FIS
Fit Investment Solutions

Property Investing Guide

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Why Invest in Real Estate?

Historically property has proven to continue to rise in value. Although, there have been periods of rises and falls, over the long term property has continued to grow. It is actually considered one of the best and safest investments if you are in it for the long haul. Investors typically choose to invest in property due to the following reasons.

- Increase in value (overall capital growth)
- Benefits for tax purposes
- Profit through rental income

Real Estate doesn't require a large Initial Investment

Whether you are new to real estate or already a property owner, real estate is a profitable investment. Many people are positioned to build a large portfolio simply through using equity within their home. There are many ways to use the equity and your broker will be able to assist you to determine what is best for your individual circumstances.

Also, even if you are not currently a property owner, do not think that investing in real estate is not for you. Real estate investment is a great way to break into the market. You'll be earning a consistent return on your investment once your property is rented. Even though you may forgo some first home owner incentives, these loses may be offset through many other positives associated with an investment property.

Your Investment return

When investing in property you can expect to profit from two separate types of returns. Firstly, is the Capital Growth which occurs over time when the market price of the property increases, thus allowing you to turn a profit when it comes time to resell. The other type of return is the income you will receive from renting your property out.

Here are a few key facts you need to remember regarding rental income and capital growth. First of all, in order to make a profit the property will need to increase in value, with the increase required to be greater than the costs associated with selling and buying the property. The costs you need to take into consideration include: the agent's commission, any legal fees, building and pest report fees, mortgage entry and exit fees, and government charges.

On the other hand, rental income is more of a certainty, when a tenant officially signs a lease agreement they are obligated to pay their regular rental fee until the completion of the term of the lease. This return is also dervied from the instant you receive rent, with some properties making a profit from day one.

Another factor to take into consideration is that it is harder to find property which will generate both high annual rental yields, as well as high capital growth.

Before you begin your quest for an investment property, you need to determine your investment strategy, taking into account the difference between capital growth and total rental income.

	Growth Strategy	Rental Return Strategy
Pros	• Long term, there is potential for substantial gain. • properties located in premium locations, which often outperform the less premium locations • negative gearing may allow the opportunity for tax relief, of particular benefit to those in a higher tax bracket	• There is less of a chance to lose money after your loan repayment as opposed to negative gearing • Higher rental return means less money out of your pocket • Over a long period even properties which were purchased due to their high return will likely also grow in value
Cons	• There is a chance that due to over-extending commitments, some owners have been forced to sell without any profit, perhaps even with considerable loss. • You may experience loss or very little return if you have a higher loan payment in proportion to rent return. • Decreased ability to expand property portfolio.	• You will have to pay higher taxes on properties that yield a higher overall income • When it's time to resell, your profits might not be as high as they would if you had purchased another type of property in a premium location.
Examples	• A $650,000 house in Inner Brisbane may initially rent for $550 weekly, which yields a return of 4% yearly. But after 5 years, the property value may have increased to $850,000 which yields 31% in capital growth.	• A $300,000 4 bedroom property in Ipswich could rent for $400 weekly which yields a return of 6% per year. But, if after five years, the property is only $330,000, this will only be equal to 10% in capital growth.

Please Note: The above is a guide only and there is always scope to merge the 2 strategies which is often considered by experts to provide the greatest benefit for property investors.

Choosing the right investment property

A plus in purchasing a property strictly for investment purposes is that you should not be emotionally invested in the property. This is quite different from purchasing your personal property where you will consider things such as location to family and friends, or particular features that appeal to your own style.

As a property investor you should find it easier to take a more dogmatic approach. The location of the property as well as the appeal to the tenant should be the two main factors to take into consideration when searching for a property. Of course your investment strategy should determine whether you are looking more for rental income or capital growth.

You need to remember to keep your emotions out of the searching and buying process. Keep in mind that you are in this to make a profit, think with your head and keep your emotions in check.

Rental Income

If you are interested in a steady cash income and good return from rentals, then you should consider purchasing a property in cheaper locations where demand for rentals are still high. This type of investment is often found on the outskirts of capital cities or even in regional areas.

Capital Growth

If capital growth is your primary interest, you should look for a property close to the CDB as demand and reduction can increase values. In other words, there is limited supply and generally a large amount of people hoping to buy and live in the area. Other areas which tend to provide high growth include waterside suburbs in capital cities; again the scarcity issue is the major driving factor leading to this growth.

Whether you are looking for rental income or capital gain there are several things you need to take into consideration;

- Waterside suburbs appeal to future buyers as well as potential tenants and will usually have high growth potential.
- Areas close to airports/flight paths and busy roads may not be desirable for growth or return.
- Always learn the pros and cons of the location where you are purchasing, especially if it's an area with which you are generally unfamiliar.
- Be aware of current rental and sale prices, as well as vacancy rates.
- Chose locations that are easily accessible to public transportation, quality schools and local markets.
- Take into consideration the population data, both current and projected.

There are plenty of websites available, such as RP Data, which may provide market statistics to assist with your research. Also, property investment firms such as **Fit Investment Solutions** can also assist with this.

Apartment or House

Another major factor to consider is whether to purchase an aprtment or house. Again both classes have pro's and con's and it will come down to your strategy and personal preference.

	Unit/Apartment	House
Pros	• Often in great locations close to amenities • Usually have a higher yield as they tend to be less costly than a house • Are usually maintained and managed per a strata organisation. Therefore, if something were to go wrong, the cost would be divided amongst the various strata partners. • No gardens or yards for tenants to maintain	• The potential for renovations can add to the property value • Finding a tenant should be easy as there are many potential renters looking for bigger properties to rent • Likely to be earning higher capital growth due to the value from additional land
Cons	• Strata costs can be substantial, often negating the extra return a unit may yield above a house • History indicates lower capital growth compared with houses	• Maintenance costs could be substantial • Generally a lower ret return then apartments

Brand New vs Established Property

Another decision which you will need to make when choosing an investment property is whether to purchase a brand new property or an established property. Again, this will come down to personal preference as well as the strategy which you plan to take. Below is a guide to consider when deciding on brand new or established.

	Brand New	Established Home
Pros	• New property will attract more tenants which should lead to greater selection and perhaps higher rent. • Generally you will create instant equity after the build, meaning you may pay $500,000 to build yet it will be worth $550,000 once complete. • Savings on Stamp duty - with a house and land package you will only be required to pay the stamp duty on the land. • Greater tax deductions - with a brand new property you will be able to claim greater tax deductions increasing the return of the investment. • Low or even no maintenance issues as house is under warranty.	• No need to go through the process of building a home. • Depending on location it may be easier to find an established home in the suburb you are looking to purchase. • Some suburbs it is cheaper to buy an established home rather than build a new home. • You can actually see and walk through the home you are purchasing, as opposed to an off plan house and land package. • Potential to renovate to add value to the home.
Cons	• Will have to pay for loan interest expenses whilst the house is being built, although there may be potential to get a bit of extra money on your loan to cover this. • Purchase process can drag out a little longer as you will need to build a new home which can cause stress to some.	• Greater need for repairs and maintenance. • May be harder to attract quality tenants if property is not maintained. • If purchasing interstate it can be time consuming and costly trying to inspect and select properties. • No warranty and may purchase a property with significant structural or maintenance costs. • Generally lower tax incentives and • higher stamp duty then a new house and land package.

Cost to consider

Strata Fees and Council Rates

Your agent will discuss what these rates are on a quarterly basis. However if you are purchasing a property you should always perform a strata search so you will be aware if there are any levies in the channel.

Repairs

Be prepared for repair costs, especially if you are purchasing an older house. However, you are also responsible for repairs for white goods, fixtures, fittings and appliances even if you purchase an apartment or town house.

Management Fees

If you are able to manage the property yourself, you can save the costs of paying property management fees, which could cost as much as 10% of your rental income.

Insurance Costs

When purchasing a home, you are responsible for the building insurance. We also strongly advise that you get landlord insurance. This will cover any damages incurred by the tenant as well as your legal liability if a tenant is injured. Some policies may also cover lost rental payments in the instance your tenant vacates the property or terminates the lease without paying the agreed upon rental amount.

Warning: please ensure you read the policy carefully as not all Landlord Insurance will provide the cover mentioned above.

Vacancy Periods

You need to take vacancy periods into consideration when figuring out your annual rental yields. You should allow approximately four weeks for vacancy on an annual basis.

Investment Repayments

You need to allow for an increase in repayments as there is always a chance that rates will rise at some point over the loan term. To assist mitigate this it is also likely that your rent return will rise, which may assist offset any rise in rates.

Consider the Risks

Like any investment, there are no guarantees of a substantial return. Property prices can decrease and it is not always easy to find good tenants. Take the time to do extensive research before you make your purchase and try and find the right professionals to assist.

Ways to purchase property using equity

Equity Explained

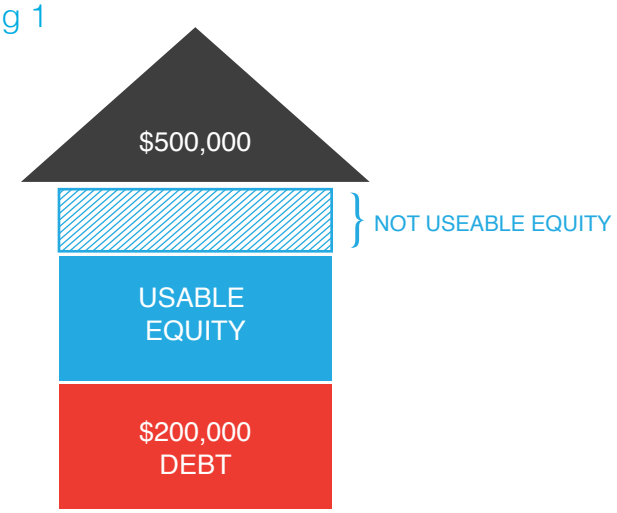
Equity can be explained as the difference between the loan amount and the value of the property. In Fig 1 the house is worth $500,000 and the loan/debt is $200,000. Therefore, there is $300,000 of equity.

However, keep in mind the banks always like to have at least 20% of a property without debt, therefore, in Fig 1 $100,000 or 20% of the equity is unusable, leaving $200,000 of useable equity.

It may be possible to unlock the 20% unusable equity through paying mortgage insurance. Please speak with your broker for further guidance

There are two key ways in which you can utilise your available equity. These are explained below

Fig 1

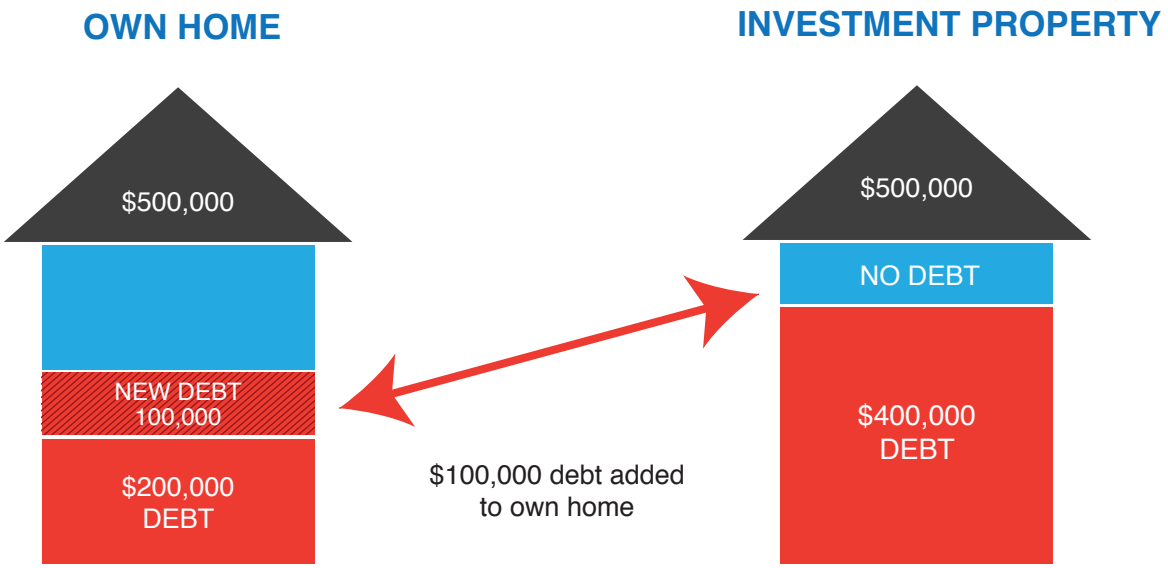


Properties uncrossed

Having the properties uncrossed involves taking a loan against your house, for the deposit of the new house. As per Fig 2 if buying a $500,000 house, $100,000 loan will be against your current house and $400,000 against your new property.

In this instance the properties are not crossed together giving the bank less control and you greater flexibility.

Fig 2

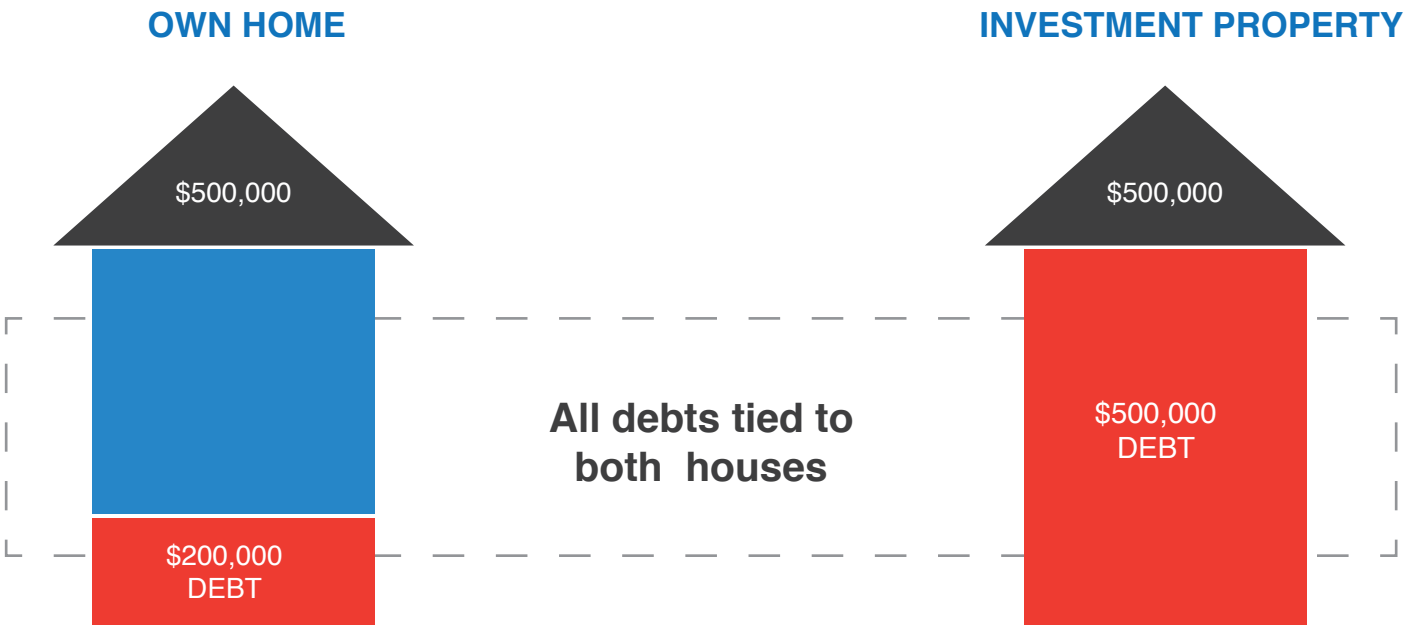


Properties crossed

Having the properties crossed is simply using your current property as a guarantee for the purchase of the second property. Rather than providing the 20% deposit and taking a loan against your home the bank takes a guarantee against it. They will then provide 100% of the loan against the new property.

Whilst this appears appealing, understand even though your bank account will show no extra debt against your home. The reality is, your home is now securing the entire $500,000 of debt, whereas, if uncrossed it is securing $100,000.

Fig 3



Your Investment Property and Taxes

Ultimately you should choose your investment based on the returns you will receive, as well as how the overall investment can help you reach your financial goals. However, there are some extremely useful tax benefits available to property investors. Among these is the ability to claim the costs of your rental property as a tax deduction, negative gearing your property against your income, as well as, the possibility of discounts for capital gains tax.

Let's take a moment to examine how each of these can be beneficial to you as a property investor.

Tax deductions:

As a landlord you will be able to claim a wide range of the expenses that you incur which are related to maintaining your investment property. This even includes the interest portion of your loan repayments. However, expenses are only able to be claimed as a deduction if the property is currently being rented or is available to be rented.

Your personal tax agent can help you get a better idea of what you are able to claim given your personal situation. Generally the following can be claimed as a tax deduction;

- Interest fees and ongoing fees from loans
- Advertising costs
- Property management fees
- Depreciation of fixtures and fittings (carpet, hot water heaters, ects)
- Overall building depreciation
- Strata fees, land taxes and council rates
- Landlord and building insurances
- Maintenance, pest control, repairs and landscaping costs
- Phone expenses, stationery and any travel costs to inspect or maintain the property
- Bookkeeping and accounting costs

Again this is not a full list and your circumstances may vary so it is important that you consult with a tax specialist before submitting your return.

Negative Gearing

Negative gearing may be defined as claiming the losses you incurred on your rental property against your taxable income. A loss on your property occurs when the costs of holding and maintaining your rental property are greater than the rental return you receive from the property.

For example, if your taxable income is $80,000 annually and you make a $15,000 loss on your property, you will only have to pay tax on $65,000. Due to this, the amount you are taxed for the year will be lower and this can often offset the loss you made on the investment property.

Furthermore, newer properties will generally carry higher depreciation deductions which can significantly offset your taxable income. The extra tax incentives associated with new properties is the reason brand new properties are often sort after by many investors.

Please note, expenses classed as capital expenses may not be used to offset your yearly income. These expenses may include the principal portion of your loan repayment and other expenses such as renovations. Some of these expenses may however be used to reduce your capital gain when selling the property, these will need to be discussed with your accountant.

Investment properties do not have to be negative geared, remember if the property is negative geared is means the property is actually costing you money. On the other hand, a positive geared property is one which is making money. Meaning, the rent received is more than covering all expenses. Of course when positively geared, you will be required to pay tax on the profit you make.

Capital Gains Tax

At some point it is likely you will wish to sell your rental property. If you were to make a profit on this sale, it would be called a "capital gain." This capital gain is subject to taxation and the profit of the sale is considered part of your regular income for that year. However, it is important to take into consideration that there are substantial Capital gains tax concessions for those who have property investments.

For instance, the cost amount used to come up with the capital gain amount is made up of the cost you initially paid for the property, plus any costs you incurred when purchasing and selling the property including legal fees, agent's commission and the like. For tax purposes, this dramatically helps decrease your profit.

Additionally, if the property was in your possession for longer than a twelve month period, you are eligible for a 50% discount on the capital gains tax. For example, if your profit from the sale was $100,000 and you owned it for longer than a year, you will only have to pay tax on half that amount, or $50,000. These policies represent a significant saving on the overall tax paid and provide an extra incentive for investors to hold their property for the long term.

How to Manage Your Investment

Once you have purchased your investment property you will have to manage it. You can choose to manage the property yourself. Alternatively, you can chose to hire a professional property management firm. This is something you need to carefully consider before purchasing your investment property.

The DIY approach can save you money, but there are many legal ramifications you must adhere to as a landlord. It is imperative that you have an understanding of these requirements.

Professional property management companies will normally charge a fee of between 5-10% of the yearly rent. However, this fee can be negotiated. In exchange for this payment, they will handle the bulk of the work that comes with maintaining and managing the property.

This includes the following duties:

- Finding good tenants, which includes:
  - Advertising.
  - Conducting open houses.
  - Preparing Applications and doing background checks.
  - Also, interviewing the prospective tenants.
- Giving you advice on the amount of rent to charge.
- Drafting the formal lease paperwork.
- Coordinating with the tenant to receive a written report of the property's condition prior to move in date.
- Arranging for the rental bond with the appropriate agency.
- Rent collection and securing late payments.
- Managing the tenant's maintenance and repair requests.
- Preparing both monthly and annual statements for the property.
- Handling difficult tenants. This may include attending tenancy tribunal hearings in your place.

Some investors, however, find it quite satisfying to manage and maintain their rental properties themselves. However, if this is your first time owning an investment property, or you have limited time, it might benefit you to opt for a property management company. For the minimal fee you will be paying the property manager, you will have peace of mind for your investment and you will not have to deal with your tenants directly, which we find is the option that many investors seem to prefer.

Facts to consider when picking an Investment Loan

Property investment loans are very similar to standard home loans. Like a standard home loan you will have multiple loan products to choose from and your strategy and individual circumstances may determine what's right for you.

Fixed Rate

Fixed rates are beneficial for those investors who want the security of a guaranteed repayment amount. This is useful as the rental payments will be fixed during the term of the lease. Investors have certainty about their repayment commitments and can better forecast expenditure without the fear of a rate rise.

Variable Interest Rate

In this instance, the rate will fluctuate as the official cash rate changes. Variable interest rate loans have a flexible range of features including redraw. Although, the fact that you will be able to claim tax deductions on your investment expenses mean most investors choose to pay down their own property before looking to pay off their investment loan.

Split Loans

Most lenders will allow you to split your investment loan between fixed and variable loan products. This allows you to hedge both ways against rises and falls in rates

Popular Investment Loans

Interest Only Loans

Interest only loans are different from the standard principle and interest loan. In this instance, you only pay interest and do not pay down the debt at all. These loans are a very popular choice for investors due to the following reasons;

- Investors may minimize their monthly commitments through only making interest only repayments
- You can be eligible for a deduction on the interest portion of the loan repayment but not the actual principle portion of the loan repaymen

Line of Credit

A line of credit, also called an 'LOC' or home equity loan, is a revolving credit with a variable rate that offers increased flexibility for the borrower. This type of loan allows the borrower to choose how often and how much to borrow against the equity in the house. It may be useful for an investor in some of the following instances;

- Any time you have any additional expenses you may be able to draw from your LOC rather than having to seek new loan approval.
- Provides increased flexibility and may be used as a deposit towards an investment property, or in some cases, allow purchase of the property entirely through the LOC without seeking further approval.

Ask your local Fit Mortgages Broker for assistance

It is important to select the loan that best fits your needs and your particular investment strategy. You should consult your local **Fit Mortgages Mobile broker** as they will be able to search through hundreds of loan products from over 30 lenders including the major banks.

Fit Investment Solutions

Fit Investment Solutions is a property investment firm that assists clients source new investment properties in high growth and high return locations.

Why Fit Investment Solutions?

WE ARE INVESTED WITH YOU

First and foremost Fit Investment Solutions consider ourselves a market leader when it comes to offering value investment packages to clients. One point which makes us stand out above the rest is our 4 YEAR RENTAL GUARANTEE.

What does the 4 year rental guarantee mean to you??
Besides the obvious fact you will be stress free for 4 full years knowing you will be paid an agreed return week in and week out regardless of whether your property is tenanted. The true value resides in the fact that Fit Investment Solutions are taking on the risk of a low rent return. Meaning if your property was not to find a tenant or not rent for what we advise we are the ones losing. Hence the phrase we are invested with you. As we can assure you, we at Fit Investment Solutions do not like losing money and we make sure we find you the best and most secure properties to protect both our interests.

WE ARE REAL INVESTORS

At Fit Investment Solutions we pride ourselves on the fact we are not simply sales people trying to sell you a new house and land package. We are investment experts trying to assist you find the asset that will lead you to a comfortable and in many cases early retirement. All our investment professionals are real investors with a love for investing and also have property portfolios of their own.

What's the benefit of having Real Investors assisting you??
Firstly, you wouldn't ask a real estate sales person to invest $500,000 in the best share portfolio. In the same vain, you should not be asking them where to buy your Investment Property. In many large investment advisory companies you will often be assisted by someone who has not invested themselves, or even worse, has not even researched and visited the areas they are promoting.

At Fit Investment Solutions our property experts are trained to identify the key aspects which make a great investment property. Through statistical and market analysis they will help identify properties with both high growth potential and high rental yield. Furthermore, our property experts will only recommend properties in low risk locations such as Capital Cities.

WE PROVIDE A 360 DEGREE SERVICE

At Fit Investment Solutions we provide the full solution to your investment property needs. We take our clients from the start to the end of the investment circle, ready to go around for the second time.

We have not only assisted first time investors, but also established property investors with sizable portfolios who have seen the value in the service we were providing.

What does the 360 degree service mean to you??

First and foremost it means you can stop stressing, sit back and relax as we research both your circumstances and the property market to find you the property which best suits your needs.

Our 360 Degree service includes the following;

1. Assess Finance Capacity
2. Establish Property Goals
3. Evaluate Property Strategy
4. Identify Market Hot Spots
5. Provide Suitable Property
6. Purchase
7. Rent and Manage

At Fit Investment Solutions we ensure all our Investment Property Experts are not just there to provide you the guidance and expertise to secure your first investment. They are there as a mentor to focus you into building a portfolio which can really make a difference to both you and your families life's. We are always looking two steps ahead. When we are helping you with your first investment, we are also laying the foundation for your second and third.

Ultimately, Fit Investment Solutions is looking to assist you reach your financial goals with as little stress as possible. We will be there every step of the way to provide you the support and guidance you require.

If you would like to know how we can assist you, please contact us today and set up an appointment with one of our mobile property advisors.

www.fitinvestmentsolutions.com.au

1300 330 923

Investment Property Example

The below example is based on an investment property that Fit Investment Solutions had available through one of their partners in 2016, it is representative of similar properties currently available through Fit Investment Solutions. Property Facts;

This property was a fixed price full turnkey 4 bedroom, 2 bathroom house and land package.
It was located in the highly sort after Gold Coast to Brisbane Corridor in the suburb of Ormeau. It had a market rent of $450 per week at a cost of $428,000. This rent was guaranteed for 4 years by Fit Investment Solutions.

Initial Costs	$	
Stamp Duty	6,294	(land value $212,000)
Solicitor	1,200	
TOTAL	7,494*	

*estimate only

Ongoing Holding Profit/Loss

Holding Costs	$
Interest 4.2%**	17,976
Insurance	800
Council Rates	1,800
Management Fees	1,755
Management Fees	**22,331**

NOTE: The above is an example only and may not depict exact figures; however, it may be used as a general guide. **Interest at 4.2% on $428,000 interest only loan. Depreciation is based on a depreciation report of a similar property and may not reflect exact write down, although it will be within a few hundred dollars. Tax deductions based off a single income of $90,000.

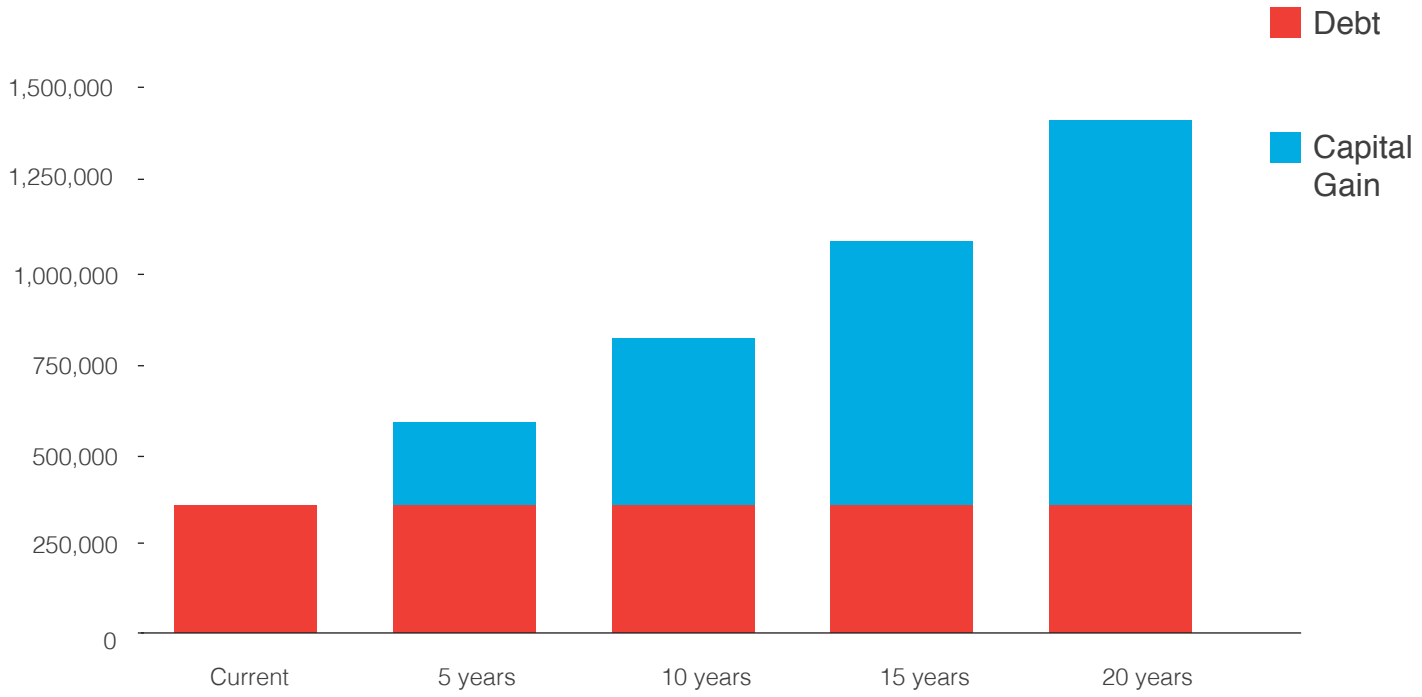
Profit/Loss	$
Rent received $450pw	23,400
less Holding costs	(22,331)
Gross Gain	1,069
Tax Deduction	
Gain	-(1,069)
Dep'n Fix and Fittings	3,567
Capital Write down	4,850
TOTAL DEDUCTIONS	**7,348**
Claimable Tax	2,718
PROFIT	**$3,787**

Growth Projection

Whilst capital growth is never a guarantee in the short term, in the long term history has shown one undeniable fact, property prices in Australian capital cities and major metropolitan areas increase in value.

Below is an example of what a property purchased today in South East Queensland can be expected to make over the next 20 years based on a 6% growth rate. This is a rate which many experts believe is likely in the region, with some predicting even greater growth.

6% Growth per annum



	Current	5 years	10 years	15 years	20 years
Property Value	$428,000	$572,790	$766,482	$1,025,726	$1,372,653
Capital Gain	0	$144,790	$338,790	$597,726	$944,653

Based off the above table you can easily identify the reason so many Australia's have a love for property. Gaining $944,653 profit in 20 years for doing very little and utilising the banks to your advantage. Also, this is not taking into account the rental profit you will make, especially as time increases and your rent goes up.

Now imagine you purchased 2 or 3 or even 5. It is possible and many people are limited only by their ability to make a decision.

For further details on what your potential is and how we can help you achieve it, please contact Fit Investment Solutions to speak with one of our expert property consultants.

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