LESS THAN 1%
DO IT MORE THAN 3 TIMES...

Property investment has long been one of the more successful strategies to achieving financial independence, and yet statistics show only about 20% of Australians do it.

Statistics available from the Australian Taxation Office (ATO) tell us that there are 2,207,905 property investors in Australia. This means about 20% of Australians hold an investment property while 80% don't.

The top investor age groups are:

27.83% are aged 60 or older

31.67% are aged 50 - 59 years

24.65% are aged 40 - 49 years

14.22% are aged 30 - 39 years

with only

1.63% younger than 30

Of the 20% who hold investment properties:

- 71% hold 1
- 19% hold 2
- 6% hold 3
- 2% hold 4
- 1% hold 5

and less than 1% hold 6 or more.

Why has property been a strong contributor to wealth creation in Australia?

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 with 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. Many investors say the second one was easier than the first.

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 your first property for a number of years it is likely it has increased in value - especially in the last ten years of massive growth in Australian property prices.

Rather than saving the deposit, it is a common investment strategy to borrow the deposit by using that equity in your home as security.

So how much equity can you use?

Most lenders will provide funding of up to 80% of the total 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 – your home loan – 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!

Of the 2,207,905 property investors who filed a rental schedule

- 40% were cash flow neutral or cash flow positive
- Roughly 60% were in a net rental loss situation (negatively geared)

Negative gearing

Typically, investment properties that have been 100% funded with an investment loan will result in an income loss in the first few years, 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.

Cash flow positive

This is when the costs of funding your investment property are less than the gross income. The longer you hold the property, the balance of your debt and income changes. It will move from negatively geared, then neutral and eventually positive.

The gearing of a property depends on:

1. Your financial objectives
2. Income and tax bracket
3. Equity or deposit for the investment property
4. Your stage of life (young and have time on your side or approaching retirement)

The purpose of investing is that by the time you are ready to retire, you can either live off the rent or sell the properties to invest in a retirement plan. Of course you will only make these decisions with a qualified adviser and your accountant because there are capital gains tax (CGT) implications, superannuation considerations and the financial planning for your retirement. Make sure you speak to finance professionals before making any decisions about buying and selling investment 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 repaying their 'home' loan. We are here to guide you so you can make an educated decision on what works or does not work for you.

If you are not sure of the steps to take to be in a suitable financial position to purchase an investment property, well you're not alone! That's why 80% aren't doing it.

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