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Home Loans

Get those tootsies in that door

Property investor guide

do your thing

Contents

Opening the door to property investing

For many Australians property is a popular way to invest. But it can be a bit daunting if you haven't done it before. That's why our property investor guide's a great place to start. It maps out some of the most common steps on the journey to becoming a property investor. And it's full of great tips for staying on the straight and narrow towards investment success.

We're also here to help

While getting started with property investment isn't always easy, getting help is. Any general questions about funding your first or next investment property or to get your investment loan application rolling, just call our home loan specialists on **1800 267 809**.

Always ask an expert

This guide provides general information about property investing only. Before making any investment decision you should get specific, independent advice from a licensed professional. For tax advice and investment advice, ask a registered accountant.

Getting on the map even if you rent

We know getting into property isn't as easy as it once was, especially if you're renting and saving at the same time. But don't think you're off the map when it comes to property investment. In fact, it might be a smarter way to get your toe in the door of buying a property.

Consider a rentvestment

Rentvestment is when you choose to live in a rental property in the area you really love but buy an investment property in the suburb you can really afford. So in some ways it can give you the best of both worlds.

Once you're in the market, you're on your way

You could use the rental income from your investment to help pay down your investment loan (and grow your equity) or reinvest it in improving your property and its value.

You could also get potential tax savings with an investment property that you wouldn't get if you bought a house to live in, like claiming a tax deduction on interest charged on the loan and running costs. Naturally, you should speak to your tax adviser first.

Then when the time and market's right, you might sell the property or access the equity you've built up to expand your investment portfolio or upgrade to the forever home you've always had your heart on.

For an estimate of how much you could borrow, use our borrowing power calculator at

campaigns.ing.com.au/investor-home-loans

Borrowing power calculator: The results of the borrowing power calculator are an approximate guide and should not be used as exact values for financial planning purposes. The results do not constitute an offer to provide credit and do not imply that credit is available. The formulae used within this calculator may change at any time without notice. Applications are subject to ING's usual credit assessment. Fees and charges apply.

Weigh up the pros and cons first

While a rentvestment can have its advantages, like anything you should weigh up the options before you rush in.

For instance, as an investor you won't get the benefits that owner occupiers get, like the first home owners grant and you may have to pay capital gains tax when you sell the property. And you've got to be able to afford whatever way you go.

For more about working out what you can afford and what to consider flip to page 8.

Property investment map

Step 1: Strategy

Before you do anything, make sure you're clear on why you want to invest and what you want to achieve.

See page 5: It starts with a strategy.

Step 2: Affordability

Next you need to do the sums to see where you're at financially and what you can afford to invest.

See page 7: Working out what you can afford.

Step 3: Search

Knowing where and what to search for will help focus your energy, save your time and set you up for success.

See page 11: Finding the right property.

Step 4: Loans

Understanding the different loan and rate options can make a big difference financially to how you invest.

See page 13: Getting a loan that fits.

Step 5: Optimising

Once you've invested, you then need to make sure your property continues to work in your best interest.

See page 15: Making it work for you.

It starts with a strategy

Buying an investment property's a big commitment. So it's not a decision you should rush into without a plan. The first thing to do is think about your investment strategy so you're clear on your financial objectives and how you intend to achieve them.

First, forget the hype

Property investing isn't a get-rich-quick tactic no matter what your Uncle Bob might say at the Christmas barbie. If you want to come out on top, you should be prepared to play the long game and hang onto your investment for as long as possible.

Next, know your goals

Many people become investors with no real vision of what they want to do with that property. They see something they like, buy it, then make it up as they go. However, most successful investors have clear goals and only purchase properties to match them.

Then, you can be strategic

Once you're clear about your investment goals, you can be much more strategic in your search for a property that will help you achieve them. What most people usually look for is a property with the potential for good capital growth, high rental yield or both.

Capital growth

If your primary objective is to build wealth through increasing property value, you'll probably be looking for what's called capital growth.

That's the difference in your property's value between when you buy it and sell.

So your strategy might be to look for properties in areas where there's potential to grow or a 'renovator's delight' where you can make improvements and add value.

Rental yield

If ongoing cashflow is a more important objective for you, you'll probably be investing to maximise what's called rental yield.

That's the income you earn from renting a property as a percentage of its value.

In this case, your strategy might be to focus your search on those areas and properties with the potential to offer strong, consistent rental appeal now and into the future.

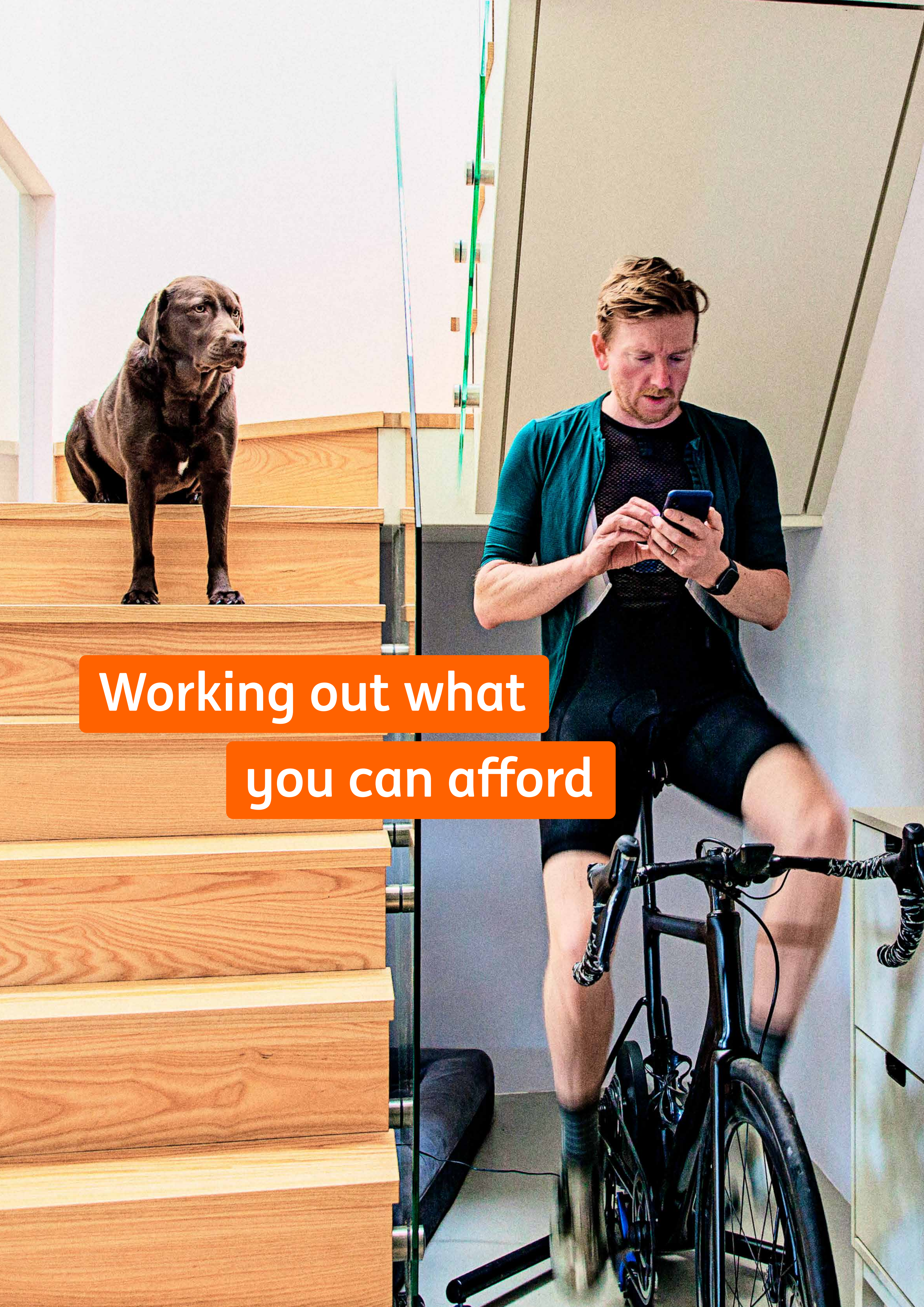
For a ballpark of a property's potential rental yield, use the rental yield calculator at

campaigns.ing.com.au/investor-home-loans

ING Equity and Rental Yield Calculator: The Equity Calculator and Rental Yield Calculator is not an offer of credit and is an approximate guide only. The output of each calculator is subject to the accuracy of the inputs and the assumptions of each calculator. The results do not take into account your personal circumstances and should not be relied upon for the purposes of making a decision in relation to a credit or financial product. Any advice given is general advice only and does not take into account your objectives, financial situation or needs and you should consider whether it is appropriate for you. ING recommends you seek independent financial advice. The Equity Calculator gives an indication of the amount of equity available in a property and potential borrowing power, based on the parameters entered, namely property value and current loan balance. The Rental Yield Calculator gives an indication of the annual income on a rental property and gearing status, based on the client specific parameters entered such as weekly rent, purchase price, loan details and property expenses.

The formulae used within these calculators may change at any time without notice. If you wish to apply for a loan please call us on 133 464. Any application for credit is subject to ING's eligibility and credit approval criteria. Fees and charges apply. The calculators are provided by ING, a business name of ING Bank (Australia) Limited ABN 24 000 893 292, AFSL and Australian Credit Licence 229823.

Working out what you can afford



Once you've got your strategy down pat, you need to do the sums to see if you're in a position to pay for your loan and the extra costs that come with property. Knowing what you can afford upfront will also help focus your property search.

Unlock your equity

Equity's the difference between the value of your current home and how much you owe on your home loan. Depending on your financial situation, you can generally top your loan up to 80% of your property's value. So if you're one of the many Australian homeowners who've built up equity, accessing it can be a great way to invest in a rental property.

As a general rule of thumb you may be able to borrow up to 5x your useable equity to invest. Of course, that's subject to your ability to repay the loan, and it's not a given that you can borrow against your current home.

As an example if your home is worth say, $600k and you've got $300k remaining on your loan, we work out your useable equity this way:

House value: $600k x 80% = $480k

Still owing: $300k

Useable equity: $480k - $300k = $180k

To get an idea of the equity in your current home, just jump onto our equity calculator at **campaigns.ing.com.au/investor-home-loans**

ING Equity and Rental Yield Calculator: The Equity Calculator and Rental Yield Calculator is not an offer of credit and is an approximate guide only. The output of each calculator is subject to the accuracy of the inputs and the assumptions of each calculator. The results do not take into account your personal circumstances and should not be relied upon for the purposes of making a decision in relation to a credit or financial product. Any advice given is general advice only and does not take into account your objectives, financial situation or needs and you should consider whether it is appropriate for you. ING recommends you seek independent financial advice. The Equity Calculator gives an indication of the amount of equity available in a property and potential borrowing power, based on the parameters entered, namely property value and current loan balance. The Rental Yield Calculator gives an indication of the annual income on a rental property and gearing status, based on the client specific parameters entered such as weekly rent, purchase price, loan details and property expenses.

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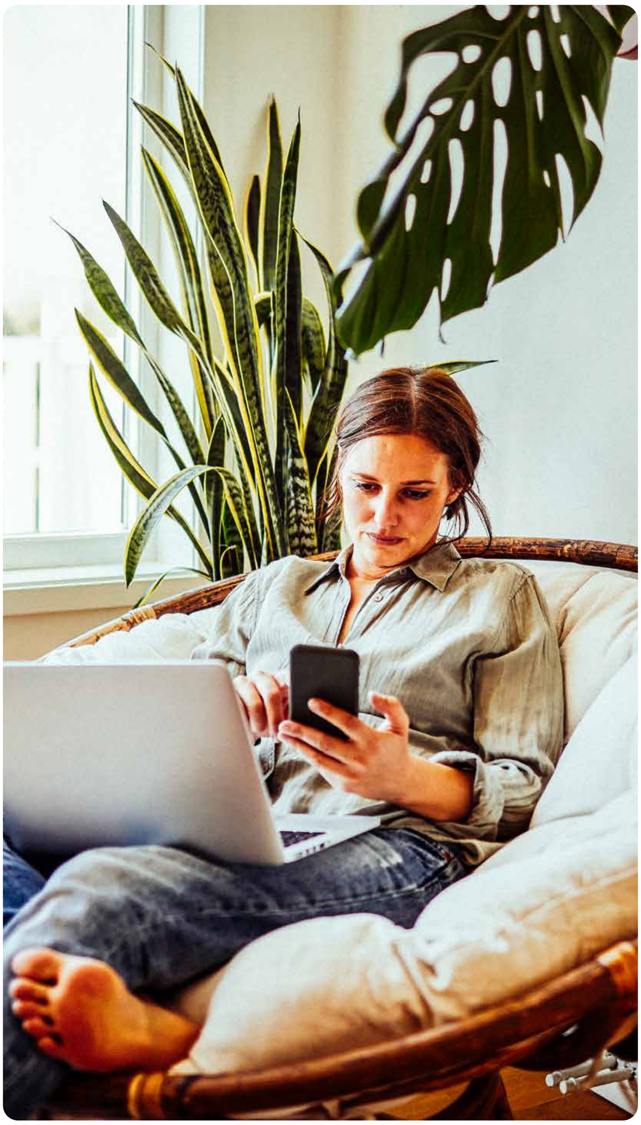
Budget, baby, budget

Accessing equity's one thing. Whether you can realistically afford the costs of an investment property's another. So once you've got your equity calculation, it's time to... drumroll... budget.

Sure budgeting can seem boring but the benefits of doing it can be big. An easy place to start is by adding up the ongoing costs of an investment property to get a general outline of the sort of impact they might have on your household cashflow.



Ongoing costs

To start figuring out ongoing costs, you'll need to know what your loan repayments and projected rental return will be. Our handy tools can help.

1 For an estimate of loan repayments, use our repayment calculator at **campaigns.ing.com.au/investor-home-loans**

2 To see what a property's rental return might be, use our Rental yield calculator at **campaigns.ing.com.au/investor-home-loans**

Loan Repayments Calculator: The Loan Repayments Calculator gives an indication of the type of repayment required and the total interest payable, at the frequency requested, in respect of the loan parameters entered, namely amount, term and interest rate. The results are an approximate guide and should not be used as exact values for financial planning purposes. The results do not constitute an offer to provide credit and do not imply that that credit is available. The formulae used within these calculators may change at any time without notice. Applications are subject to ING's usual credit assessment. Fees and charges apply. Full details of terms and conditions, including fees and charges are available on request. The calculators are provided by InfoChoice. The ING Property and Suburb Reports are available to customers who provide their contact details for ING to contact them about products and services.

3 **Once you have those two figures you can do this simple sum.**

$	–	$	=	$ 0
Your monthly expected rent		Monthly repayments		Approximate monthly costs or gains

Overlooked costs

If you want to be an extra-savvy investor, don't forget to include other ongoing costs most people forget about in your calculations, such as a few examples below:

- council and water rates
- insurance
- real estate property management fees
- strata levies if you buy an apartment
- general maintenance and repairs.

Expect occasional vacancies too, so allow for a few weeks with no rent each year.

Claiming expenses

If you're negatively gearing—when the expenses are more than its earnings—you might be able to claim some of your expenses and loan interest as a tax deduction.

If so, make sure you sit down with your tax adviser to plan a tax strategy that suits your individual situation and needs.

Purchasing costs

In addition to the purchase price of an investment property there's lots of other costs you'll need to cover too to make it yours.

Stamp duty's the most significant and the amount varies depending on the state where the property's located and the purchase price. Just to make it more challenging, stamp duty rules change from time to time, so it could also pay to check your state's latest rules in advance.

Plus there's:

- legal and conveyancing costs
- accountant advice
- pest and building inspections
- mortgage insurance, if applicable
- land tax, if applicable

Get a new valuation

If you've done the budgeting and want to take the next step, it's time get things done officially. To start, you should ask your lender to do a new valuation on your current home. From there they can calculate your equity and tell you what you can borrow.

Even if you don't end up investing in another property, the valuation can be the starting point for using your equity for other things – like renovating your existing home, buying a new car or even starting a business.

Let a specialist help

As you can see, there's a bit to consider when it comes to affording an investment property. So if you'd like a hand calculating how much equity you can use towards an investment, our home loan specialists are here and happy to help.

To speak to an ING home loan specialist, just call 1800 267 809
8am – 8pm Mon to Fri,
9am – 5pm Sat (AEST/AEDT).

Finding the right property

One of the keys to investment success is finding a property and area with the right mix of reliable rental income and potential for capital growth. Just remember, today's on-its-way-up area could be tomorrow's hotspot.

Use your head not your heart

Finding up-and-coming areas isn't as daunting as it sounds. And remember, it's a financial decision not emotional. So always think with an investor's head, not your homeowner's heart. Your plan is to build your wealth after all, not find a home you're looking to live in.

Location, location, location

No matter what your strategy, property investment is all about capital growth, balanced by reliable rental returns.

So the first place you might want to consider looking to invest are areas with strong rental demand and close to transport, schools, universities, business centres and community facilities like parks and shops.

For maximum capital growth you also need to look for areas that are expanding.

Upcoming redevelopments, infrastructure or transport improvements, new shops and cafes, council projects and increases in a suburb's population are good signs an area could have strong potential for future growth.

Do your research

Once you've narrowed your search down to a couple of suburbs, do your research to see what the area's historic capital growth has been over the years, whether the vacancy rate is low and what the average rental returns are like.

It takes all types

Old or new. House or unit. High rise or low. There's lots of choice when it comes the type of property you can buy. Historical data also shows that:

- Generally speaking over the years, houses have delivered greater capital growth and apartments provide better rental yield.
- Lower density apartment blocks generally have better capital growth and lower overheads than high rise apartments – unless there's a magnificent view!
- New apartment complexes and housing developments can help you to save on stamp duty by buying off the plan and provide tax depreciation benefits. However, many of the older buildings offer larger living spaces and can appeal to renters looking for a bit more charm.

Ultimately, the type of property you invest in should be guided by your strategy.

Know what tenants want too

Property investing is not just about you. There's your tenant – the customer – to consider too. And the customer's always right, right? So finding a property that appeals to them not you, should be your priority.

If it's a couple with children, a garden, extra bedrooms and nearby parks and schools will be important. Young professionals may want a stylish terrace close to cafes. While uni students may be looking for a secure apartment close to transport, bars and restaurants.

You also need to know what sort of properties are in demand in certain areas. For instance, international university students may prefer one bedroom apartments over two bedders.

When inspecting properties you should also look for certain features with mass appeal like an extra bathroom, internal laundry, balcony, off-street parking, air con and storage.

Getting a loan that fits

When it comes to investment loans, it's not one size fits all. They come in all shapes and sizes. But deciding what's the best fit for you can be tricky. So it pays to understand some of the differences before you choose.

It pays to take an interest

One of the biggest choices is between an interest only or principal and interest loan.

As the name suggests, with interest only loans you pay interest only, and you don't pay down the loan (principal) itself. They could be good for investors because the repayments are lower than principal and interest loans.

But because you're not paying down the principal, interest only loans aren't always the best fit if you're looking to pay down your loan.

With principal and interest loans each repayment you make pays back a portion of both the principal amount borrowed as well as the interest charged. So principal and interest can help you pay back your loan quicker and build equity.

Whichever way you go, remember that any interest paid on an investment loan may also be a tax deduction.

For example

Imagine you borrowed **$450,000 at 2.64% p.a** (fixed interest rate for 5 years).

If your loan was **principal and interest**, after 5 years you would have **paid over $67,000 off** the balance of your investment loan.

With an **interest only loan**, the balance of loan would still be **$450,000.**

How does it rate?

Another choice you need to make is between a variable rate or fixed rate—or a combination of both.

Variable rate loans could offer a more competitive rate but can fluctuate. They can be good when interest rates are stable because they can help minimise repayments and save on interest. They also tend to offer more repayment flexibility and often include features like offset and redraw.

On the other hand, if rates look like they could start going up over time or are low, it might be smart to lock in some certainty with a fixed rate loan. That way your budget won't be blown out by bigger repayments if rates do shoot up (at least for the duration of the fixed rate period).

Or for the best of both worlds you could decide to choose a split loan. Doing this lets you decide that a portion of the loan will have a fixed interest rate and the other part will have a variable interest rate. Basically, you will have the benefit of repayment flexibility and extra loan features that come with a variable loan, whilst having the stability and security of a fixed interest rate. It also means if interest rates rise you could be hit less hard with a split loan—but, similarly, if interest rates fall you might not benefit as much as you might like.

For more about our variable and fixed rate loans, latest rates and to apply for pre-approval before your property search, visit

campaigns.ing.com.au/investor-home-loans

Making it work for you

When it comes to investing finding a great property at a good price in an area with strong rental demand is just the start. You can't just lie back in the hammock and count the cash as it comes in. There's a lot you can still do to keep your investment shipshape.

Make simple cosmetic improvements

It's amazing what a fresh lick of paint, professional carpet clean and general refresh can do for your rental return. Also look to fix anything that's broken, from jammed locks and broken tiles, to taps, flyscreens and gates. The best time to do all this is before tenants move in.

Just remember to use your head not heart—if it ain't broke don't fix it or you'll be spending unnecessarily.

Add some extras

A few well-chosen creature comforts like a dishwasher, air con, dryer or security system can really add to the attractiveness of your rental property. And if the bathroom and kitchen are in need of a redo, updated fixtures can help. Or renovate them if you can afford it.

They'll add to your property's value and help increase your rental returns.

Keep up the maintenance

There's nothing more attractive to tenants than a well-maintained home. So make sure you check the property regularly and resolve issues promptly. It will help you keep good tenants longer and attract new ones quicker.

Keeping on top of maintenance could help you protect the value of your property too.

Be a pet-friendly landlord

Australians are mad for their furry friends but not a lot of rental properties cater for them. Which is why being pet-friendly could really boost your rental potential and your returns. Pet-friendly properties can also rent out faster and give you a real point of difference in a competitive rental market. Just keep in mind that some properties, in particular apartments, will require additional approvals from body corporate or the strata committee.

Find a great property manager

There's more to managing a rental property than finding a tenant and collecting the rent. There's lots of regulations too. So engaging a reputable property manager to do it on your behalf can make life a lot easier and save you in the long run.

To find a property manager, ask other landlords in the area or contact your local real estate agents for an introduction.

Get in touch

From crunching the numbers on your current equity to getting your application rolling, when the time's right to do your thing with property investment, our home loan specialists are here to help.

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Alternatively you can send mail to
GPO Box 4094
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