

THE POWER IS IN YOUR EQUITY



Property investment has long been one of the more successful strategies to achieve financial independence, and yet statistics show **only about 20% of us do it!**

Why has property been a strong contributor to wealth creation? In general terms wealth is created through capital growth as your property value increases over time. Of course this is only true if the capital gain on the property is greater than the cost of holding it.

Challenges in entering the market

It appears about 80% of us find it too difficult to purchase an investment property. The good news is that if you already have your first property - either your home or an investment property - you could already be on your way to your NEXT property investment.

The ability to purchase a property depends on providing the required deposit and being assessed as having the serviceability to repay the loan. Although many of us may have the ability to make monthly repayments - particularly in an investment scenario where rent could cover a good proportion of repayments - the challenge is that many of us find it difficult to save the deposit.

Is there a solution?

This is where your first property comes into consideration. If you have held this property for a number of years it is likely your property may have increased in value. Perhaps you've also made additional loan payments? Either one or both of these factors may have **created equity in the property.**

Rather than saving the deposit you could now borrow the deposit by using that equity as security.

So how much deposit do you potentially have in the equity of your first property?

Most lenders will provide funding of up to 80% of the property value so the available equity is the amount between 80% of the property value and your remaining loan balance.

Using equity effectively

Where wealth creation is your aim you should consider channelling all your surplus funds to paying down your non-deductible debt (or place these funds in an offset account to minimise non-deductible interest).

Offset accounts can be a very effective tool for providing flexibility. Unlike a redraw facility the funds are generally available instantaneously allowing you to withdraw the funds at any time. This availability may allow you to move quickly with the purchase of an additional property.

Using an offset account effectively will depend on whether your first property is an investment property or your home. Your individual circumstances will determine the suitable approach to maximise your financial position. As your finance specialist we can certainly help you with that!

Negative gearing

Typically, investment properties that have been 100% funded with an investment loan will result in an income loss, ie the rental income is insufficient to meet the interest and ongoing costs of maintaining the property. This is commonly known as negative gearing. This loss can be claimed as a deduction in your income tax return.

You are also able to fund this income loss through a loan with the interest costs/charges on the loan also being tax deductible.

Rather than using your ordinary income (that could otherwise be used to pay down non-deductible debt) you could use the equity in your first property to apply for a line of credit. The line of credit could then pay for the portion of the operating expenses that are not covered by the rental income of the property.

Where to from here?

As your finance specialist we are here to help you explore solutions suitable for your personal situation. We understand that most people struggle with the concept of purchasing an investment property when they are still paying off their 'home'. Perhaps you're not too sure what steps to take to put yourself in a suitable financial position to purchase an investment property? Well you're not alone!

We welcome the opportunity to discuss your concerns and assist you to make decisions suitable for your individual circumstances. Feel free to call the office for a chat at any time.

1. ATO Taxation Statistics Report 2011-12

*Disclaimer: This article is generic in nature. All investment decisions should be considered wisely and based on your personal and financial circumstances. Seek proper advice before committing to any course of investment action. This is not deemed as advice.



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