Property Questions and secrets uncovered

NOT TRUE - I thought property investment was for high income earners or the wealthy?

Statistically in Australia, over 70% of property investors are on incomes between $35,000 and $40,000 per annum. Over 90% of all millionaires become so through investment in real estate. "It's not how much you earn that counts, it's what you do with what you earn.

Interesting – Why do people invest in property rather than just leaving their money in a high income bearing term bank account?

Negative gearing allows purchasers to claim tax deductions for many expenses they incur relating to their investment property this also included loan interest.
Tax rebates and rental income are used to pay off your loan, and the intention is to have very little coming out of your pocket. Given capital growth and statistical research within 7-10 years your property would have doubled in value. If your starting purchase price was $400,000 you would expect it to be worth $800,000 in 7 – 10 years so you have made 50,000 per year passively .If you have multiple properties then you would have a higher net passive income and this is what we try to achieve for our investor clients.

With negatively geared property, interest costs etc, are generally higher than your rental income so hence the term negatively geared.

Apart from negative gearing, there are two other types of gearing situations which offer you even more benefits.

Neutral Gearing occurs when the costs incurred match the income derived from the property.

Positive gearing occurs when the income from your property surpasses the costs from the property.

Negative gearing is very popular with beginning investors because, through the big tax deductions offered, it is extremely affordable and enables you to purchase multiple properties for a low initial start up cost.

When your loan has reduced, and your property has increased in value as well as your rental yield (provided you have the right type of loan you'll start to experience neutral gearing and consequently head towards positive gearing allowing you to retire on a much higher income that a super fund can produce

Safety -What if I become unemployed or too sick to work?

Your loan should be set up with a 3-month buffer to give you breathing space in case of unemployment. Should your job prospects not improve you would simply sell the property. Personal trauma insurance will protect your income if you have an accident or are too ill to work and at Five Finance we have a strong insurance area and can get you covered in 24hrs plus it may cost as little as $10 per month to protect your loan. Ask us about disability and life cover today contact info@fivefinance.com.au.

What nonsense - I was told I needed a large deposit to purchase an investment property?

In this day and age there are 95% and even 100% loans depending on your servicing capacity and savings. If you already own your own home you may have built up equity and this can also be used to finance a loan for your first investment property. Instead of finding a cash deposit, the Bank will allow you to use the equity built up in your home as security on your investment property.

And when you buy a property there are costs like establishment fees, solicitor's fees, stamp duty and the like, that together add up to a few thousand dollars.

Instead of trying to find cash to pay these fees, the Bank will allow you to add these onto the loan account.

So you don't need a large deposit in actual fact, you may not need anything at all.

What if we can't find a tenant for our investment property?

For a start you will need a good rental manager whom can advise you of rental arrangements and income. Vacancies occur due to two main points the rent is too high and secondly the location is not ideal.

Location should be close to transport, schools, shops and employment,

Rental should be in an area that demand high rental.

If the rent is too high then lowering it can cater for demand.

70% of houses are used for home premises unlike industrial and commercial property residential property is the only investment market not dominated by investors. People who own their own homes, do not panic and rush to sell as investors do in some other sectors such as industrial and commercial real estate, or as company shareholders do when times get tough. Thus it is a very secure safe market and forms a barrier against substantial down-side in the market place.

Everyone needs a home to live in and capital growth is still driven by and for the owners. No matter who the occupier is, the capital growth is still generated for the owner. The safety of residential property is driven by owner occupiers who do not sell if the market turns. Owner occupiers need strong reasons to sell as they need a roof over their heads.

2. Superannuation, the Pension, What are my options looking like at Retirement?

Over the past 10 years the Federal Government has made it harder to qualify for the aged pension and has indicated it will make it even tougher in the future.
With the asset test being introduced the treatment of shares and unit trusts will promise that fewer retirees will get the pension.

Retirement should be a happy time instead it has become a time where the nation has to downside investments and earnings. Australia's retirees are fast becoming the nation's poor, squeezed by lower interest rates which is slashing the income of their investments and starving them of funds to pay bills.

Today's retirees are not looking favourable and should be looked at as a lesson to the future elderly population. Poor retirement planning can cost these pensioners everything including their houses. To retire comfortable you need to start planning early to build wealth and add to the super fund that you are working towards. The Government's new superannuation rules will limit most superannuation payouts to $400,000. For many this wont possibly be enough to support their lifestyle.

6. Do some property investments make more money than others and what should I look out for?

Property investment success is related to capital growth and also reducing your expenses therefore some things that can influence this and cause a property investment to fail are:

- **Incorrect loan was used**
- **Property was a lemon (had problems with it structurally)**
- **investors forgot to claim the highest possible amount in non-cash tax deductions;**
- **Low rents and high vacancy periods;**
- **Overpriced property when originally purchasing**
- **Low capital growth due to suburb and neighbouring suburbs not performing well.**

These mistakes can easily be avoided. Before investing, contact us for free advice on which price range, which area and type of property are most suitable for your situation.

11. What if the property is damaged?

At Five Finance we offer one of the most competitive landlord insurance policies with lifestyle (lifestyle is a joint venture between two of Australia's most trusted insurers, Allianz and TOWER insurance. All the major insurance companies offer comprehensive policies but we use Allianz as our preferred insurance company because Allianz won- Best General Insurance Company 2006*
Allianz won - Best General Insurance Company 2007*
Awarded Five Stars by CANNEX for best value car insurance nationally**
***Australian Banking and Finance Insurance Awards**
****A national five star rating is the highest rating awarded to national car insurance providers by CANNEX, September 2007**

The cost of such a policy is minimal and tax deductible. For a small cost you can even extend the policy to cover loss of rent.

12. Who manages my rental property?

It is essential to have a strong property manager with years of experience behind them with a strong track record in landlord and tenant relations. At Five Finance we can steer you in the right direction to property management success.

13. How do I claim a tax deduction on my rental property?

There are several ways to claim tax deductions the easiest way is if you are a PAYG wage or salary earner your employer can deduct less tax from your pay or receive a lump sum rebate at the end of each tax year.