AMP

Property

A guide to buying property

Buying a property is an exciting time. But it can also be daunting as there's so much to think about. After all, it's likely to be one of the biggest purchases you'll make in your life.

So whether you're planning to buy your dream home or invest in a rental property, here are some tips to help you make sense of what's out there and go after your goal with confidence.

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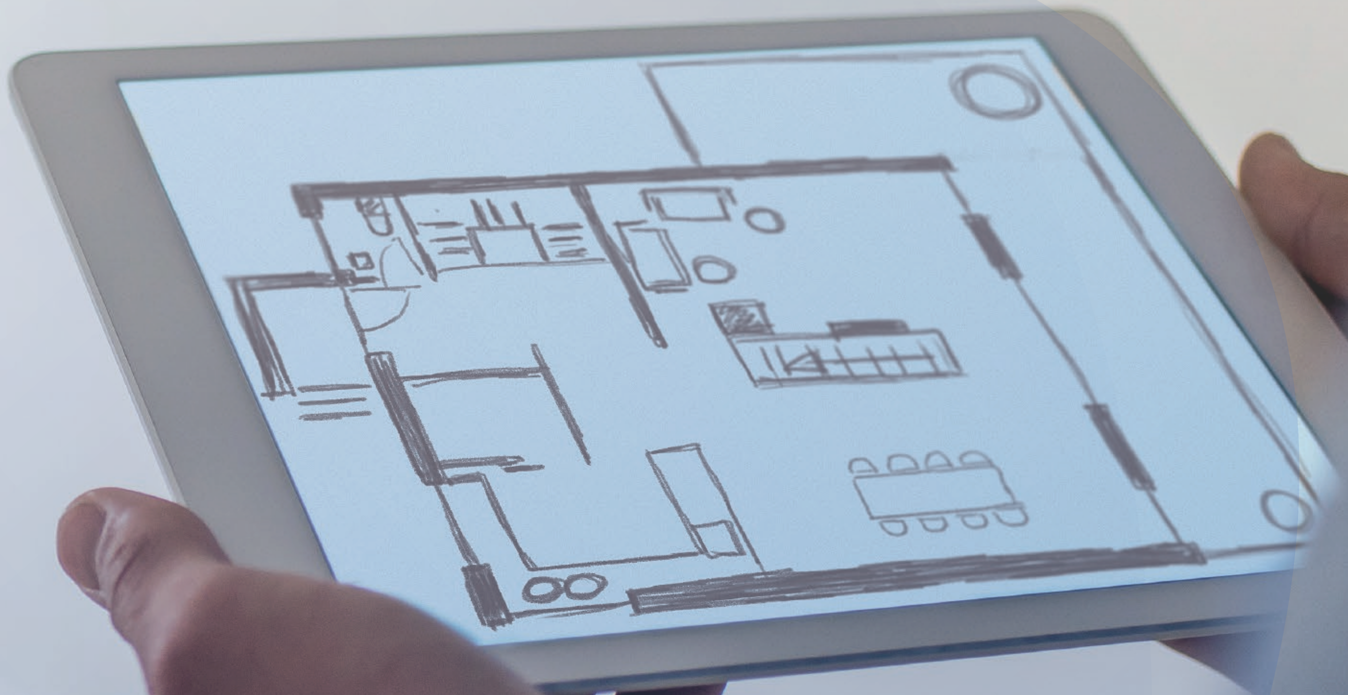
Rent, buy or invest?

Weigh up the pros and cons of property ownership

Property has long been among the most sought-after asset in Australia, and for good reasons.

- It can be a stable place you and your family live in and renovate to suit your needs.
- It's tangible – you can see it and feel it.
- It can provide tax benefits, depending on your circumstances.
- It has the potential for both capital growth over the long-term and regular income.

Investing in property can be a powerful way to build wealth, so it pays to do your research. Like any investment, you need to be aware of the risks. There are no guarantees and house prices can fall as well as rise.



Renting versus buying versus investing

For many of us, owning our own home is one of life's most important milestones. And paying off a home loan can be a good way to save and build wealth. But the cost of buying property has led some people to consider whether they'd be better off renting instead of buying.

When you consider renting versus buying from purely a financial point of view, it's a matter of where your money will get more return. Paying rent long-term could suit if you use surplus money to invest elsewhere, such as shares or through boosting your superannuation.

But if you rent long-term and don't invest, then you could be simply helping the landlord pay off their loan and not building an asset for your future.

Having said that, it's not just about the returns. There's also your lifestyle to think about. Renting could potentially allow you to live in a more desirable neighbourhood and retain more disposable income if that's a priority for you.

Another strategy could involve buying your first property as an investment and renting it out to help you build wealth. It means you could buy a cheaper place than one you'd like to live in, and it could take the emotion out of the decision. You could use the rent from your investment property to pay off your investment loan. There could also be tax advantages if the property is negatively geared and you have other income. But as a landlord you have responsibilities and you'll need some savings put aside as a buffer in case the property is untenanted for a period of time.

Whether you choose to rent, buy or invest, weigh up the pros and cons before you get started. And then take the time to do your homework on how much you'll need to budget for.

When it comes to investment properties, there are...

Three key potential benefits:

- Increase in value over time
- Income from rent
- Potential tax advantages if negatively geared

Risks to watch out for:

- Property values can decline
- Significant entry and exit costs
- Loan repayments can vary over time
- Process to buy, sell or rent out property can take time
- Changes to laws that could affect your investment's tax effectiveness

Plan ahead for the costs

On top of the hefty purchase price of the property itself, there can be significant entry costs to investing in property, including stamp duty and legal fees. You also need to make sure you can cover your loan repayments without adversely affecting your lifestyle.

And aside from saving up for a healthy deposit, there are a number of other costs you'll need to plan for before buying a property. Here's a breakdown of some of them.

Upfront costs

- **Purchase price**
  What you pay to buy a property.
- **Stamp duty**
  A government tax on property purchases. Use this **stamp duty calculator** to estimate the amount you'll need to pay, as the cost depends on the purchase price and the state the property is located in.
- **Legal and conveyancing fees**
  For transferring ownership of the property to you. These will vary depending on the property you buy and the conveyancer or solicitor you use.
- **Loan application fees**
  These vary by lender, so be sure to find out before applying for a loan.
- **Mortgage insurance**
  Depending on the type of loan you take out and the size of your deposit, you may need to pay for mortgage insurance. This insurance protects the lender (not you) if you default on the loan and the proceeds from the sale of the property don't cover the amount you owe to the lender.
- **Building, pest and strata inspection reports**
  The cost for these reports can add up, but will give you the peace of mind of knowing what you're buying.
- **Moving costs**
  If you're moving into a property to live in.

Ongoing costs

- **Interest charges**
  Payable on any money you owe. For example, money you borrow to purchase the property.
- **Loan repayments**
  Depending on your loan type, you need to pay back the principal amount borrowed plus interest charges.
- **Strata levies**
  For apartments and other commonly-managed properties.
- **Council rates**
  Each local council collects rates from property owners to pay for services and infrastructure they provide.
- **Utility costs**
  For example, water, gas and electricity charges (if you also live in the property).
- **Insurance**
  Building and contents insurance can protect you from unexpected costs due to damage, accidents or theft. If you have an investment property, landlord insurance can cover you for damage to the property by tenants, and in some cases, loss of rent.
- **Property maintenance**
  For example, the costs of maintaining your property and garden.

Tip

You may not be able to find a tenant for your investment property right away. So it's important you have savings to cover loan repayments during that time.

Your own home vs an investment property

Tax alert

When you sell a property, there are different tax implications depending on whether you've been living there versus if it's an investment property. Capital gains tax (CGT) is generally not payable when you sell the home you live in.

For investment properties however, you'll likely be liable to pay CGT. In both cases, if you use a real estate agent to sell your property, you'll also need to pay agent fees. Seek personal tax advice before selling a property.

Find out how much you can borrow

It's important to set a realistic budget when deciding how much to borrow, and not take on more debt than you can afford. Knowing the amount you're comfortable borrowing will help you to set the price range for the properties to inspect.

Typically you'll need a minimum deposit between 10–20% of the purchase price, as well as enough cash to cover the other upfront costs. Although keep in mind that some lenders may require a larger deposit or offer lower rates when the deposit is larger. If your deposit is below 20% of the purchase price, you may need to take out lender's mortgage insurance, which will be an additional upfront cost. If you have family who can help financially in any way, it's a good idea to discuss this early on so you know how much money you have to play with.

Click here to use the **borrowing power calculator** to find out how much you can borrow.

If you're opting for a variable rate loan, it's also important to consider how changing interest rates could impact your ability to repay the loan.

Click here to use our **repayment calculator** to get an idea of your minimum loan repayments.

Start your search

There's lots to consider when you start your property search—from whether you're looking for your own home or an investment property, an apartment or a house, a place close to transport and amenities or a quieter place further away from the action. Doing your research first will help you get clear on your options.

What to look for

Research the area where you'd like to buy. It's worth investigating:

- Recent sales in the area and the neighbourhood to give you a read on what you can expect to pay.
- If there are any planned developments nearby. Check with the local council to find out what they are and how they might affect the future value of your property.

If you're looking for an investment property, your goal could be quite different from buying a home to live in. Your priority is likely to be to make money via rent and potential capital growth. It's a good idea to decide whether you're focused more on a short-term steady income or longer-term growth.

So you might consider:

- Current rental yields in the area to see what you can realistically expect from your property.
- The vacancy rates in the area to find out if there are a number of properties struggling to find tenants.

Also remember, the things that might be important when looking to buy a home (like proximity to a school) might not be as important when buying an investment property.

Once you've found a property you like...

- **Visit the property at different times**
  Your 10am inspection on a Saturday may mean you miss seeing the huge amount of school traffic during the week.
- **Check for mould, cracks, sagging ceilings, rusty roofs and gutters**
  There may be signs of structural problems that will be obvious even to the untrained eye.
- **Get building, strata and pest inspection reports**
  While they'll add to your upfront costs, these reports can reveal issues that may not be obvious when you inspect the property and can potentially save you money down the track.
- **Get legal advice**
  Always have an expert (a solicitor or conveyancer) check over the contract and other legal issues.
- **Check the parking situation**
  See if there's off-street parking and proximity to public transport.
- **Explore the local amenities**
  Areas with good schools, shops, as well as access to public transport will appeal to owner-occupiers and tenants alike.
- **Renovations**
  Determine whether you'll need to renovate and if you have the extra funds to do so.

Buying off the plan

Buying 'off the plan' simply means purchasing a property that hasn't been built yet. Typically, you'll only need to pay a deposit upfront before the property construction is complete. While you won't be able to move in or rent it out for some time, it will allow you extra time to save before your purchase is settled.

Another potential advantage is that you'll lock in today's price for the property, even though you may not finalise the settlement for a while, potentially a year or two down the track. By the time construction is finished, the property may be worth more. This can be advantageous in a market with rising property prices.

But buying off the plan is not without risks. For example, the property market can fluctuate, and if prices fall during the construction period, you may find you've overpaid relative to prices at the time of the property settlement. This can pose problems when you need to get a loan to purchase the property, as the lender may not provide the full amount you need to borrow. In this scenario, if you can't find a way to make up the difference, you risk losing your deposit and may be unable to purchase the property.

Another risk is if the developer goes bankrupt, you may lose your deposit as you'll be lining up with other creditors trying to get money back. You should research the developer for the project and check their track record to make sure they're reputable. Construction delays are also a risk, as well as the possibility that the result isn't what you anticipated. To manage these and other risks, get professional legal advice to make sure the sales contract includes terms that can protect you, but be mindful that not all risks can be mitigated via the sales contract.

Decide on your loan

Most home buyers will need a loan to buy a property and home loans can vary a lot when it comes to interest rates, fees and features. You'll need to decide on the type of loan that suits your circumstances and goals. Here we break down some of the options.

Variable rate home loan

If your loan has a variable interest rate, the repayment amounts will change when the lender adjusts its rate—for example, when economic conditions change.

If the variable interest rate falls, your repayments will also fall so you can pay less, or you have the option to continue paying the same amount and pay more off the principal. The downside is that if your variable rate goes up, so will your minimum repayment amount.

Variable rate loans are typically more flexible than fixed rate loans, as they aren't subject to certain restrictions and fees. For example, lenders typically charge additional fees if fixed loans are repaid early, if the borrower wants to make extra repayments or if the borrower wants to switch to a different lender.

Fixed rate home loan

A fixed rate loan gives you the certainty of knowing what your regular repayments will be—they will stay the same for a fixed period, regardless of changes in the economy. You can generally fix the interest rate for between one and five years.[1]

At the end of the fixed term you can usually arrange for another fixed-term or move to a variable rate. Fixed rate loans are generally less flexible than variable rate loans so if you want to change lenders or pay off your home loan faster during the fixed-term you may be charged break costs, which can be considerable.

Split home loans

If you like the certainty of a fixed interest rate but also want some flexibility, you can generally have both options in one home loan (eg 50% of loan balance on a fixed rate and 50% on a variable rate). A split home loan lets you choose how much you repay at variable and fixed rates. You can pay off part of your loan sooner and have some protection against rate increases at the same time.

Interest-only home loans

With an interest-only loan, your repayments cover only the interest charged on the loan without reducing the principal. That means your initial loan amount is not being reduced, regardless of how many repayments you make. It's a riskier approach compared to loans that repay both principal and interest, as you're solely reliant on the value of the property increasing in order to build more equity in the property.

Interest-only loans can appeal to property investors, as they may be able to increase their tax deductions, which reduces their overall tax payable. But if the value of the property doesn't increase, or decreases, you risk losing equity in your property, despite making regular repayments. If you have a particular repayment amount in mind for your property, use this **calculator** to see how much you'll pay with an interest only loan.

1 ASIC MoneySmart glossary – **Fixed rate home loan**

The interest rate versus the comparison rate

When you see a home loan advertised, you'll notice two rates displayed—the interest rate and the comparison rate.

The comparison rate is the annual interest rate that incorporates most upfront and ongoing fees for that same home loan. Some home loans with lower interest rates could have large upfront or ongoing fees, so while they appear cheaper, they aren't that cheap when you look at the comparison rate. The comparison rate can therefore help you compare loans more accurately.

If you're looking for a better deal, remember to shop around and don't be afraid to ask your lender if they can do better than the rate they're currently advertising.

What's an offset account?

An offset account is an account linked to your home loan that operates like a transaction or savings account – it's usually only available on variable rate loans. The money you have in this account 'offsets' the amount you owe on the linked loan, and you'll only be charged the interest on the difference.

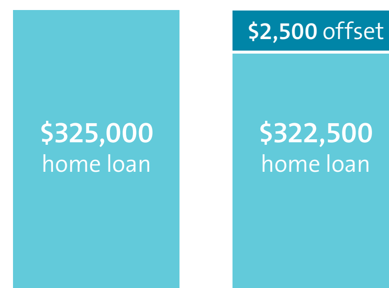
That means the lender charges you less interest, because you're only charged interest on the difference between the total loan balance and the amount in the offset account.

Having an offset account may help you to pay off your home loan faster, ahead of its term and save thousands of dollars over the life of the loan, simply by depositing all your regular income and earnings into your offset account.

See how much interest you could save by using an offset account linked to your home loan by using our **offset calculator**.

Offset account case study

Ying borrowed $325,000 from her lender with an ongoing interest rate of 5.20% pa over 30 years to buy her first home. She opted for a loan package with an offset deposit account, because she wanted to find a way to save money over the life of her loan. She deposited $2,500 into her offset deposit account, which means she only pays interest on the balance of $322,500. In doing so, Ying shaved 5 months off the term of her loan and could save $9,213.90 in interest payments if her repayment amount and the interest rate remains unchanged over the term of the loan.



This example is illustrative only and is not an estimate of any investment returns you could receive or the fees and costs you will incur.

Other features offering flexibility

There are other ways you can access a more flexible loan and, in some cases, pay off your loan faster.

- **Redraw facility**
  For some loans you can make extra repayments, and then later should you need to access the money, you may be able to redraw it.
- **Interest only repayments**
  While principal and interest repayment amounts include a portion of principal (the amount borrowed) and interest charged, with interest-only loans you pay just the interest for a set amount of time.
- **Extra repayments**
  Most variable rate loans allow any amount of extra repayments at any time, whereas fixed rate loans either exclude or limit extra repayments.

Refinancing

Refinancing is when you replace your existing loan with a new loan either from the same bank or another lender. You may increase, decrease or keep the same loan amount. Refinancing can be a savvy way to better manage your cash flow. You may get a better deal on your loan or unlock equity in your home (more on this later).

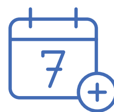
Be mindful of loan break costs when you are refinancing, as these can be hefty. Check the terms and conditions of your loan and speak to your lender to find out how much you'll be up for. You'll also need to factor in the fees associated with setting up your new loan. If you are refinancing to take advantage of a lower interest rate, make sure any savings outweigh the fees and other costs.

Questions to ask your lender or mortgage broker

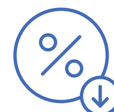
- What interest rate applies to my loan?
- What are the fees?
- What's the minimum amount I need to repay every month?
- Can I make extra repayments to pay off my home loan faster?
- Can I change the frequency of my repayments?
- What am I repaying—just the interest or the principal plus interest?
- What extra features does my home loan offer? Can I redraw the extra funds I've already repaid if I need cash?

Tips to pay off your loan faster:

Increase your repayment amounts



Make more frequent repayments



Shop around for a lower interest rate and lower fees

See how much time and money you could save by paying more off your loan with the **extra repayments calculator**.

Find out if you're eligible for assistance

If you're a first home buyer, you might be eligible for government assistance when purchasing your property.

First Home Owner Grant

Introduced to offset the effect of GST on home ownership, this offers a one-off payment that can be used towards a deposit to first home buyers who meet the criteria. Select your state to see if you're eligible.

Stamp duty concessions (also known as transfer duty)

Some state and territory governments offer extra incentives to first home buyers, such as stamp duty concessions, so research what's on offer in the area where you're buying. Select your state to find out more.

First Home Super Saver Scheme

Allows first home buyers to save for a home deposit within their super fund. Eligible buyers can apply to release voluntary super contributions (up to $30,000 for individuals or $60,000 for couples), as well as associated earnings, that they've made from 1 July 2017 to help buy or build their first home.
Find out more here.

First home buyer checklist

- Save for your deposit
- Find out how much you can borrow, either by using a calculator or discussing with your lender
- Calculate your repayments
- Work out your upfront and ongoing costs
- Check if you can access any government assistance
- Finalise your budget
- Find a loan with features that suit your circumstances
- Research the market
- Inspect properties that fit your criteria and budget
- Seek professional advice

Investing in property

Using equity in your home to build wealth

If you already own a property, you may want to use the equity to finance your next investment.

Your property's equity is calculated at its market value minus what you owe on your existing home loan. So if your home is worth $1,000,000 and your loan balance is $600,000, you have $400,000 in equity. To work out your market value, you'll need to get a valuation.

Equity = property value - loan balance

You can tap into the equity in your existing home in a number of ways:

- **Taking out a line of credit**
  This is a separate loan that provides you with a line of credit based on the equity in your property. You pay interest on the amount you've drawn or borrowed. In some cases, you can combine this with an offset account to reduce the interest on your loan.
- **Funding a deposit for your next purchase**
  If you have enough equity in one property, you can use it to fund a deposit for another investment loan, instead of paying cash. Depending on how your loan is structured, it may mean your existing property will be used as collateral for the new investment loan, which comes with additional risk. This strategy may mean you can purchase your next property faster than if you had to save for another deposit.
- **Refinancing**
  Once your home has been revalued, a lender may allow you to refinance your existing home loan based on its new value, allowing you to withdraw additional cash based on the equity. Typically, you'll be able to borrow up to 80% of the equity. However, it's important to keep affordability in mind. The more you borrow, the bigger your repayments will be.

Growing equity in your home faster

There are a number of ways you can build equity in your home faster.

- **Renovating**
  Making improvements to your home can be an effective way to boost your home's value and your equity. But be wary of overcapitalising by spending more on your renovation than the value it will add to your property.
- **Increasing your home loan repayment**
  If your loan allows, you can increase both the amount and the frequency of your loan repayments. A small amount of belt-tightening can have a big impact over time and help you to build up equity quickly and reduce interest costs.
- **Making lump-sum repayments**
  If you come across a windfall, you could use the money to pay off your home loan more quickly and increase your equity, assuming your loan allows extra repayments.

Remember, the market value of your property can go up or down, so the equity you have in the property can also rise and fall. Be mindful that having equity isn't a guarantee you can borrow against it as other criteria will also be taken into account. And always consider how much debt you take on. The more you borrow, the more risk you will be exposed to.

Consider gearing strategies

Gearing simply means borrowing money when investing. Typically, the interest you pay on an investment loan is tax deductible, which means in some circumstances, property investing can be tax effective.

An investment can either be negatively, neutrally or positively geared, each with different tax implications.

	Negative gearing(i)	Neutral gearing(i)	Positive gearing(i)
What is it?	Interest payments and other investment costs are higher than the income you receive from the investment.	Interest payments and other investment costs are equal to the income you receive from the investment.	Interest payments and other investment costs are lower than the income you receive from the investment.
How can it affect your tax obligations?	You can generally claim a tax deduction for the interest and investment costs and reduce the overall tax you pay on your other income.	You can generally claim a tax deduction for the interest and investment costs against your investment income. While this means you won't pay tax on your investment income, you won't be able to reduce the tax you pay on your other income.	You can generally claim a tax deduction for the interest and investment costs against your investment income. The surplus investment income (above your tax-deductible expenses) will be subject to tax, but you can use the surplus to reduce your loan.

(i) This is our general understanding of how current legislation applies to individual taxpayers. Taxation laws and their interpretation may change from time to time. We recommend you consult your tax adviser for advice on your personal situation and before implementing a gearing strategy.

For negative gearing to be successful, you would be relying on capital growth to provide a sufficient investment return over time. If you decide to use negative gearing for your investment property, make sure you have enough cash flow to fund this strategy, as the investment property will be loss-making. Also factor in the possibility of an increase in loan repayments if interest rates increase.

Property investor checklist

- ✓ Be clear on your financial goals
- ✓ Set a budget
- ✓ Organise your finances
- ✓ Determine your gearing strategy
- ✓ Research the market
- ✓ Inspect properties that fit your criteria and budget
- ✓ Seek professional advice

Other ways to invest in property

Buying a property can be a big commitment in terms of your money and your time.

If you'd prefer to get exposure to the property market on a smaller scale – and you're comfortable with accepting the risks – you could consider other investment vehicles that allow you to buy a portion of a property alongside other investments. For example, you can invest in real estate investment trusts (REITs) via the Australian Securities Exchange (ASX).

Some benefits of investing this way include greater liquidity, diversification across different types of assets and lower transaction costs. You can also get access to a wider variety of property types rather than just residential.

But you'll need to be comfortable with the prices of listed investment vehicles like REITs rising and falling daily. And there may also be tax implications.

Real estate investment trusts

An REIT is a type of property investment trust that pools investor funds, like a managed fund, and invests in a variety of real estate assets on your behalf. It can be listed on the ASX and bought and sold just like shares. REITs can provide you with exposure to the property market that is more diversified than buying a single property. They can also provide access to different types of property, such as CBD office buildings, that would be very difficult to get exposure to on your own.

Invest in home construction

There's big business in building new suburbs or apartment complexes, and with that comes the opportunity to buy shares in the developers. Investing in construction has different risks to investing in non-development REITs or property, so make sure you're across the details first.

We're here to help

Find out how we can help you to reach your goals.

Visit **amp.com.au/homeloans** or speak to your financial adviser.
To get in touch with AMP Bank call **13 30 30**.

What you need to know

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