



Build a Portfolio with Equity?

YES — Here's How!

James: Good evening, everyone! My name's James. I've been a broker now for five years. Louise brought me on like five years ago now, and we've been going strong ever since. And today I really wanted to present something that I particularly find really fun in broking and that is using equity to help clients like yourselves build a property portfolio. I wanna talk about the actual vision of what you're trying to use a portfolio for and why you're trying to build a property portfolio 'cause there's many different ways to invest and property is one exceptional way to do it. Well, I think so at least. I wanna talk about equity and actually using equity in your property to actually save you from having to front the cash for a lot of things.

So, first and foremost, everyone. I just wanna make a quick disclaimer that this is all general information. If you are looking for a more thorough conversation about your, in particular, lending requirements or needs, feel free to book a meeting with myself or Louise and we're more than happy to have a chat and discuss.

So, why property? Why does it work, and why should we invest in property? Well, property, for the most part, is a very tangible asset. It is a stable and usually, for the most part, it is an appreciating asset. The best thing about investing with property is that you can use your equity in your current home to purchase a new investment property without actually having to front a lot of the cash yourself. So all of you, maybe way back when or more recently when you purchased your first property, you had to save, you had to beg, or borrow, to get that initial deposit. And over time, as that property has grown, you can now actually use what you've built in your home to purchase something more. This allows you obviously, to leverage large assets with a smaller deposit overall. So, holding for property for a longer time, typically results in good capital growth. It means essentially, you're gaining more money over time in the long and short of it. However, keep in mind the length of time you do need to hold property to really see some large capital growth can be varied determined of the area that you purchased in, and I wanna talk about that briefly today. But usually what you want to see is, you're not really holding a property for two years to get a large amount of growth. You're looking at 5, 10, 15 years down the line as an investment.

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Rental income does help cover the cost of the loan and the holding costs. Keep in mind, if you are looking to invest for the first time, there are multiple costs besides the mortgage that you have to consider. But negative gearing may also help reduce your taxable income and the cost that exceeds rent. And yes, that's a great question to have for your accountants.

Obviously, the goal overall when it comes to having multiple properties is for that passive income and possibly at the end of the day, financial freedom. We've had many clients with four, five, some even six investment properties, and the freedom that they get with having such a large portfolio and eventually paying it all down the loans is that they've got the opportunity now with either their young or growing families to do much more in life, and it's great to see them either doing that extra holiday trip or having that bit of extra time with family at home and they're able to downsize their jobs and their work commitments, which is a lot of the time, time is the biggest factor that we're doing this all for.

So, equity, a lot of people know about equity, but I want to go over in detail in case you're very new to the investment scene. When you purchase your first home, say for example, you purchase it for \$500,000. Over time, your property typically will increase in value while you pay down your loan. The difference between your value of your home and the loan that you have is actually the equity we can get access to. You don't need to sell your house to access this equity. A lot of you have done an investment either with myself or Louise, or maybe a different broker or your bank, and we can access that without needing to sell your home, I should say.

So as a broker, what we can do is we can help structure your loan by refinancing you and releasing equity to draw on for investments. It can all be all sorts of investments, like I said, but particularly in this case, we're gonna look at property. A good example of that is if your home is worth now about \$900,000 and you have a loan about \$500,000. We can access equity around 240K, which is based on an 80% loan to value ratio, that is particular in case that is very important factor to know, we can only draw up to 80% of the value of the property lender specific and all sorts of other variables in place. But 80% of the value of the property is typically what we can access.

Louise: No, we can go higher, but you will have to pay Lender's Mortgage Insurance (LMI).

James: Thank you Louise. And this can typically cover stamp duty and even some other costs with a \$600,000 purchase for an investment purchase. A good way to start off is initially getting your pre-approval sorted. So approaching a broker or one of us in particular, we can help you actually get a pre-approval in order, get that deposit out there and get you organized to purchase a new investment. So you've got some confidence when you do approach a lot of vendors.

Louise: James, I just wanna interrupt one thing. With that deposit, it's better to get your deposit out first because people often say, "Well, why do I need that? The bank will just give me a pre-approval".

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Because when you actually purchase, you need to pay your 5 or 10% when you actually buy, not when you settle. And people often are confused by that. They go, oh, well, my bank just said I just need a pre-approval. But you don't, you actually do need part of a deposit available, and the preference is you don't use your cash. You use the loan because that makes it cleaner as a more tax deductible entity for that. So just saying, there you go.

James: Exactly right, everyone. And yeah, like I touched on briefly getting that little bit of equity out for that deposit and those purchases. And I'm gonna touch on again in a case study in a moment. We are gonna talk about interest only loans. They're great to help reduce repayments and improve your cash flow in the early years of the loan as well. I want to discuss them as well.

Principal interest loans though may suit you long term with a focus on actually reducing your debt over the initial years as well.

Having offset accounts, in this particular case I wanna talk about, which is key. Having an offset account initially when you get your equity released as you're not using those funds, initially it needs to sit somewhere. We can put it in a lot of different accounts, but having an offset account against the loan, you know exactly where the money's for, what it's from, and you have it at your fingertips ready. So when you do need to pay that deposit, you can access it straight away.

Fixed and variable rates. Obviously there's a lot of talk about rates dropping at the moment, and if you do have questions at the end, I'm more than happy to talk about rates. At the moment, fixed rates are particularly the most favorable in the market, but we are seeing a lot of competition in variable rates and where we're seeing a lot of clients wanting to move towards.

So what I wanna talk about more importantly is when it comes to getting an investment property, a lot of people go, *do I get the principal and interest mortgage or should I go interest only?* And there are definitely pros and cons to both. Pros is you do see in the between, up the top here, there is a lower rate when it comes to a principal and interest rate, typically we're seeing around the 5.85% in the market at the moment. Some are a little lower, some are a little higher, depending on the lender. In comparison to the interest only rate sitting around 6.04%, again, some lower, some higher depending on the lender.

It helps you build equity, a principal interest rate because you are now paying off that loan rather than having it sit as a stagnant loan without paying down the principal that you would in interest-only loan. It is stronger for serviceability. They are more favorable depending on your scenario. And they're usually easier to refinance, but they do have higher monthly repayments to keep in mind, less negative gearing benefits because you are slowly paying down and slower to save for your next deposit. On the flip side of that, as far as an interest-only loan goes, there is lower monthly payments, so improved cash flow. So if you're thinking about cashflow, in fact, I had a call today about this question. The client was seeking to look at seeing a interest only loan versus his current principal and interest loan on one of his investments.

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And we're gonna have that discussion later to improve his cashflow momentarily, 'cause he's got a new kid on the way and he wants to see if he can. He's nervous because first child. It does help a lot. When there is a hundred percent of repayment is tax deductible for negative gearing, particularly if your accountant has looked into certain strategies that may benefit you as far as your negative gearing, again, great question to have for your accountant. Free up some cash for renovations or other purchases, and like I said, the flexibility to switch to principal and interest later. We can do that for you like a drop of a finger.

Keep in mind though, like I said, there are higher rates. You don't get that equity build off from paying off the loan. There can be some payment shock when it reverts to P and I when that repayment does increase even though the rate does reduce and can lower your borrowing capacity a bit long term and we can discuss a little bit more personally if you'd like to discuss.

Keep in mind though, I know I've just said two different rates, but to give you an indication, and I wrote these figures down, for a principal and interest loan for around \$500,000, the repayment looks to be about \$2,947 versus an interest-only loan, which is \$2,500. So it's a \$400 difference a month in repayment. So you gotta keep in mind there is a difference, and that can be quite substantial depending on your cashflow position at the time.

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