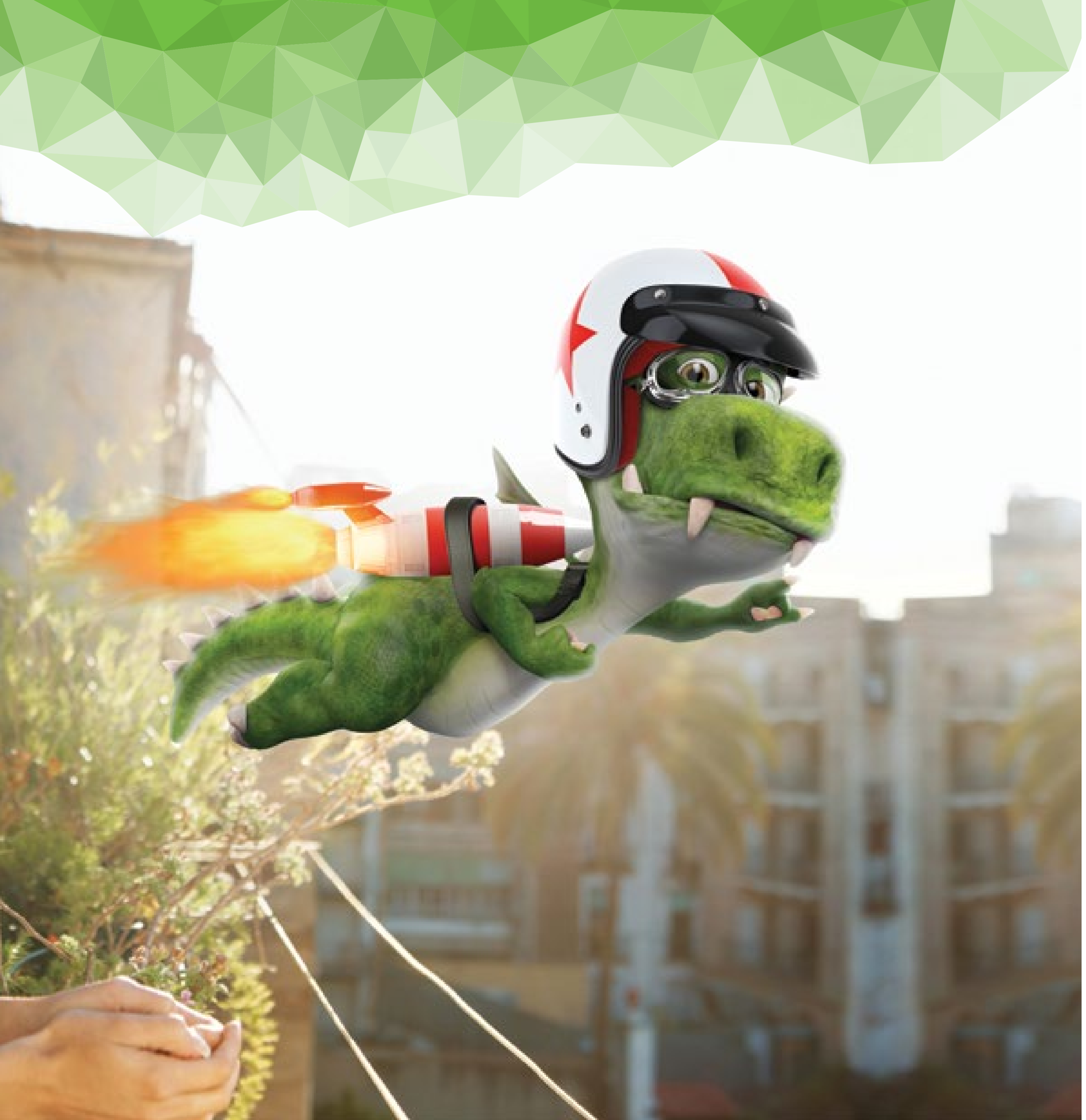
Tip

As rules around tax deductions constantly change, be sure to seek tax advice or check the Australian Tax Office website at **ato.gov.au**

Find your closest branch
Phone us

Researching the market

When you're looking for an investment property, two of the first things you'll need to consider are the location and type of property.



Choosing the location

Location is always a big factor when choosing a home, and investing in property is no different. For example, properties that are close to a school, shopping centre and public transport, have a better chance of providing you with a consistent rental income.

Tip

Once you have an idea of where you want to invest, speak to one of our lenders about our comprehensive CoreLogic property reports, or visit **stgeorge.com.au/property-research** for more information about properties in that area.

Choosing the type of property

Whether you invest in a house or unit will usually depend on how much you want to invest and the type of tenants you're looking for.

Here are some things to consider with each type of property.

Apartments

+ Tend to be cheaper than houses.
+ Are popular amongst renters.
+ Often have lower maintenance costs.
– Come with strata fees.
– May offer fewer opportunities to renovate.

Houses

+ Provide greater flexibility for renovations and changes to the land and property.
+ Tend to be in greater demand with families, both when they are renting and looking to buy.
– Often have higher maintenance costs.

Buying off the plan or building a new place

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

Find your closest branch

Phone us

Ready to buy

Choosing the right loan for your situation can provide long-term benefits and save you money.

Choosing your loan

There are a few things to consider to ensure you get the right loan, such as whether you'll pay interest only or principal too, and how the interest rate will be structured.

If you need a loan to finance your investment property, there are two types to consider.

1. Principal and interest

- Paying both the principal and interest will help you pay down your loan faster so you can own your investment property sooner.
- You can link an offset account to the loan.

2. Interest only

- Monthly repayments will be lower for a set period.
- The amount of money you owe does not reduce during the interest only period.
- An easier way into the property market without spending too much initially.

Fixed interest rate

Fixing your interest rate for a set period will offer repayment stability. This type of repayment gives you certainty, making it easier to plan your budget.

Variable interest rate

This is an interest rate which moves in response to changes in market interest rates. This might suit investors looking for the flexibility to make additional repayments, and also gives you more features such as redraw, offset, and the ability to repay your loan faster.

Offset accounts

Linking an offset facility to your home loan will enable your savings to 'offset' against your home loan – making your savings work harder. It will also give you access to the funds when you need them.

How does it work?

Every day you have the money in your St.George transaction offset account, helps reduce the amount of interest you need to pay.

The interest is calculated daily and charged monthly on the net amount (i.e. your loan balance minus your transaction account balance for that day).

With no interest earned on the transaction account, you won't need to pay tax on this and the interest payable on your home loan is reduced.

An offset account will make your savings work harder to reduce costs.

Find your closest branch

Phone us

Settlement and beyond

Settlement is an exciting time for any would-be property owner. But before you settle, be sure to arrange insurance to protect your investment. Once you have, it's time to consider how you want to rent out your property, and budget for any ongoing costs.

Insurance

- Landlord insurance provides cover for things like loss of rent or accidental damage.
- Mortgage and income protection can help maintain your repayments due to unforeseen circumstances.
- You may be required to take out building insurance as part of your mortgage agreement. If you are purchasing a unit, this may be covered under strata.

Renting

If you're looking to rent out your investment property, consider whether you want to manage it yourself or get an agent to do it.

Manage it yourself

- An option if you're looking to avoid fees.
- Ensure you have a clear process of collecting rent from tenants.
- Advertise the property to make sure you get a good choice of tenants.
- You will have to manage maintenance and repair requests.
- This process may be time consuming.

Property managers

- Managers look after the relationship between the investor and renter, as well as the day-to-day operations of the property.
- Responsibilities may include finding tenants, collecting rent, dealing with maintenance and repair requests, and maintaining records and leases.
- Managers will charge fees, including management and admin fees (these are tax deductible).

Find your closest branch

Phone us

Ongoing costs

The most common ongoing costs related to owning an investment property include:

Council rates
Usually paid quarterly, these rates help fund local infrastructure and services. In general, rates are calculated based on land valuations and rating categories.

Tax
On rental income.

Insurance
Landlord and/or building and contents insurance.

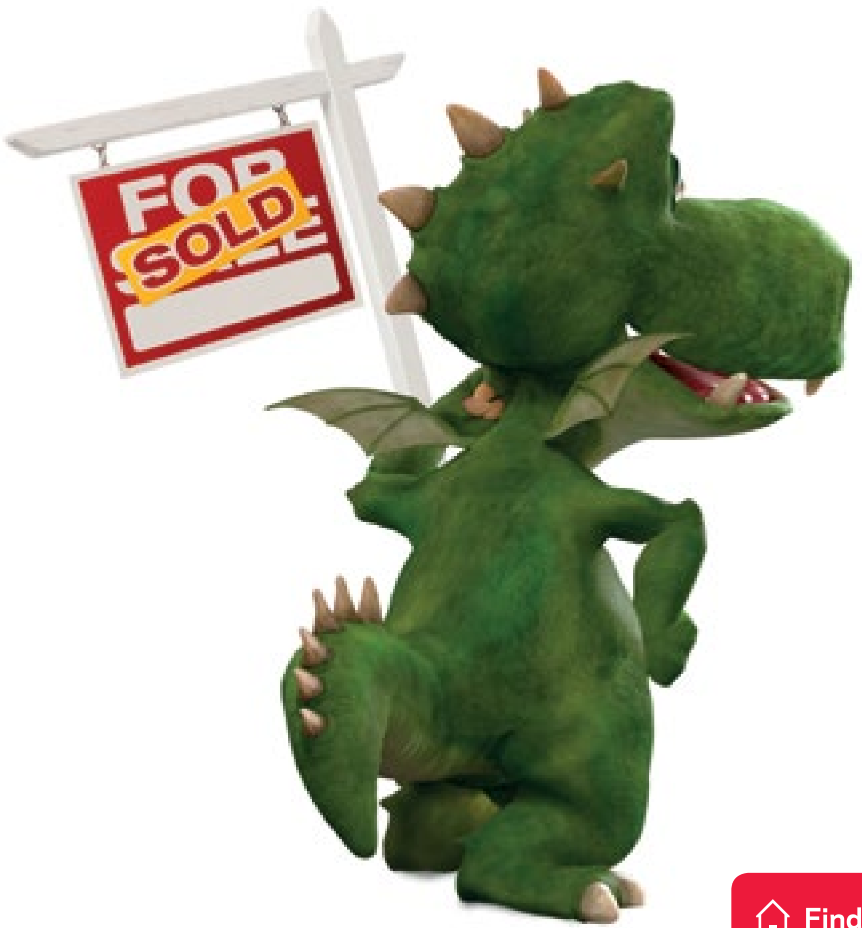
House costs
Repairs and maintenance.

Body corporate/strata fees
These fees may be applicable if you're buying an apartment or townhouse. They go towards paying building insurance as well as the maintenance of the building's common areas.

Property management fees
As charged by agents or property managers.

Utilities
As a landlord, you may be liable to pay for utilities such as water rates.

For more information on property investing, visit **stgeorge.com.au/property-investor**



Find your closest branch

Phone us

Application checklist

Here's what you need to apply for an investment loan:

- Confirm any deposit, co-borrower or guarantor commitments in writing.
- Supply any final payout confirmation from any previous loans.
- Send a letter of explanation for any previous defaults to your lender and bring along any transaction records that relate to settling the payment.
- Proof of identity (for example, your licence or passport).
- Two most recent pay slips or, if you're self-employed, two years' full financials and tax returns.
- Statements for any credit cards.
- Financial statements for your assets (such as savings, deposits, investments).
- Copies of all statements for anything you owe (mortgage statements, personal loans etc).
- The nitty-gritty details about your lifestyle and fixed expenses.
- Confirmation of employment (including start date, salary package).
- Written confirmation of any deposit, gift or loan you've previously received for this purchase, and details of any co-borrower or guarantor commitments.
- Current rental assessment for any existing investment property(ies) you own.
- Written confirmation from your proposed Property Manager confirming the likely rental income and strength of rental demand for your property.

Tip

Please remember to check with your lender as there may be more requirements, depending on your situation.

Find your closest branch

Phone us

For more information

13 33 30 to talk with a St.George home loan expert.
Say "new home loan" when prompted.
8am – 8pm, Monday – Saturday.

stgeorge.com.au

Talk to your St.George Lending Manager.

Find your nearest branch

Things you should know: Credit criteria, terms and conditions, fees and charges apply. The information in this brochure is current as at 12 April 2018 and does not take into account your personal objectives, financial situation or needs. For this reason, you should consider the appropriateness of the information and, if necessary, seek appropriate professional advice.

ST90704 04/18