

# Hints to Purchase a New Home as an Investment to Build Wealth

Buy competitive rental property that is close to transport, shops and schools. Thousands of people are currently renting and the number of people renting homes continues to increase. Smart investors buy property that is in high demand within the rental market. This gives the investor more security and a growing source of income.

## **Rental income can be increased by:**

Buying property in areas where the population is increasing and the infrastructure is keeping up. The higher the population is, the higher the demand for rental properties.

Find out the area's rental vacancy rate. 2% or less is ideal

Buy property where the rental will be lower than the market median eg. Where the average weekly rental is \$250 per week try and charge \$240 per week.

Buy houses rather than units. This will open up the market to you as many people particularly do not want to rent a unit.

List your property with a local agent or property manager to rent out for you, don't do it yourself.

## **Use Land to Create Capital Gain**

Buildings can depreciate, whereas land values are constantly increasing. Although a house, meaning bricks and mortar does increase in price - capital growth only comes from land. That is the commodity with limited supply and HIGH demand. When property values are split to show the two prices - the land and the building - the result is very clear. We suggest that the land is 40% of the total price.

The higher the land content, the greater the Capital Gain.

Having said this, people starting out with limited capital can't afford to buy land only and they need a dwelling to generate income (from rental) to offset their loans and debts.

About one third of Australian investors buy units. But the land content of a unit forms less than 15% of the purchase price. To secure significant and sustainable capital growth in property you need at least 35% land content. Houses usually fall into this category, Units don't. Buy houses, not units.

## **Tax Benefits of Purchasing an Investment Property**

Negative Gearing describes how the costs of maintaining and financing an investment property can be offset against the income earned from renting it. If a shortfall results, the amount can be deducted from your personal income.

Various tax deductions can be claimed by the owners of an investment property. The tax deduction that makes the biggest difference for Investors buying rental properties is the ability to claim depreciation of the building, fixtures and fittings. You should get a deprecation schedule.

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Borrowing 90 per cent of the purchase price at eight per cent and receiving rental income can increase your net income. Investor's can even have their employers pay them in advance of that adjustment with a simple tax variation form which can be obtained from the ATO.

## **Now you need Finance to build wealth**

One of the reasons property stacks up so well against shares is the ability to leverage your investment.

Most banks regard residential real estate as prime security, against which some will lend up to 95% of the property's value (shares usually only 70 % with additional assets). So with the same amount of capital, you can get a property asset worth almost two and half times the equivalent value in shares!

## **“Good Debt”**

Many investors are a bit put off at the thought of borrowing money in order to invest. But this type of debt is considered “good debt” due to the tax deductions available to the investor, not to mention the capital growth that properties incur.

Simply set a maximum purchase price you are prepared to pay for a property, which is affordable for you and stick to it.

## **Forward Planning**

We suggest a long-term acquisition plan. Use your capital growth to accumulate a property portfolio and hang on to it, don't sell.

This is the way to ensure responsible investment, managed risk and secure returns.

Shares are a very hard way to get rich quickly as you can not predict what will happen in the share market. Property prices have gone up by 10% PA over the past 40 years (REIV figures).

One of the main ingredients to making money in property investments is to buy and hold, not sell, while the value of your assets grows. If you need to sell, try to refinance instead. Most wealthy people have made their money from property investments. They retain the properties and wait until the value has gone up and then geared against them for the second third and fourth purchase.

**Don't be afraid as its all calculated risks that is involved in buying and holding. Most are fairly safe if you have done your homework.**