MCP PROPERTY GUIDE

YOUR GUIDE TO DEALING IN AND TRANSACTING PROPERTY
IN SOUTH AUSTRALIA - EDITION 5

MCP FINANCIAL SERVICES

CONTENTS

1 OVERVIEW

PREFACE

Property touches most of us at some level.

Whether you are: looking to purchase your first one, upgrading, downsizing or an experienced developer, property generates a lot of conversation and interest.

There are many components to the property journey. These include the search, choices and comparisons, financing, protection and general dealings of property.

Edition five of our guide follows a journey through many of the things you may need to consider and perhaps talk to your family about too. In this last year, there has been changing valuations, rising interest rates and economic uncertainty.

In this guide, we cover property finance fundamentals and perhaps topics you had not considered (or were too embarrassed to ask).

When considering property transactions, always remember to get sound advice from appropriately qualified people.

Whatever your journey in property, we wish you every success.

DISCLAIMER

The information provided in this document is not definitive and should be used as a guide only. No liability is accepted for any loss or damage occasioned by any reliance on any aspect of this Guide by the reader, and specific advice should be obtained in relation to the reader's specific circumstances. All laws, duties and costs are relevant to the time of print.

Where there is a reference to specific examples involving calculations, any law being referred to is that of Victoria, and may differ in other States and Territories.

2 FINANCE

2.1 THE FINANCE BROKER/BANKER

An appointment with a broker, bank or financial adviser will be one of your first steps in property acquisiton.

A good credit assistance provider should:

- Help clarify your goals and objectives; and
- Help verify your initial cash flow position, including your income and expenses.

They would also provide a preliminary assessment on:

- Your capacity to service new borrowings and the resultant loan repayments;
- Your borrowing capacity based on your deposit or equity in other property; and
- Provide an indicative overview of lending structure that may suit your circumstances.

Your adviser is likely to undertake an initial summary which would include reference to having good character (supported by your previous credit history) and demonstrate capacity of both income and capital by way of a deposit and purchase costs.

2.2 FINANCE STRUCTURE

The structure of the lending facilities, above all, is the most important consideration in establishing a mortgage.

There are options to have packaged loans, loans with offset accounts, loans with free redraw and a range of other features.

In all instances, start by identifying the optimal structure first, and then examine the financier and pricing arrangement that best supports you.

The structure adopted should be the one that allows you to best achieve your realistic goals that you may have in respect to debt reduction, also considering likely changes in the future. For example, the interest rate is important, though how the loan is operated will make a significant impact over the loan term.

Many examples of structures for mortgages are available from a good adviser.

The new Best Interests Duty legislation also provides specific governance around credit advice and stipulates a like for like comparison of products which is a good thing.

As a general comment, people often focus on immaterial aspects when conducting a mortgage. Additional repayments are the key, especially when there is a greater opportunity cost to doing this as opposed to other uses of cash flow.

2.3 TOOLS & RESOURCES

To help you assess, review and manage all aspects of obtaining finance and managing your finances, there are a range of financial tools and calculators available.

These tools should assist with determining a range of scenarios including:

- Borrowing capacity based on income;
- Borrowing capacity based on deposit;
- Comparing loans by using a comparison interest rate;
- Cost/benefit analysis of refinancing;
- Acquisition costs for purchasing property; and
- Loan repayment scenarios.

With innovation like open banking and data scraping, you can also analyse your historical income and expenses in a more holistic way.

2.4 DOCUMENTATION REQUIREMENTS

You will need documentation that is not just relevant to your loan assessment and application, but also to build a full understanding of your financial situation. Banks and brokers have a legal responsibility to understand and verify your financial situation, so the level of data is now more onerous.

If any of the applicants are self-employed, the income verification requirements are more substantial than a PAYG employee and will generally include a two-year history of financial statements and tax returns for all trading entities held. This historical focus is now combined with an updated verification of your situation, which may include bank statements or Business Activity Statements.

Your bank or adviser has the responsibility to review this documentation to ensure that any advice is appropriate for your circumstances.

2.5 THE FINANCE PROCESS

The key milestones in the mortgage process include:

- Confirmation that all information is received;
- Conditional loan approval;
- Independent valuation of property used as security;
- Unconditional loan approval;
- Preparation and issue of mortgage documentation; and
- Co-ordination of settlement.

This process varies between funding institutions. You should seek advice when you have specific time frames that need to be achieved.

It may be helpful to maintain an overview such as this, to support you through the finance part of the property purchase or refinance process.

2.6 TYPES OF PROPERTY MORTGAGES

I) RESIDENTIAL PROPERTY

Basic Variable Rate Products

Typically, this low featured mortgage product may have limitations on the number of repayment options, limited redraw, provide no offset capability and may not facilitate direct credit of salaries into the loan account.

The benefit of this type of product is that they usually offer the lowest available interest rates.

Featured Variable Rate Products

These variable rate products will usually have a range of features, including a 100% offset facility and no restrictions on how the loan can be transacted. There may be a premium interest rate that will apply in comparison to the basic variable rate product, though this premium has diminished in recent times.

Fixed Rate Products

Financiers offer products where the interest rate charged on the loan is fixed for a period between one and ten years. There are typically several restrictions that apply to the transacting of these loan types. At the expiration of this term, the loan can be rolled over into another fixed term or it will otherwise default to a featured variable rate loan.

This product should be entered into with caution and consideration for specific circumstances.

Offset Account Products

You can combine a home loan account with a transaction account. Typically, they allow the direct payment of a salary into either the actual loan account or a linked savings account. The effect being that all proceeds are "offset" against the principal balance of the loan.

A potential benefit is to reduce the amount of interest charged on the loan on a daily basis.

Promotion of the benefits of offset accounts are shown in the example below.

When considering the use of offset accounts, it is important to note that these facilities work best where the loan amount is smaller and the customer's regular income is higher. This way, the amount in offset represents a higher percentage of the total loan amount. At other times, offset accounts can be a more tax effective vehicle in the future.

In our experience, customers can often overstate the significance of these facilities; however, in recent times they have become a more standard loan feature that don't command an interest rate premium. Get advice!

Offset Account		Home Loan		Interest charged on
$30,000		$300,000		$270,000
Money you have in a linked 100% offset	➡	The money will be offset against your loan	➡	Interest is only charged on the net balance

RESULT: A saving of: $28,747 — Term cut by: 3 years 6 months

II) COMMERCIAL PROPERTY

Overdraft Facility

A more short-term type facility that meets changing business working capital requirements. It is a flexible and expensive facility type with no set term or debt repayment arrangements, and as a result, overdrafts are generally not a suitable facility to use for purchasing property.

Term Loans/Fully Drawn Advance

Typically, a longer-term facility for capital expenditure or project development but can also be part of a balanced working capital strategy. The loan servicing structure can be either interest only or principal and interest with a fixed or variable interest rate.

Commercial Bill Facility

Typically, this is a short-term facility for large borrowing amounts. These facilities are linked to the market cash rates and the borrower's commitment is to pay the face value of the bill at the end of the term. It is common for the facility to be renewed for a number of years at the lender's discretion.

They are typically based on a variable (market) interest rate but can be arranged at fixed or capped interest rates.

Commercial Property – Financing Considerations

The nature of financing available for commercial property generally has a different profile to residential property to reflect the perception of risk. Some material differences include:

- Higher interest rates
- Lower loan to value ratios (Say 65-75% of valuation)
- Less flexibility and loan features (no redraw or offset accounts)
- Shorter maximum loan terms (generally up to 15 -20 Years)
- Loan subject to ongoing review
- More limited scope for interest only terms

2.7 MORTGAGE MINIMISATION STRATEGIES

There are several books and articles that discuss methods to pay off a mortgage sooner.

Some proven techniques that can each help to varying degrees, include:

- Making fortnightly or weekly loan repayments, as opposed to monthly loan repayments.
- Use of an offset account facility as outlined above.
- Create a separate loan split and establish a goal for paying it off within a certain period.
- Obtain a principal & interest loan for a shorter loan term than the standard 30 years, forcing a routine of additional repayments.

While all of the strategies recommended are perfectly valid, the key is finding the methods that work for you and your specific circumstances.

2.8 INTEREST RATE STRATEGY

Good advice should include the scenario of looking at your financial position if interest rates move up or down.

While every circumstance must be looked at in isolation, as a general rule, fixed rates provide much less flexibility (in terms of extra repayment capacity and break costs. History also shows that while there are times that represent good value, statistics evidence that most people get the timing of these decisions wrong.

Currently, rates are falling. One useful guide is to look at a "Rolling Average" of interest rate e.g. a fifteen-year period to see where interest rates sit against their recent trends.

A summary of rates extracted from our rates matrix database, is provided below and can be a useful guide.

In this example, fixed interest rates sit around their rolling average.

Significantly, most borrowers get their timing wrong when choosing fixed rates, specifically if they choose to lock in rates well after they have already increased or at the end of a tightening cycle.

Again, the most important factor remains your individual circumstances and the longer-term plan for property holdings.

INDEX	2009	2025	ROLLING AVG#
Official Cash Rate	4.00%	3.85%	4.13%
90 Day Bill Rate	4.18%	3.80%	4.26%
Average Variable Mortgage	6.05%	5.65%	5.78%
Average 3 Year Fixed Mortgage	7.70%	5.39%	6.12%

2.9 COMPARING MORTGAGE PRODUCTS

The interest rates and fees should only be one determinant in selecting a mortgage.

It is more important you adopt a structure that will ensure that your goals are achieved. Too many people, in our experience, focus on the price of a mortgage rather than how they will plan to operate it.

Price is of course still a vital consideration, and borrowers should consider all costs when assessing different types of borrowing products. A useful process here is to calculate a "Comparison Rate" that calculates both the interest rate and fees and charges relating to a loan, expressed as a single percentage figure.

However, be wary of relying on standard comparison interest rates quoted in financial literature. These are based on a set loan amount and circumstances that may not relate to your circumstances.

A tool such as the one below can achieve this.

A comparison interest rate calculator provides a useful guide to financial costs. As a key guide, for larger borrowings, interest rates are more critical. For smaller amounts, fees become more material.

In the example below, the loan product with the lower headline interest rate is not the most cost effective over the total loan term.

Comparison Rate Calculator

Prepared For: Ms A Example

Loan Option 1:	XYZ Bank	Loan Option 2	ABC Bank
Loan Particulars		**Loan Particulars**	
Principal Amount ($)	$250,000	Principal Amount ($)	$250,000
Total Loan Term (Years)	20	Total Loan Term (Years)	20
Interest Rate (% p.a.)	2.65%	Interest Rate (% p.a.)	2.60%
Establishment Costs		**Establishment Costs**	
Application Fee	$500	Application Fee	$0
Legal Fee	$150	Legal Fee	$0
Valuation Fee	$0	Valuation Fee	$0
Ongoing Costs		**Ongoing Costs**	
Annual Fee	$0	Annual Fee	$395
Monthly Fee	$0	Monthly Fee	$0
Total Fees over Term	$650	Total Fees over Term	$7,900
Total Repayments & Fees	$322,994	Total Loan Repayments	$328,910
Interest & Fees Paid	$72,994	Interest & Fees Paid	$78,910
Comparison Rate	2.68%	Comparison Rate	2.86%

2.10 INVESTMENT PURPOSE MORTGAGES

In recent years, there have been a range of regulatory changes with the view of making financial institutions more accountable around lending for investment purposes.

In many respects, this is a return to some years ago where there was an interest rate premium for lending to purchase investment property.

These changes aim to discern between personal and owner-occupied property purpose and investment. In essence, the impacts of these changes are:

- A premium interest rate charged for investment purpose mortgages;
- More stringent loan qualification criteria being applied; and
- Lower Loan to Value Ratios being made available.

The impact of these changes has also seen several mortgage customers look to "reclassify" their loans from investment to personal purposes (owner occupied status).

This change is part of a broader regulatory process that is looking to drive responsible lending practices. During 2017, regulators mandated that the banking industry take tangible steps to control the growth of investment purpose lending. This now imposes limits on the portfolio of financiers (e.g. growth to a maximum of 10%).

While some of these changes have been relaxed it remains important that you adopt a structure that will ensure that your goals are achieved.

INTEREST RATE VARIANCES

OWNER OCCUPIED P&I	**OWNER OCCUPIED IO**	INVESTMENT P&I	**INVESTMENT IO**
Lowest	High	High	Highest

2.11 INTEREST ONLY v PRINCIPAL & INTEREST REPAYMENTS

In addition to the investment purpose focus, an even larger area of attention for regulators has been the access to interest only loan repayments.

There are now comprehensive guidelines and credit justification required if you want an interest only basis of repayment into the future.

With this regulatory pressure, we have seen interest rates on Principal & Interest lending fall (both for investment, business and personal purposes) and interest only rates increase.

For many it will mean greater cash outflow, as the loan will "amortise" from the outset.

Though it is not all bad news, interest rates on P&I repayments will become increasingly lower than interest only loans.

Consider the below example on a $1,000,000 mortgage over 30 years with different interest rates and repayment types.

At 6.25% Interest Only (IO), repayments are less than at 6.25% Principal & Interest (P&I).

Therefore P&I is a substantial increase to cash outflow, but it does build some equity in this asset by contributing to the principal loan amount.

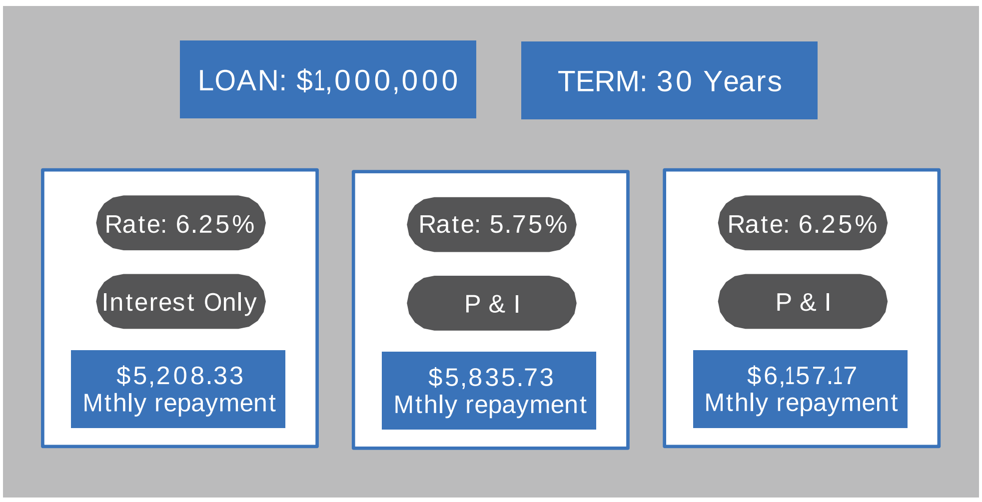
Now consider the benefits of a reduced P&I rate of 5.75% at Option 2. The monthly repayment is only a few hundred dollars more than the IO Option 3.

For business or investors, those in the position to choose between Interest Only and P&I must consider their opportunity cost. This is especially relevant in a low interest cost environment.

So, in this example, is it better to invest the additional repayment amount towards the debt, or can you get a better return by conserving this cash flow and putting it to work elsewhere?

Seek advice of course but also consider why and if you actually need Interest Only repayments. P&I could be a better long-term strategy.

It provides a great opportunity to litmus test the overall investment return.



2.12 DEBT TO INCOME RATIO

Debt to income (DTI) ratios have been a part of financial analysis for a long time.

While not new, we are hearing them used more in mortgage lending. Financiers have announced they will be reviewing applications that have higher than DTI ratios above prescribed thresholds.

So, what is it? By definition, DTI takes into account the total borrowings of an applicant, regardless of the term or nature of a credit facility.

Let's look at the following example:

CUSTOMER 1		CUSTOMER 2	
HOME LOAN	425,000	HOME LOAN	700,000
INVESTMENT LOAN	600,000	INVESTMENT LOAN	0
CREDIT CARD LIMIT	15,000	CREDIT CARD LIMIT	35,000
		MOTOR VEHICLE LOAN	55,000
		PERSONAL LOAN	35,000
TOTAL DEBT	1,040,000	TOTAL DEBT	825,000
SALARY INCOME	175,000	SALARY INCOME	175,000
RENTAL INCOME	35,000	RENTAL INCOME	0
TOTAL INCOME	210,000	TOTAL INCOME	175,000
DEBT TO INCOME RATIO	**5.0**	**DEBT TO INCOME RATIO**	**4.7**

DTI simply divides Total Debt by Total Gross Income. In the example above, Customer 1 has a higher DTI than Customer 2 - **$1,040,000 / $210,000 = 5.0**.

Based on this limited information it is likely that Customer 1 has a superior monthly cash position.

This measure ignores the cost or term of debt and provides a more draconian measure of creditworthiness.

However, it can also provide borrowers with a quick measure to assess their overall position with debt.

2.13 GETTING FINANCE READY

A. RESIDENTIAL

Getting a Pre-Approval

Depending on the circumstances, a mortgage broker can assess whether an initial discussion with one or more financiers is required.

For mortgage customers, we would generally advise to obtain a formal pre-approval with a financier when:

- You are borrowing greater than 80% of the value of the property and lenders' mortgage insurance will apply (see later in this guide);
- You intend to purchase within the next 3-6 months; or
- You have any concern regarding previous credit conduct.

Getting Credit Ready

I) REVIEW YOUR CURRENT FINANCIAL STATUS

a) Credit Scoring

Credit providers are using this more proactively to assess your reliability in repaying loans. Your credit score in Australia typically ranges from 0 to 1,000 or 1,200. The higher the score, the more financially trustworthy a person is from a credit perspective.

The score is driven by many obvious factors (your previous conduct, frequency of application, etc.) and other demographic factors such as age and where you live.

Credit scoring intelligence has been around for a while now, but we are seeing it being applied at new levels as technology advances.

b) Organise your finances

Some preparation here is helpful. Setting and maintaining budgets may involve reducing debts and freeing up funds toward savings for a deposit.

II) ORGANISE YOUR DOCUMENTS

Key document typically include:

- Identification: Passport, Driver Licence or alternatives. (Make sure they are up to date)
- Your Income: Recent payslips, Tax Returns & Financials, and bank statements.
- Your Capital Position: Savings, investments, other property, vehicles, credit cards, loans, and other debts.
- Your Expenses: Document your ongoing costs, separating non-discretionary expenses (groceries, housing, utilities, loans, etc) and discretionary costs (eating out, entertainment, clothing, etc).

III) CHOOSE A CREDIT PROVIDER

Not all Credit Providers will offer a service to complete a Pre-Approval. Many of these are indicative as opposed to "Credit Sanctioned".

IV) SUBMIT A PRE-APPROVAL APPLICATION

You will need to complete the loan application and provide all required documents as outlined above. The application should indicate your property price range and available deposit amount to support your intended budget.

V) ASSESSMENT

The Credit Provider will verify your documents, conduct a credit check and assess the application as presented. This includes an assessment of borrowing capacity as part of the evaluation of your overall financial situation.

VI) CONDITIONAL PRE-APPROVAL

If you meet the criteria, you will obtain a document outlining the maximum amount you can borrow and any conditions. This is typically valid for around three months but varies by lender and may need to be updated if your circumstances change.

VII) THE PROPERTY SEARCH

You will now have more confidence to look for properties that are within your budget. Once you find a property, you'll need to move to unconditional approval for the loan, which usually requires additional processes, including a valuation.

Other Considerations

Final loan approval is also subject to conditions such as property suitability, credit provider policy changes, interest rate settings and no material changes to the financial situation you originally presented.

2.13 GETTING FINANCE READY

B. COMMERCIAL PROPERTY

Preparation

The process for commercial property purchasers is not as straight forward. As a general comment, when borrowing for commercial purposes, credit providers expect that customers have a heightened understanding of their affairs. There is usually an existing banking relationship in place where borrowing scenarios can be workshopped.

The Residential Credit Ready list is still relevant for the necessary preparations that commercial borrowers can do to assist in being prepared.

Standard or Non-Standard Security

Lending using commercial property as collateral is diverse. Security types are broadly defined as Standard or Non-Standard. Standard commercial properties are usually preferred and provide better lending options and terms.

Examples include:

- Commercial Offices
- Industrial Warehouses & Factories
- Retail Premises & Shopfronts
- Residential Development Stock

Specialised commercial properties are generally a higher risk to credit providers, as they have a smaller available market on exit. Examples include:

- Specialised Accommodation (Motels, Hotels, Caravan Parks)
- Aged Care Facilities
- Child Care Facilities
- Agri/Farms/Rural properties

Capacity to Borrow

If you are looking to borrow using the income of the asset you are buying, as opposed to relying on other income sources, you will need to understand how a credit provider will view this arrangement.

There is no one "right" approach to assess the borrowing capacity of the commercial property borrower. One of the key measures, amongst others, of serviceability is Interest Cover Ratio.

Interest Cover Ratio (ICR)

ICR is a measure of how easily a borrower can pay interest on its outstanding debt. Several lenders will not add back depreciation and amortisation when looking at this measure.

For example, take a property with the following characteristics:

Value	$2,000,000
Lending Sought:	$1,200,000
Rental Return:	$100,000
Interest Rate:	6.0%

In simple terms, this is calculated as:

Total Rental Income ($100,000) / Total Interest ($72,000) = 1.39

When the interest coverage ratio is 1.50 or lower, its sustained ability to meet interest commitments may be challenged, especially if there is uncertainty around the reliability of future income.

3 PROPERTY

3.1 THE SEARCH

The key to searching for a property is lots of research, both on the internet and on the ground. Initially, you must be very specific in your requirements and locations and establish some non-negotiable guidelines. You can relax less critical criteria to reflect your budget over time.

Talk to real estate agents or credible property specialists as they can be a good source of information about properties in your chosen areas.

Previous sales of similar properties in your area will provide foundation for research and setting your expectations. This data is now increasingly available.

3.2 PURCHASE METHODS

I) PRIVATE SALE

Private sale allows you to negotiate the purchase of a property with conditions such as finance, building and pest inspection or a solicitor reviewing the contract.

While inserting conditions is often the safest form of purchasing, be mindful that vendors will generally see your offer as less attractive and may elect to go for a lesser amount from another purchaser's if it is an unconditional offer.

II) AUCTION

Buying at auction means that if you are the successful bidder your offer is unconditional! The advantage of buying at auction is that other bids are transparent (whereas in private sale you cannot be certain if other offers are genuine offers or not).

The obvious disadvantage is that you are unable to secure formal finance before auction (as a bank valuation cannot be conducted) and if you wish to have a building and pest inspection, you will need to organise this well before the auction.

III) EXPRESSIONS OF INTEREST

Not as common as the first two; however, since the Covid-19 out break it has been popular with agents. It is like a private sale in many ways and is an invitation for buyers to put their best offers forward one time only. The vendor is still at liberty to decline all offers or go back to some buyers and propose they increase their offers or alter their terms, to compete with other offers, such as a shorter settlement period. Generally, offers from buyers under this method will be unconditional.

Contract Review & Due Diligence

A term that we suggest you become familiar with is "Caveat Emptor", which is Latin for "let the buyer beware".

This principle puts the onus on you as the purchaser to fully examine and be satisfied with the property before purchasing.

We generally recommend that you engage your solicitor to undertake a pre-purchase review of your contract prior to auction or offer. The issues that this review should consider, amongst others include:

- Specific commercial terms;
- Cooling off period;
- Deposit terms;
- Chattels;
- Vendor statement;
- Easements;
- Applicable GST;
- Purchaser and/or nomination clauses; and
- Owners' corporation.

These are discussed further in Section 5.

3.3 THE PURCHASER NAME

You can elect to have a different ultimate purchaser before settlement of the transaction.

There is a range of taxation, asset protection and related issues that may form part of your decision in determining the proposed owner of the property, and we strongly suggest that you obtain advice on this point particularly if your structure is in any way complex.

If you elect a company to be the purchaser, you may be required to personally guarantee the obligations upon your company under the contract.

Remember, property is an illiquid asset and changes to ownership in the future can be very expensive.

3.4 THE DEPOSIT

The deposit is generally payable at the signing of the contract and is normally 10% of the purchase price. An agent cannot take more than a 10% deposit.

The options available for raising this amount include:

- cash;
- redraw from existing mortgage; and
- deposit bond / bank guarantee (in some circumstances).

If you seek to make any alternative arrangements, discuss these with the vendor's agent. Their willingness to do this may vary depending on the nature of the sale process, and less likely, for example, at auctions in Victoria.

Deposit Bonds / Bank Guarantees

A deposit bond may be accepted in lieu of a cash deposit. The major advantage of a deposit bond is to avoid funding cash for a deposit. Also, for newly constructed properties including those sold off the plan (See Section 3.6).

In the event the builder becomes insolvent; your deposit is also protected from the builder's creditors.

3.5 AVAILABILITY OF FINANCE FOR PROPERTY TYPE

Ensure that the property you seek to purchase is one that is supported by a range of potential mortgagees. Some examples of property that may not be acceptable or be subjected to a lower borrowing threshold (LVR) include:

- Property located in remote or regional areas;
- Property that is smaller than 50 square metres in building area;
- Certain inner city apartments;
- Serviced apartments; and
- Property used for certain purposes or of a highly specialised nature.

3.6 PURCHASING "OFF THE PLAN"

Purchasing "off the plan" is a common entry point to the property market. Depending on the progress of the land improvements at the time you sign, you can save a significant amount in stamp duty as opposed to buying an established dwelling of the same price.

However, such savings are now restricted to properties being purchased as principal place of residence only, i.e. where you are planning to live in it, and stamp duty saving are not applicable otherwise.

There are advantages, but risks and considerations to keep in mind, given the (sometimes significant) time lapse between signing the contract and settlement. These include:

Valuations

Many lenders require the property to be valued either on completion or off the plan (most banks require a valuation no more than three months old). If you purchase well in advance, you will be exposed to property market price movements. Lending is based on the lower of contract price or bank valuation, so if the value falls you may need to make an additional contribution of funds.

Credit Risk

The credit appetite and policies of lenders change over time. As you often cannot apply for finance for off the plan purchases until 3-6 months prior to settlement, there is a risk that the following may occur:

- Your own circumstances change (e.g. you become unemployed or interest rates go up) compromising your ability to obtain finance at settlement.
- The financier changes its lending policy and can no longer accommodate your lending requirements.
- Lenders can also limit their exposure to a development. For example, a lender may not take more than 25% of an apartment complex as security, so while you may meet the policy the lender can reject due to concentration risk. This will be of concern if your personal circumstances restrict your lending options.

Settlement Risk

While the developer or agent may give you an estimated settlement date it is not uncommon for delays to occur. Always have a lawyer review the contract of sale and section 32 prior to signing to ensure you understand time frames and your obligations. If delays occur, ensure you understand what you are buying and any potential hidden costs (e.g. owners corporation fees or utility correction costs).

Clarify the level of stamp duty that is applicable.

Research and Negotiate

You should complete a thorough due diligence on the developer/builder before signing. Your investigation may include:

- History and experience. How long have they been developing property?
- Get a list of their prior projects. Take the time to view those properties and if you can, ask the owners what they think about the quality of the works.
- Research the market. You often pay a premium for new property like you would for a new car. Ask yourself if the premium is reasonable as you may need to research and price the inclusions.
- If the specifications are vague get the developer to clarify. Often the buyers' expectations versus the finished product can be vastly different. It is hard to envision the finished product correctly if you don't ask questions.
- Don't be afraid to negotiate on the purchase price or the level of deposit.

3.7 PROPERTY REPORTS

Several firms involved in property will subscribe to a real estate data searching tool. These reports can be a great source of information on property, including a history of its ownership and recent comparative sales in the area.

This may also include an overview of the demographics in the area and a projection of future capital growth prospects.

3.8 PROPERTY OWNERSHIP FOR FOREIGN RESIDENTS

Supported by the Foreign Acquisitions and Takeovers Act 1975, the Foreign Investment Review Board (FIRB) examines proposals by foreign persons to invest in Australia and makes recommendations to Treasury.

Under the Act, foreign persons need prior approval to acquire an interest in certain types of real estate. An 'interest' includes buying real estate but can also include obtaining or agreeing to enter into a lease, or financing or profit sharing arrangements.

Real estate covers acquisitions of many types of property acquisition in Australia, both residential and commercial.

The rules that govern this process are considerable, including a focus on the type and proposed purpose of the property being acquired.

There are also purchase thresholds that apply that dictate the level and nature of property acquired.

A comprehensive guide to the regulations in this area are outlined at http://www.firb.gov.au/.

Stamp Duty Surcharge - Foreign Purchasers

The South Australian Government charges a 7.0% transfer duty surcharge on foreign buyers purchasing residential property as from 1 January 2018, to be applied against the full purchase price of the property at time of contract.

The surcharge is in addition to the standard land transfer duty that all foreign purchasers pay to transfer South Australian properties.

3.9 COMMERCIAL PROPERTY INVESTING

Commercial property, despite some uncertainty, remains a relevant asset category despite an increasing interest rate environment.

Though it comes with some complexities.

One key thing for considering commercial property investments, is the need to understand the "WALE".

What is it?

The WALE - or weighted average lease expiry - measures the average time period in which all leases in a commercial property expire.

It is a key measure for assessing the certainty of rental income streams and is a common assessment tool for commercial property financiers.

Why is it important?

The WALE indicates when properties (whether assessed in parts or groups of properties) are likely to be at the conclusion of a lease.

The rental income obviously make up a large part of the investment return for commercial property, so the WALE result has a direct correlation to the overall value.

The longer the WALE, the more the certainty that the asset's revenue streams are secure well into the future.

Conversely, a short WALE drives uncertainty around the prospects of re-letting, along with the additional costs associated with that process.

As a general rule too, buildings with a short WALE tend to have a greater level of tenant turnover.

So a longer WALE is generally preferred.

How is it calculated?

WALE can be calculated in two different ways. It can be weighted by the rental income (value) or weighted by the amount of lettable area (size).

For example, in a commercial property of three same sized tenancies with the following remaining lease term as follows:

PROPERTY	LEASE TERM	SIZE
Commercial 1	6 years	225 sqm
Commercial 2	4 years	225 sqm
Commercial 3	2 years	225 sqm

The WALE in this simple example is calculated is 4 years.

Here is the more commonly used example based on lettable area:

PROPERTY	LEASE TERM	SIZE	% OF AREA
Commercial 1	6 years	200 sqm	25%
Commercial 2	4 years	500 sqm	62.5%
Commercial 3	2 years	100 sqm	12.5%

The WALE in this example is calculated as follows:
(0.25 x 6) + (0.625 x 4) + (0.125 x 2) = 4.25 Years

How does WALE link to Property Value?

There is no doubt that the WALE can impact the value of commercial properties. There is detailed commentary on larger examples that can be viewed when looking at listed property trusts for example. Investors are generally prepared to pay a premium for assets with longer WALE's.

An exception for attractiveness on a short WALE might exist in some circumstances. For example, to help reset a lease to a higher rental, or to progress the development of a building.

The WALE can also be a more material consideration in times when the economic environment is high risk. This can also explain the diversity in prices for assets with an otherwise similar profile.

3.10 DEVELOPING PROPERTY

Developing Property may seem simple; however, there are often surprises, unexpected costs and challenges that can erode time and profits alike.

Financing development for one is increasingly challenging.

We share some brief insights from our customers that might apply equally to weekend "property flippers" or larger developers alike.

Starting Out

It would be too simplistic to say, "do your research", but proper planning at all stages of the process is the key ingredient for success. We touch on a few things here though there is plenty more to consider.

Research and Feasibility is a key starting point.

Know exactly what type of asset you want to develop. Does this asset type bring with it any issues that impact building or prospects for council approval?

Location suitability is sometimes where many developers lose objectivity. While experience in living or working in an area you seek to develop has obvious benefits, don't allow this familiarity to forego the review of independent data (now readily available) to ensure your projections are reasonable and tested.

Despite local area knowledge, you will still need to study the zoning maps and get an understanding of the current development mood with the local council.

It is also important to consider any environmental issues, and any adverse conditions of your site, including contamination. If the price of a potential development site is too good to be true, then it probably is.

Pre-Sales

Pre-sales are unconditional, arm's length property sales that are made before construction is completed. First tier financiers often seek 100% coverage of debt - including evidence of 10% non-refundable deposits held. This review will also consider whether the purchasers are Australian residents too.

This is where the landscape for development has changed materially over the last decade, effectively post GFC. Primarily, this is driven by both regulation and to ensure a viable market exists before funding commences.

By requiring unconditional contracts that are also subject to legal scrutiny it mitigates the risk of inflated bank valuations. This provides one of the foundations of how much the funder will advance. More on that below.

Bank Valuations

Finance purpose valuations are complex. It will go beyond just the Gross Realisable Value ("GRV") of the pre-sales and consider a range of issues such as inherent risks and a deeper assessment of the development approval and proposed building works.

The selection of the builder will be one of the key parts of the process. Construction costs is obviously the most material component of Total Development Costs ("TDC") which as a reminder includes the land too.

"In One Line Value"

This basis of valuation has adversely impacted many developers, especially the less experienced. What is it?

An in one line valuation is still typical "as if completed value". However, a discount is applied on the basis that the property would need to be sold to one buyer as a single sale. This obviously drives a lower valuation outcome than if each property were valued independently.

This means you should expect a lower valuation than if each unit were valued independently as a separate sale and security; in other words, a significant discount from the GRV that forms part of your finance approval.

So, make sure you discuss this with your financier upfront. This is a significant issue for many developers at present.

How much can I borrow?

It will depend on the type of development, but typically up to a maximum 70-75% of TDC, or up to 60-65% of GRV.

The financing market in now divided into several tiers. First tier lenders (typically the major banks) not only require the pre-sales, but a more comprehensive review of project history (including marketing links), your financial position outside of the development, and the strength of the relationship with the builder.

One of the frustrations for intermediaries such as MCP, is that if development deals don't quite meet first tier criteria, customers go from just missing out to paying a considerable premium in terms of interest rates and costs. This obviously impacts the feasibility of your project.

That said, a non-bank or private funding options can you get your development going much more quickly. They will typically require less pre-sales and offer a higher percentage of GRV/TDC. The number of participants in this space are also increasing by the day, so make sure you reach out widely.

Where does the Development Fit?

Of course, developments can be for a range of purposes, more specialised property types will have more defined marketability.

On the smaller end, there is often some confusion whether the lending will be treated as a regulated residential finance credit loan. Most financiers will have restrictions on the number of units they will finance on one title for example, typically a limit of around four (4). Many smaller developers will try and squeeze their credit needs through as regulated loans and are often surprised when they are treated as commercial loans.

A commercial loan will mean shorter loan term, higher costs and usually a premium in interest rate.

Seeing the Big Picture

There are many more considerations when developing property. The most successful property developers build a strong network around them and leverage their relationships to successfully complete developments.

So, some initial costs in the short term, especially in research and planning, can lead to better profits in the long term.

As an example, while non-banks or private lenders can be more expensive, getting your project completed more quickly could be a more profitable outcome in the longer term.

4 ACQUISITION COSTS & CONSIDERATIONS

4.1 STATUTORY & LEGAL COSTS

There are several cost components when purchasing property. These upfront costs make it critical to make good decisions! It is expensive to regularly transact property.

Costs include, government land transfer duty, government registration fees, conveyancing fees, disbursements, bank fees, property adjustments, moving costs, property service connection costs etc. **Such costs normally account for up to 6.5% of the purchase price.**

For first home buyers buying a property (for owner occupation) for $750,000 or less, the cost is substantially reduced or exempt from duty due to the concessions available.

Each state and territory of Australia has varying duties and levies that apply to property. They are generally very complicated, based both on the type of property purchased and the status of the purchaser.

For example, property acquisition costs under different scenarios are outlined in the examples below for the State of **South Australia**:

PURCHASE TYPE SA	PURCHASE PRICE	TRANSFER DUTY	TOTAL COSTS*
Established Property - Home	$600,000	$26,830	$29,813
Established Property - Home	$1,200,000	$59,830	$65,787
Established Property - First Home	$600,000	$0	$2,983
Established Property - First Home	$900,000	$0	$4,287

*Transfer duty and titles office registration costs

TIP: The structure of stamp duty in the lower purchase thresholds is now more complicated. Refer to Section 4.4 for further information.

4.2 LENDERS' MORTGAGE INSURANCE

When borrowing more than 80% of a property's value (or in some cases 85%), lender's mortgage insurance (LMI) applies - the borrower pays a once off premium representing a percentage of the loan amount.

LMI only protects the lender in the event of loss. For example, in the event of repossession where the sale proceeds are not sufficient to satisfy outstanding principal, unpaid interest and legal fees – the financier could register a claim to the insurer.

How much could the premium cost?

The premium cost will depend on the loan to value ratio (LVR), the loan amount and financier. Cost is generally between 0.50% and 4.00% of the loan amount. The premium can generally be financed or capitalised on top of the mortgage insured loan, so you do not necessarily have to fund this yourself.

First Home Buyer Qualification for Mortgage Insurance

Most mortgage insurers generally require what is referred to as "genuine savings" evidenced over the most recent 3-6 month period, demonstrating the borrower's ability to hold or save 5% of the purchase price.

Genuine savings are defined by:

- A liquid asset such as cash, shares or managed funds.
- Evidence must be in the form of 3-6 months' bank issued statements, and internet statements are only accepted to supplement the time between the last Bank Issued Statement and recent 4-week period.
- Acceptable assets must be held or saved over a period. Savings must be reasonable and in line with the borrower's income. Where savings are a high percentage of income this may be scrutinised.
- Proceeds from asset sales (such as cars or personal effects) which borrowers use to make up the 5% during the recent "genuine savings period" are usually not acceptable.
- Items such as the First Home Owner Grants, gifted funds from parents, rent paid, or other assets are not counted as genuine savings.
- Mortgage Insurers are relatively strict on the genuine savings rule in the current environment and an exception around this is proving difficult.

Minimum Contribution required if you fund at 90% with Mortgage Insurance

Should you seek LMI a minimum contribution of 10% of the purchase price, plus costs (say 6%) is required. In total, 16% of the purchase price less any available grants or concessions.

See Section 4.8 for an example of using a Family Security Guarantee to save on paying LMI.

4.3 LAND AND PROPERTY TAXES

Significant changes to State property tax regimes are impacting a range of property stakeholders. It is important to be aware of the initial and annuity costs that exist now and the pending changes from 1 July 2024.

Types of Property Tax in Australia

Property taxes differ substantially across states, a key consideration for property investors that hold multi-jurisdictional assets.

Several property taxes across Australia are levied on an acquisition event and as an ongoing annuity cost. In SA, the most significant of these are stamp duty and land tax.

TAX TYPE	APPLICATION TYPE
FOREIGN PURCHASER ADDITIONAL DUTY	Transaction Based
LAND TAX	Annuity

Foreign Purchaser Duty

In South Australia, an additional 7% applies to all residential land owned by foreign persons.

Comparing Land Tax between States

It is an interesting exercise to compare property taxes across a few states.

Land tax is based on the total taxable value of land holdings, usually the site value found on council rate notices. It is calculated by applying the appropriate land tax rate to the total taxable value of land holdings, excluding exempt land such as your home.

The impact of recent tax changes, including the debt levy in Victoria, across the eastern seaboard is reflected in the table below:

TAXABLE VALUE	VIC	NSW	SA
$500,000	$1,950	$0	$0
$1,000,000	$4,650	$0	$1,340
$2,000,000	$15,150	$14,900	$13,730
$5,000,000	$84,650	$62,900	$84,338

4.4 GRANTS & CONCESSIONS

A. RESIDENTIAL PROPERTY

I) CONCESSIONAL TRANSFER DUTY

Transfer duty on property has recently been subject to significant legislative change.

You should always check the State Revenue Office (SRO) for the respective states and territories of Australia, to clarify current legislation.

II) FIRST HOME OWNER GRANT

Grants & Incentives for First Home Buyers in South Australia

South Australia offers incentives and grants to support first home buyers, with recent changes expanding eligibility and scale.

A. First Homeowner Grant (FHOG) – $15,000

- Up to $15,000 as a one-off payment – applies for contracts entered into after 5 June 2004.
- For the purchase or construction of a new home to live in. Includes substantially renovated homes and off-the-plan apartments.
- Applicants must be at least 18, an Australian citizen or permanent resident and must not have previously owned a residential property in Australia. You must live in the home for at least six months within the first 12 months after settlement or completion.

B. Stamp Duty Relief (Exemption)

- No Stamp Duty: Eligible first home buyers pay no stamp duty when buying or building a new home in South Australia.
- Eligible Properties: New homes, off-the-plan apartments, house and land packages, or vacant land for building a new home.
- This exemption can be combined with the FHOG.

South Australia is one of the most supportive states for first home buyers in 2025, benchmarked to other states.

SOUTH AUSTRALIA SUMMARY

SCHEME	BENEFIT	APPLIES TO	KEY CRITERIA
FIRST HOME OWNER GRANT (FHOG)	$15,000 (one-off)	New or substantially renovated homes – no cap	Australian citizen/permanent resident, 18+, first home, principal residence
STAMP DUTY EXEMPTION	Full Exemption	New homes and vacant land – no cap	First home, principal residence

III) OFF THE PLAN - INVESTMENT PURPOSE DUTY

There are changes to stamp duty treatment for 'off the plan' (OTP) purchases. Previous concessions will now only apply to buyers purchasing an OTP property to occupy as their home (principal place of residence) with a dutiable value under a certain threshold.

This also means that because of the proposed change, the concession will no longer be available for OTP purchases of a holiday home, investment or commercial properties.

IV) FIRST HOME SUPER SAVERS SCHEME

Home owners are now able to salary sacrifice extra contributions into their existing superannuation account, up to a maximum of $50,000 in total and $15,000 in a single year.

This is in addition to the existing compulsory contributions.

As of 1 July 2018, they have been able to withdraw that as cash, along with any associated earnings.

Contributions and earnings will be taxed at 15%, rather than at marginal income tax rates, and withdrawals taxed at 30% below their marginal rate.

Example provided by the Federal Government:

Michelle earns $60,000 a year, and salary sacrifices $10,000 of her pre-tax income into her superannuation account, boosting her balance by $8,500 after contributions tax.

After three years, she can withdraw $27,380 plus earnings on those contributions, and after tax leaving her with $26,029 for her deposit.

This works out to $6,458 more than if she had saved in a standard deposit account.

V) AUSTRALIAN GOVERNMENT INCENTIVES & SCHEMES

Help to Buy Scheme

The Help to Buy Scheme is a Federal Government program to assist eligible buyers in purchasing a home with a deposit as low as 2%.

The Government contributes up to 40% of the price for new homes and 30% for existing homes, holding an ownership in the property.

When the property is sold, the government recoups its share plus any capital gains.

Criteria:

- Income Caps: $100,000 for individuals, $160,000 for joint applicants or single parents
- Property Price Caps: Varies by location

Benefits:

- Avoids Lender's Mortgage Insurance (LMI)
- Reduces the Loan amount to provide a serviceable mortgage

Scope:

- 10,000 places per year
- 40,000 total places over four years
- Rollout depends on state/territory legislation

As an example, for a $600,000 property purchase:

- Purchaser pays a $12,000 deposit
- Government contributes $240,000
- Purchaser borrows the remaining amount

The scheme is designed to make homeownership more accessible by reducing both upfront and ongoing costs.

Home Guarantee Scheme (HGS)

HGS is an Australian Government initiative to support eligible home buyers and includes three types of guarantees.

1. First Home Guarantee (FHBG)

- Deposit: As little as 5%
- Places Available for FY 2024-25: 35,000

2. Regional First Home Buyer Guarantee (RFHBG)

- Deposit: As little as 5%
- Places Available FY 2024-25: 10,000

3. Family Home Guarantee (FHG)

- Deposit: As little as 2%
- Eligibility: Single parents and single legal guardians of at least one dependent
- Places Available FY 2024-25: 5,000

Now extended to 2029

The government is investing an extra $800 million, bringing total funding to $6.3 billion through to 2028-29. Around 40,000 households will get support, with higher income and property price caps.

Applications are expected to open later in 2025. The HGS will also have a range of qualitative changes such as removal of income caps. Please check with your MCP broker for updates.

Tip: Some Federal and State incentives can be combined. Talk to your broker to assess your eligibility.

COMPARISON:

FEATURE	HELP TO BUY SCHEME	HOME GUARANTEE SCHEME
DEPOSIT REQUIRED	Minimum 2%	2%-5%
GOVERNMENT CONTRIBUTION	Up to 40% for new homes, 30% for existing homes	Guarantee up to 15%-18% of home loan
ELIGIBILITY	Income caps: $100,000 (individuals) $160,000 (Joint)	First home buyers, regional buyers, single parents
PURPOSE	Reduce mortgage amount and avoid LMI	Buy a home sooner without LMI
AVAILABILITY FY 2024-25	10,000 places	50,000 places

B. NON-RESIDENTIAL PURPOSE

I) COMMONWEALTH STAMP DUTY SA

Commercial and Industrial Property

Since 1 July 2018, there has been no stamp duty payable on the purchase of "qualifying land," which includes land used for commercial and industrial purposes, as well as most vacant commercial land.

Residential and primary production land are excluded from this exemption.

Transfer (Titles Office) Fees are still payable and calculated on a sliding scale based on property value (For example - $2,983 at $600,000 and $5,957 at $1,200,000).

4.5 INSURANCE (PERSONAL & PROPERTY)

Personal and property insurance should always be considered in the context of property ownership.

I) MORTGAGE PROTECTION

Mortgage protection is an insurance product providing payment of your mortgage should any of the following events occur:

Death or Total Permanent Disability

Preventing you from ever generating an income again.

Temporary Disablement

Preventing you from generating an income through sickness or injury.

Involuntary Redundancy

Preventing you from earning an income when you lose your job.

II) LIFE INSURANCE

Life or term life Insurance pays out a lump sum if you pass away before a pre-agreed date (the term). This provides protection for your family and dependents with the objective of a lump sum being enough to provide for paying out debt in full or in part, and otherwise to provide your family's long-term financial requirements.

It is therefore important to obtain some advice regarding the level and type of cover that you may require from someone qualified to do so.

III) INCOME PROTECTION INSURANCE

Income protection is a monthly benefit that generally pays you up to 75% of your income if you are unable to work due to an accident or illness or major trauma.

It pays you up until you return to work (after your waiting period). Income protection is generally tax deductible and is designed to ensure that you can continue to pay the mortgage and carry on financially until you return to work.

It is generally recognized as a more rounded product than mortgage protection insurance as it focuses on the protection of income as opposed to just the mortgage repayments.

IV) STEPPED VERSUS LEVEL INSURANCE PREMIUMS

In relation to risk and personal insurance, stepped premiums are the most widely used in the insurance industry, representing about 70% of all policies written. Level Premiums are rarely advertised, but what are stepped and level premiums?

One important consideration in considering Personal Insurance is whether to structure the policies on a Stepped or a Level Premium.

Stepped Premiums

Insurance premium is calculated on your age and increases every year at each policy renewal. i.e. the younger the individual, the cheaper the cost.

Level Premiums

Insurance premium is calculated on an average premium, meaning you might pay more when you are younger, but less when you get older.

The cheaper stepped premium option will of course be more attractive in the short term and are typically quoted in the media. But when looking deeper, level premium cover can provide a greater long term saving in terms of insurance cover paid over a lifetime.

In terms of research, claims history indicates that when we most need insurance (ages 40 to 55) the cost of insurance can sometimes be too expensive to keep. By taking a level premium, your insurance premium will not increase every year with your age, so in these later years, you will still be able to afford it, and likely benefit from a significant overall cost saving.

V) PROPERTY INSURANCE

It is obviously important to ensure that the appropriate building insurance is arranged to protect your property investments. You may consider cover immediately after signing a contract of sale to protect your interests during the settlement period.

You should also make sure that your ongoing level of building insurance is appropriate to reflect any renovations or improvements to your property.

VI) LANDLORD INSURANCE

Where you are holding a property as an investment, you can take out landlord insurance to protect you against damaging tenants, and those that fail to pay their rent.

4.6 TAX CONSIDERATIONS

Transfer duties and levies are governed by the individual states of Australia, though the broader taxation aspects of capital gains and income tax are the domain of the Federal Government.

As an overarching comment, always seek professional advice from your accountant or financial adviser before making decisions about property ownership.

Most advisers would also recommend to never buy a property for the tax considerations alone, which unfortunately we have seen many people do.

There are several issues which should be taken into consideration including:

What are my objectives in purchasing a property?

Are you seeking long term capital growth, or a strong income yield through rental return? Generally, there is an inverse relationship between the two.

Based on the borrowing levels, will the property be negatively or positively geared?

Who should own the property?

If you have a partner/spouse this can be a vital consideration. For example, if the property has a positively geared profile that generates additional marginal income, the person with the lower level of income may be more suited to own the property and receive that additional income.

This profile should also be considered when planning the sale of the property with any likely Capital Gains Tax.

Converting owner occupied property to an investment property

Many people plan the purchase of their first home with a long-term view to acquire again and make their old home available for rental.

With tax treatment of debt, there may be merit in some circumstances to obtaining an interest only home loan, with an attaching 100% offset facility and directing all repayments to the offset account.

This way, funds in the offset account can be used to purchase a new home where non-deductible debt can be minimized and the first loan (now tax deductible) can be restored to its original amount.

Capital gains tax (CGT)

Other than your principal place of residence, CGT is generally payable when you dispose of any property interests.

In some circumstances, a property may have initially been your main residence, before was made available for rent. In these circumstances, and depending on the timing, you may be eligible for an exemption or liable for capital gains tax on real estate on a pro-rata basis.

Again, specialist advice should always be sought in respect of taxation matters. Spending money upfront for good advice can pay dividends in the longer term.

4.7 DEPRECIATION

Depreciation is generally well understood in a general context, especially for working business assets.

But what about for property?

By definition, depreciation is the natural wear and tear of property and assets over time. After interest expenses, it is the second-largest tax deduction available for investment property owners.

For depreciation on investment property, the Australian Taxation Office (ATO) will allow you to claim depreciation for the forecasted loss of the building value as it ages and approaches the end of its useful life.

Old and New Buildings – the difference

Depreciation on new properties is spread over 40 years. On a new building that costs $200,000 to build, you could make a $5,000 tax claim each year for 40 years (i.e. 2.5% per year) as a simple example.

For a property built after 15 September 1987, you'd be able to claim 2.5% depreciation each year until it was 40 years old. Therefore, on a property built for $100,000 in 1990, you could claim a $2,500 depreciation deduction each year until 2030.

We typically associate depreciation with new property. However, if you purchase an existing property, structural costs can be depreciated, but the plant and equipment generally can't, as it is purchased as "second-hand".

Different rules apply for properties acquired after 9 May 2017 as depreciation only applies for costs on plant and equipment you paid for (e.g. new carpets or fridge); or plant and equipment included as part of the new property (see below).

Types of Property Depreciation

Depreciation deductions are divided into two distinct categories:

- Capital Works

Capital works cover the roof, walls, doors, kitchens, bathroom fittings, for example. Depreciation relates to claims for the ageing that occur in the property's structure or expenses incurred in building the property. It also applies to structural improvements, such as alterations made to the property.

- Plant & Equipment

This type of depreciation is more granular and diverse and applies to easily removable fixtures, and fittings found within the property. Items like carpet, air conditioners, curtains, water systems, smoke detectors, etc., can be claimed. The ATO assigns varying individual effective life and depreciation rates for these different classes.

Benefits of Property Depreciation

Firstly, and perhaps obviously, investors can claim tax deductions against the rental income from property, which will add to the overall gearing position.

Division 43 of the Tax Act also provides a system of deducting capital expenditure incurred in the construction of buildings and other capital works used to produce assessable income. Often, a Quantity Surveyor will need to estimate anything in the property that is part of a previous renovation and make adjustments.

Common Property Depreciation Traps

- **Not getting a tax depreciation schedule prepared**
Substantial deductions may be available for structural or plant and equipment assets that are not correctly identified and claimed. A depreciation report starts from the date you settled on the property, not when you engage a surveyor. Therefore, the best time to get a report prepared is as close to settlement as possible, although an accountant can amend tax returns to backdate a depreciation schedule by up to two years if required.

- **Not reviewing your depreciation schedule**
Since the schedule is generally valid for the life of the building, it is often a "set and forget" strategy. However, a review is recommended if renovations or repairs occur or if plant and equipment are replaced.

- **Selecting the wrong depreciation formula**
The Prime Cost method provides a tax deduction each year over the item's effective life. In comparison, the Diminishing Value method gives a higher claim in the first years of the item's effective life, and smaller claims later on. Seek advice from your accountant as to which option is best for your circumstance.

- **Buying the wrong asset for larger deductions**
More depreciation may contribute to a net rental loss - negative gearing. Many people get blinded by the appeal of tax deductions and end up owning a property that performs poorly in the long term. Remember, a loss is a loss, even if depreciation benefits could soften it.

- **Getting it back on the Sale**
The depreciation previously claimed over the years is added back to the cost base used to calculate capital gains tax when you sell the property. The result being you may have a bigger tax bill than expected on sale.

Always seek accounting and legal advice specific to your circumstances.

For those interested in assessing depreciation offsets, the ATO depreciation calculator can be found here https://www.ato.gov.au/calculators-and-tools/depreciation-and-capital-allowances-tool/

4.8 SECURITY GUARANTEES - FAMILY SUPPORT TO PURCHASE PROPERTY

Family members can provide "security" or "collateral", generally in the form of a residential property. Typically called a Family Security Guarantee or similar, it is distinct from an Income Guarantee, which supports the borrowers in making ongoing loan commitments.

Under the arrangement, a family member serves as a guarantor for another. Commonly, the security or collateral required by a lender from a guarantor is a low mortgage or mortgage-free residential property.

- **Who can be a family member?**

Anyone who passes the standard requirements can become a security guarantor for other family members. Looking beyond mum and dad, sometimes other family members such as grandparents and siblings may offer to provide guarantor support. Adult children may also be guarantors to their parents in some instances.

- **Using cash as security?**

Some lenders allow for the security guarantee to be held against a cash term deposit. The term deposit is established and will continue to roll over until the required Loan-to-Value Ratio or LVR is achieved, usually 20%. Then, the guarantee can be released.

A Family Security Guarantee cannot be used for debt consolidation, owner-builder construction, cash out, or adding a security guarantee to an existing loan.

- **Ways a family security guarantee can aid borrowers.**

The first hurdle for first-home buyers or those looking to upsize to a second home is saving a sizeable deposit. Often, lenders require an additional loan mortgage insurance fee when deposits are below 20% of the loan value. The LVR is a percentage determined by dividing the loan amount by the property's value or purchase price.

In practical terms, the bigger the deposit, the lower the LVR, therefore increasing the likelihood of a loan approval along with other terms, such as interest rates.

Pros and Cons of Family Security Guarantees:

Pros

- It is a good way to help the borrower save on LMI costs.
- Initial liability of debt falls on borrowers, not guarantors.
- Once the borrower's home equity reaches 20%, the guarantor can be released from the mortgage, rather than when the loan is fully repaid.

Cons

- If the borrower stops paying the loan, the guarantor will need to make the repayments on their portion of the loan.
- If the loan defaults, the lender has the right to sell the property that is being held as security.
- The borrowing capacity of the guaranteeing family member may be reduced.
- Additional costs, such as stamp duty and legal fees, still need to be factored in by the borrower.
- A family security guarantee is a serious commitment that requires independent financial and legal advice. When family relationships break down or become complicated, a clearly defined and legally binding arrangement can protect all concerned.

Other financial support options?

Using Security Guarantees to purchase property is an option that does not suit all families. Other ways that families can explore to assist with buying a property include co-borrowing, offering monetary loans and monetary gifts.

To help others save a property deposit, family members often assist with rent-free or subsidised accommodation, support with childcare and supplemented expenses such as group mobile phone plans.

In addition, providing family members with access to financial planning, budgeting tools, and other financial education can create long-term generational benefits.

Case Study: How a Security Guarantee works

Let's consider two common ways a security guarantee is utilised between family members. Firstly, to save on Lender's Mortgage Insurance and reduce upfront costs. Secondly, to make it easier to buy a property that is outside of the borrower's range.

1. Saving on Lenders' Mortgage Insurance (LMI)

In some circumstances, several lenders have recently waived the need for income details or statement of position information from the guarantor when the funds go towards removing LMI. Consider this scenario:

Sam and Jo have found an ideal home with a purchase price of $750,000.

They have a deposit saved of $90,000 and have sufficient income to service the loan. However, the lender advises that since the LVR exceeds 80%, LMI will be required, as shown below:

SAM & JO'S PROPERTY PURCHASE:	AMOUNT
PURCHASE PRICE	$750,000
CASH DEPOSIT	$90,000
ADDITIONAL "SECURITY" VALUE	N/A
INITIAL LOAN AMOUNT	$660,000
LOAN TO VALUE RATION (LVR)	88.0%
INDICATIVE LMI PREMIUM^	$17,000
STAMP DUTY	$31,070
LEGAL COST	$1,500
OTHER UPFRONT COST	$49,570

^LMI is typically financed over the loan term.

After receiving the independent advice, Sam's parents provide a Security Guarantee of $97,500 against their mortgage-free home to boost the deposit contribution. The LVR is lowered below 80% and removes the need for LMI as below:

SAM & JO'S PROPERTY PURCHASE:	AMOUNT
PURCHASE PRICE	$750,000
CASH DEPOSIT	$90,000
ADDITIONAL "SECURITY" VALUE	$97,500
INITIAL LOAN AMOUNT	$660,000
LOAN TO VALUE RATION (LVR)	77.9%
INDICATIVE LMI PREMIUM^	$0
STAMP DUTY	$31,070
LEGAL COST	$1,500
OTHER UPFRONT COST	$32,570

Sam and Jo proceed to purchase the property. Once the loan amount is reduced to an LVR of 80% or below, the guarantee against Sam's parents' home can be released.

2. Boosting equity contribution to purchase the next home

A security guarantee can help family members buy a home by increasing the size of the deposit available to use to obtain a loan. In most cases, a single guarantee can represent no more than 50% of the loan guarantor's security.

Eight years later, Sam and Jo decide to buy a much larger home in a high-demand suburb. The previous guarantee with Sam's parents has been released on their existing property. After selling their home, Sam and Jo have savings of $250,000 to use for a deposit (allowing additional funds for stamp duty and legal fees).

Jo's older sister Holly offers to provide a security guarantee to boost their deposit to 20% for their next property.

Holly's property is valued at $800,000. However, she already has a mortgage of $250,000 and can only leverage up to 50% of her property as a guarantor.

Sam and Jo's mortgage broker secures a guarantee of up to $202,500, which gives them a possible deposit of $452,500.

The pair find the ideal property for $2.2 million, which requires a deposit of $440,000. Sam and Jo use $250,000 of their deposit funds and a security guarantee against Holly's property of $190,000.

4.9 BUYING PROPERTY TOGETHER

When sole ownership of a property feels out of reach, many look for creative ways to enter the market, such as co-ownership.

Let's look at options to co-buy or co-own property, including structures for commercial property and options beyond the traditional couple. Banks will take their own view when lending to dual parties, which also needs to be considered.

1.Property Planning

All parties should start with the end in mind. Questions to consider are:

- What are the individual timeframes for the ownership period?
- Are they aligned?
- If one party wishes to sell, can the other party buy them out and on what terms?

Buying

Once you find the ideal property, there are significant acquisition fees and ongoing holding costs, including stamp duties and taxes. (See previous sections.) It is best to have an agreed-upon budget and plan for these.

- How will acquisition costs be funded and divided?
- Who is responsible for the timely payment of ongoing costs such as council rates, insurance and any applicable state taxes?
- If one party incurs or funds more costs than the other, what is the plan for reimbursement?

Selling

Suppose all parties decide to sell the property at some point. In that case, there needs to be a clear understanding of the ideal sale price and settlement terms to avoid rash and in-the-moment decisions when negotiating with potential buyers.

Unlike other asset classes, such as listed shares, property is generally an "illiquid asset", which means that property has a long lag time to prepare for sale and to settle post-sale. This results in a delayed liquidity event and might be a potential challenge for individual parties looking to part ways or who need the funds for urgent purposes.

Given these factors, good planning and setting of expectations between parties at the beginning, middle and end are crucial.

2. Ownership Structures

Joint Tenancy

A common approach for couples where all "titleholders" hold equal shares. In this structure, if one party passes away, their ownership will automatically transfer to the other owner(s). While this is straightforward, it is important to note that the property cannot be transferred to others or left in a will as part of an estate.

I) Tenants in Common

Here, ownership is held separately, either as a split or unequal share, with the ability for owners to divest their interest independently of the other owner/s. Usually, this is a better structure for non-spousal owners, such as relatives, friends or co-investors, especially if one person knows they plan to sell their interest earlier than the other.

II) Collaborative Housing

A structure to buy property as tenants in common, sometimes acting as their own developer before dividing the property into individual titles. The aim is to make owning or renting less cost-prohibitive, while recognising that owners value co-participation and financial independence. At a macro level, the collaborative housing community is influencing how housing is designed and delivered to the market.

III) Special Purpose Vehicles or SPVs

The SPV is simply an entity established for the sole purpose of property ownership. SPVs are a standard structure for larger property transactions and for segregating ownership interests. The advantages are flexibility in changing titleholders, potentially limiting liability, and centralising the costs of managing the property.

IV) Property Syndication

A structure established as a managed investment group with several investors. Typically, capital is pooled to buy property such as large commercial assets via ownership as units in a trust, for example. The investors share income, capital appreciation and the costs proportionately after operating expenses. This is a suitable mechanism for larger property investments that would be out of reach individually, as it offers a broader exposure to different categories of investment.

Property syndicates cover "retail" investors who are open to the wider market with lower minimum contributions, and the traditional wholesale market with higher hurdles and expectations of risk awareness.

3. Property Co-Ownership Summary

STRUCTURE	SUITABLE FOR	KEY FEATURES	FLEXIBILITY
Joint Tenancy	Couples	Equal shares, right of survivorship	Low
Tenancy in Common	Friend, Siblings	Unequal shares, independent transfer/sale	Medium
Collaborative Housing	All co-owners	Custom rules for use, exit & disputes	Essential
SPVs	Commercial Investment	Holds property, limits liability	High
Commercial Syndicate	Investors	Pool funds professional management, unit trust	Highest

4. Legal & Tax Considerations

For varied ownership structures, a legally binding agreement is essential. It should cover ownership shares, financial contributions, dispute resolution, exit strategies and what happens on exit. An upfront agreement will create clearer expectations and protect all parties.

Always seek financial advice before entering any co-ownership or syndicate arrangement, as the tax implications throughout and on exit can be complex.

5. Property Grants & Concessions

Co-ownership can impact eligibility for government programs for stamp duty concessions or grants when buying with non-eligible parties. For example, a first home buyer grant will not be available if one party already owns or has previously owned a property.

6. Financing Property

All parties need to be aware that specific criteria and risks apply when considering finance as co-buyers.

Ownership Structure & Documentation

Credit Providers will need the ownership structure outlined and may insist on a co-ownership agreement that outlines rights, responsibilities, and exit strategies.

Outside of very large transactions or syndicated structures, the financial information of all co-owners will be reviewed by the lender. Each person's capital position will be a relevant part of the application. For example, if some titleholders/borrowers have a weaker financial profile, this can impact the application as a whole.

A key point to understand is that liability is typically *"joint and several". While there may be multiple parties,* there is typically only one asset. Any defaults by one co-owner can impact all parties. So be mindful of who you get involved with and the potential impacts.

Serviceability is Key

For investment properties, it is common that a shortfall for servicing debt exists between rental income and loan repayments. Lenders will want to see that there is supporting income from co-owners to make up any shortfall in rental income.

When comparing properties and potential rental income, also factor in the interest charges on lending to get a bigger picture of which is the better choice. An investment property in a 'higher-risk' rural location may receive a higher loan interest rate than a comparable urban choice.

Substantial Benefit & Representation of Titleholders

As a general rule, all titleholders need to be represented under mortgage arrangements, either as a borrower or guarantor. Further, under the Banking Code of Practice, banks must ensure each co-borrower receives a substantial benefit from the loan and will assess the risks of being a co-borrower or a guarantor for each person involved.

Syndicates & SPVs

For commercial property, banks may require the use of an SPV (e.g. a company or trust) as the borrowing entity, with directors or unit holders providing guarantees. In commercial syndicates, banks look at the syndicate structure, the experience of the operators, and the collective creditworthiness of the SPV, which requires a lot of supporting information.

For substantial loans, be aware that banks may share risk among other lenders, with an agent bank managing the overall position. This approach may deliver varying or extra covenants in the form of loan conditions on new borrowers or lenders joining the syndicate.

IS CO-OWNERSHIP FOR YOU?

Co-ownership is a practical way to buy property with friends, siblings, or other non-traditional partners, which requires clear legal agreements and planning.

The correct structure is essential.

- Joint Tenancy and Tenancy in Common are vehicles to protect the interests of co-buyers, while Collaborative Housing is a good option for community development projects.
- Syndicates and SPVs allow individuals to access high-value commercial assets with professional management and shared risk.

5 CONVEYANCING

Conveyancing is the process of transferring the title of a property from one party to another.

A typical conveyancing transaction contains milestones including the exchange of contracts (whereby equitable title passes) and the completion or settlement stage (whereby legal title passes).

A property purchaser must ensure that they obtain a good and marketable 'title' to the land and that the seller is the true owner.

The vendor's statement (or 'section 32') sets out to a potential purchaser the details affecting the property's title, such as any mortgages, leases, caveats, easements, the zoning, rates and so forth. If the seller is aware of anything from other parties that may have an impact on the value of the property, such as roadworks or acquisition for public housing, this must also be disclosed in the vendor's statement.

In Australia, this process is supported by a system of land registration to assure purchasers of land are taking good title.

Almost all conveyancing transactions in Australia now run through a digital platform known as PEXA (Property Exchange Australia), a listed company on the ASX, to which almost all Lawyers, Conveyancers, Lenders and relevant Government authorities are connected, such as State Revenue Office, local Councils and water authorities. All hard copy titles are steadily being converted to electronic digitally controlled titles, as conveyancing occurs for each property. You can learn more about PEXA at www.pexa.com.au.

5.1 WHAT YOU NEED TO KNOW

1. Specific Commercial Terms

You should confirm the particulars of sale are accurate.

2. Cooling Off

In certain circumstances a cooling off period after signing can apply (but not if a property is purchased at or near auction).

3. Finance

You should ensure you can finance the transaction if finance is needed, prior to signing a contract otherwise in certain circumstances you can seek to make the contract conditional upon finance approval. This will not apply if the property is for auction.

4. Deposit Bond

In certain circumstances you can explore utilizing a deposit bond instead of paying cash for your deposit (this will be subject to vendor's consent, which should not be unreasonably withheld).

5. Purchaser and/or Nomination

You can elect to nominate a different ultimate purchaser before settlement of the transaction.

You may need to be careful to ensure not to elect a nominee that does not exist at time of signing the contract, or double stamp duty issues can arise.

If you elect your company to be the purchaser, you may be required to personally guarantee the obligations upon your company under the contract (which is standard commercial practice in these matters).

6. Identity of Land

You should check the identity of the land is identical to that noted in the certificate of title/plan of subdivision. You can do so by engaging your own independent consultant.

7. Caveat Emptor

Caveat Emptor is Latin for "let the buyer beware". This principle puts the onus on you as the purchaser to fully examine and be satisfied with the property before purchasing. It particularly applies to any buildings on a property.

8. Building and Pest Inspections

A building inspection report provides a written account of the condition of a property. It should tell you about any significant building defects or problems such as rising damp, movement in the walls (cracking, safety hazards or faults. An independent pest inspection can similarly assist with informing you of any pest problems with the property, including termites.

We recommend you obtain a building report and pest inspection report before you exchange sale contracts (or at worst shortly thereafter so any problems with the property can be identified which, if left unchecked, could prove costly to repair.

If there are any issues you want to be fixed prior to settlement, a special condition may be included in the contract to specify the requirement.

9. Penalty Interest

Usually, there is a penalty interest rate and associated costs if the matter does not settle on time, by reason of a delay caused by the purchaser or their financier (as is standard in all conveyancing transactions).

10. Chattels

The chattels sold with the property are outlined in the particulars of sale in the contract of sale. If you are agreeing to buy additional chattels from the vendor, this needs to be communicated to your conveyancer. This can be relevant to the stamp duty payable on the purchase.

11. Deposit

The deposit is generally payable at the signing of the contract and is normally 10% of the purchase price. In certain circumstances this can be negotiated.

12. Planning

You may wish to contact your local planning authority to discuss any proposed plans indicated in a vendor's statement.

13. Easements

We suggest the property be checked thoroughly for easements.

14. GST

We recommend you speak to your accountant in relation to GST. For example, purchasers are required to collect GST at settlement, in relation to all new off the plan transactions, and in relation to all commercial property transactions where they are not 'going concern', on behalf of the Australian Tax Office.

15. Owners Corporation

With respect to strata title properties, you should read and understand the owners' corporation body corporate rules. Please also note any minutes of meeting indicating special levies may be struck.

16. Foreign Owner Withholding Tax

Where a vendor is a foreign owner, the purchaser must withhold 12.5% of the purchase price at settlement, if the purchase price is $750k or more.

To prevent this occurring in the case of an Australian resident vendor, the relevant certificate must be obtained from the Australian Tax Office.

17. Financial Advice

It is of course prudent to obtain financial, accounting and/or business advice prior to signing the contract.

Conveyancing is an important part of the property acquisition sale or purchase process, and as with all areas of property, you should seek professional advice and support.

6 LEGAL CONSIDERATIONS

6.1 ASSET PROTECTION

When contemplating a property acquisition, asset protection must be an important consideration.

There is a growing realisation that for many people running their own business or who are in a position of responsibility, their personal assets are highly exposed as their personal liability increases. Protecting property assets includes determining the most appropriate structure to hold your business. Once there is a threat to assets, it is likely to be too late to put in place the appropriate asset protection structure.

When purchasing a new property, it is therefore important to:

- Where possible, ensure that capital injections into the business or property acquisition, generally in the form of loans, are secured over those assets of the business venture or the property.
- Ensure personal and business assets are not at risk from creditors.
- Where possible, avoid the provision of spouse/ personal/director guarantees, which expose personal property assets.
- Ensure the above measures are relevantly documented.

A common property protection strategy is for the partner/ spouse to hold assets in their name only, as the spouse 'less at risk'.

Other structures that can assist with asset protection include family trusts and self managed super funds.

6.2 FAMILY TRUSTS

Property can be held in a variety of structures, which generally have tax considerations, asset protection impacts, or both.

When not in individual names, a common structure to use is through a discretionary or family trust. This is where property is held by a trustee for the benefit of others (i.e. beneficiaries) and can be effective entities to hold and protect assets.

Generally, a beneficiary of a discretionary trust does not have any right to the assets of the trust until the trustee exercises his discretion to distribute its income or capital to a beneficiary stipulated in the trust deed. Accordingly, the property and other assets of the trust are not usually exposed to creditors.

If a trust is established for the purpose of asset protection, it should not generally operate a business or engage in any other risk related activity from this trust.

6.3 RELATED PARTY TRANSFERS

In Victoria, there is no stamp duty chargeable in respect of a transfer of property between those in a marital relationship or genuine de facto relationship. However, this exemption now only applies to owner occupied, and not investment property.

Stamp duty may also apply where there is a subsequent transfer to a trust, notwithstanding it may be controlled by the transferor, if the beneficial ownership of the assets change.

6.4 PROPERTY TITLE TYPES

I) TORRENS TITLE

Torrens title is a system of land title where the register of land holdings maintained by the relevant central authority guarantees an indefeasible title to those included in the register. Land ownership is transferred through registration of title instead of using deeds. This was introduced to simplify land transactions and to certify an absolute title to real estate.

II) STRATA TITLE

Introduced in 1961, Strata title is a form of ownership devised for multi-level or horizontal subdivisions with shared areas. This terminology refers to apartments being on different levels, or 'strata'.

Strata title schemes are composed of both individual lots and common property. Lots, which are typically apartments or car parks, are each shown on the title as being owned by a 'lot owner'.

They are registered under the Torrens system described above.

III) COMPANY SHARE

This type of property title constitutes a company, incorporated specifically for the purpose of the property ownership, as the registered owner of all the land and the whole of the building in a development.

Accordingly, ownership is recognized through a shareholding in the company which gives a person the right to occupy a portion of the building.

A purchaser does not obtain title to the portion of the property they occupy, and legal advice should be sought before committing to a property of this type.

These types are becoming less and less common.

6.5 FAMILY LAW

Family law is another area that impacts on property ownership, particularly in respect of any financial separation of married or de facto partners.

To learn more please see our Family Law Guide on our website or ask us for a copy.

7 ESTATE PLANNING

While it may not seem a priority, (especially for younger people) estate planning is an important part of the property acquisition process.

We have outlined some very basic information below in respect to the relevant issues.

For further and more detailed information, please see our Estate Planning Guide on our website or contact us for a copy.

7.1 WILLS

It is strongly recommended that all people (especially those with a property) have a valid will, and the purchase of a new property can be a good time to arrange this.

This is the best way to ensure that your assets are left to your loved ones; making life easier for those you leave behind.

Your assets will therefore not be managed by the state government who in certain circumstances will deal with estates where there is no valid will.

7.2 POWERS OF ATTORNEY

Many people also decide it is appropriate to have 'powers of attorney'.

A power of attorney is vital if you want someone to take care of your financial and legal affairs or want someone to take care of your affairs if you have an accident or sudden illness which leaves you incapable of doing it for yourself. This includes facilitating medical decisions on your behalf if you become unconscious or otherwise incapable of making those decisions for yourself.

7.3 ASSET PROTECTION AND ESTATE PLANNING

Aspects of asset protection often tie into estate planning issues, with respect to how assets are owned prior to death.

Most legal advisers can assess your current position in this regard and advise of the steps that are available to protect your assets.

As a general estate planning consideration, property is a class of asset that is impacted by either survivorship or full estate administration.

For survivorship, jointly held property becomes completely the property of the survivor by law, requiring a small application to the Land Titles Office to reflect the change on the title. In other words, it doesn't form part of the estate of the first person who dies but will pass automatically to the surviving person.

7.4 CGT CONSIDERATIONS UPON TRANSFER AFTER DEATH

If the dwelling is owned in your name (that is, not the name of a company or trust), there should be no CGT payable when it passes on to your 'legal personal representative' (LPR) or a beneficiary of your estate.

If your LPR or beneficiary sells the dwelling and the contract settles within two years of your death, they should be able to claim the main residence exemption (and therefore pay no CGT because of the sale) if the following circumstances are satisfied:

- You acquired the dwelling after 19 September 1985 (i.e. it is a post-CGT asset), it was your main residence immediately before your death and it was not then being used to produce assessable income; or
- You acquired the dwelling before 20 September 1985 (i.e. it is a pre-CGT asset), regardless of whether it was used by you as your main residence.

There is no need for your LPR or beneficiary to use the dwelling as their main residence during the two-year period from your date of death. Even if the dwelling is rented for a period after your death, the main residence exemption can be claimed if the dwelling is sold within two years of your death.

The main residence exemption may still be available if the dwelling was, from your date of death until the date it is sold, the main residence of one or more of:

- Your spouse (provided you were not permanently living separately from each other at the date of your death); or
- An individual who had the right to occupy the dwelling under your will; or
- The person to whom the dwelling passed on as a beneficiary.

7.5 LAND TAX CONSIDERATIONS AFTER DEATH

Upon death, you have three years to dispose of a principal place of residence before the exemption from land tax ceases (unless more time is approved by the Commissioner).

You should consult your accountant if you wish to learn more about tax related matters.

8 PROPERTY INVESTMENT CONSIDERATIONS

8.1 OVERVIEW

The right property investment option usually depends on your personal circumstances.

Typically, options include residential and commercial established and off the plan properties, development sites, industrial or holiday accommodation.

These may be intrastate or interstate, and be negatively or positively geared.

The following general information aims to outline some of the issues you might consider when purchasing property.

8.2 CAPITAL GROWTH

Capital growth is defined as the increase in value of an asset or investment over time, measured based on the current value of the asset or investment, in relation to the amount originally invested in it.

Capital growth is one of the most fundamental investment objectives for investors and allows for flexibility with investment decisions when achieved.

In the long term, there are generally two key considerations on property investment:

- Growth does not happen in a uniform manner.
- There are generally higher establishment costs (government charges) when purchasing property compared with other investment alternatives.

These two factors suggest property investment can be a long-term investment with time in the market being a critical factor for your success.

8.3 CASH FLOW

Cash flow through rental income is a significant part of your investment. Your cash flow planning should be realistic and allow for a range of scenarios including:

- Periods of vacancy
- Maintenance costs
- Owners corporation fees (if applicable)
- Building insurance
- Council and water rates
- Property management fees
- Landlord's insurance to protect your asset in case of vacancy or non-payment of rent. Allow for 46 weeks' tenancy per annum
- Estimate an interest rate of at least 6.0% (even though at the time of writing we are experiencing record low interest rates).
- Another factor that can bring certainty is to fix your interest rate - which we have discussed previously in this guide
- Income protection. To protect your cash flow, you need to protect yourself. If you are not working and receiving income all the calculations go out the window as your gearing benefit often relies on the tax savings you make

Can you achieve both capital growth and positive cash flow from property investment?

Yes, but often an investment property can be categorised by the potential to be likely to grow in value (capital growth) such as a property with a large land component in a premium area or a cash flow property like holiday accommodation. It is important to ensure the appropriate property selection with the appropriate rental returns.

8.4 USE OF GEARING

Unless you can pay cash for your property, financing some or all of the cost of the investment will result in some level of 'gearing'.

There are three types of gearing:

1. Positive Gearing

Where property income exceeds direct costs, including interest, and produces a taxable profit.

2. Neutral Gearing

The draw! Income is equal to costs including interest from your loan.

3. Negative Gearing

Where income is less than all the resultant costs of property ownership.

Many consider property investment so that they have an asset base and income in retirement. Gearing enables the leverage of returns with the associated level of risk.

8.5 PROPERTY TYPES

I) RESIDENTIAL PROPERTY

The risk profile generally suits investors with a lower risk tolerance. Naturally, vacancy rates, damage by tenants or the location becoming less popular can affect the viability of your investment. It remains relatively illiquid compared with other asset classes.

II) COMMERCIAL PROPERTY

Generally, suits investors with a high-risk tolerance and lower disposable income. The levels of vacancy can be more frequent and for longer periods. As a result, landlords often entice tenants with rent-free periods and associated incentives. As a general comment, commercial property can be more affected by the general state of the economy.

III) VACANT LAND

This category can suit investors with a high-risk tolerance and strong disposable income, as there is generally no income (rental) generated from vacant land. Investors in vacant land are relying on capital gains to offset both acquisition and ongoing costs.

IV) HOLIDAY APARTMENTS, SERVICED APARTMENTS, HOTELS AND MOTELS

Suits investors with a medium to high risk tolerance and medium disposable income. The appointed manager has complete control over these sites, and the valuation is therefore linked to the success or failure of the business.

V) PROPERTY DEVELOPMENT

A more complicated area for property investment and will suit investors with very high-risk tolerance and a high disposable income. Risks are several, including delays in completing development, opposition for planning permits, unforeseen changes in location such as a withdrawal of service or inability to sell finished dwellings.

8.6 SUBDIVISION

Subdivision can provide the opportunity to improve the dwellings on land and maximize profit, though it can also represent the most complex and time-consuming property investment option!

Specialist advice should be sought, including a feasibility study, outlining all profit margins and contingencies.

The first step in getting approval for your subdivision is to provide a plan to council for approval.

If the plan meets all the council's requirements a permit will be issued or may not be required.

If there is a conflict, a planning permit will be required in which case some of the considerations may include:

- Is the subdivision appropriate to the location?
- Does the development match the future vision of the council?
- Will the development affect infrastructure expansion?
- Is there sufficient open space? An open space tax based on land value can be charged per land allocation.
- Are there defects that the development needs to overcome?

Strata plan requirements include but are not limited to:

- Proposed easements
- Details of public open space
- Proposed owner corporation
- Boundaries
- Stages of subdivision
- If there is a land acquisition it must be certified by the council and be accompanied by written advice from a licensed surveyor (signed and dated).

Developers submit the plan for certification to council and later it is lodged for registration with the titles office and issuing of new titles If they wish to construct buildings on the land they must also provide engineering plans to council for approval and obtain a building permit.

8.7 VALUATION METHODOLOGY

Perhaps the best way to determine the value of a property is to appoint a certified property valuer to undertake a professional valuation. You may also choose to do your own calculations based on the following methods.

I) SUMMATION

This involves estimating the land value based upon recent sales processes. It is possible to estimate the land value on comparable land when an established property was purchased and the dwelling demolished.

Once the land value is established then estimations are made on improvements such as:

- The main dwelling such as a house, shop, warehouse etc.
- Other buildings; sheds, garage, carports etc.
- Other improvements; driveway, irrigation systems, garden, fences etc.

The estimations are based on full replacement value less depreciation, which is determined, by the condition of the improvements. New properties with a builder's guarantee attract a premium over older properties without structural guarantees.

II) COMPARATIVE VALUE

Commonly used, this method focuses on supply and demand rather than replacement costs and improvements. This method relies on recent sales of comparable properties. The accuracy of this method relies upon the number, proximity and date of recent comparable property sales.

8.8 NEGOTIATION

In our view, successful negotiation is one of the keys to obtaining the best return on property investment.

Some guiding rules include:

- Establish a fair market price based on a valuation and property inspection checklist.
- Plan the negotiation, including:
  - Maximum purchase price
  - Minimum settlement time
  - Special conditions such as building inspections, finance approval, development approval or subdivision approval Research the vendor's reason for selling.
- Ask your solicitor to search copies of the title for mortgage details as several mortgages may indicate difficulties in servicing the loan. Speak to the agent, neighbours and the vendor directly, if possible, to establish reasons for selling.
- Curb your initial enthusiasm, especially around the agent.
- Identify and focus on the weak aspects of the property. All properties have areas of improvement that can be brought to the attention of the vendor or his agent. Any indication that the purchaser is attracted to the features of the property will be taken as buying signals.
- Research external factors to use as leverage such as:
  - Possible interest rate increases
  - Unemployment increases
  - Slowdown in market
  - Closure of local and regional factories
  - Planned developments with negative impacts
  - Possible school closures.
- Indicate you have several properties in mind (don't disclose which ones as this will give a good real estate agent an opportunity to sell against them).
- Be prepared to walk away from negotiations if the best price and conditions are not met. This may force the vendor to indicate the bottom price they are willing to accept.
- Property investment should not be an emotional decision. Pre-planning and being well informed on price and local issues gives you the best possible chance of a successful negotiation.
- Division 42 allowances such as building fixtures or fittings and furniture depreciate over time at different rates; a qualified quantity surveyor should create a depreciation schedule that reflects this for each property.

8.9 BUILD YOUR TEAM

As a summary, and considering so much so far, you may need to build a team of trusted advisers around you, including:

Property Strategist/Financial Planner/Adviser

Works with you to understand where you are and where you want to go (at a pace you dictate. Maps out a plan with a personalised solution.

Lawyer

Advises on contracts and vendor's statements before you bid or sign, handles transfer of ownership (conveyancing) and sets up company structures and trusts if required. Protects your assets.

Property Manager

Ensures high quality tenants and manages the day-to-day maintenance of your property.

Finance Broker

Helps to deliver the right finance structure, suitable flexibility and competitive interest rates.

Financial Planner/Adviser

Ensures you have the right personal protection in place and may provide advice if purchasing in self-managed super funds.

Accountant

A good accountant is crucial for maximising your financial benefits, recommended purchasing structures and complying with tax office requirements.

9 CONTACT US

9.1 AND **NOW...**

Regardless of the inevitable ups and downs of the property market, and interest rates, as driven by the Reserve Bank, Australia has a historically sound property ownership system. Technology advances will continue to benefit the efficient transacting of property interests within that system, for the foreseeable future.

Hopefully, you have gathered many key ideas and concepts from our Property Guide that will be a catalyst for more questions.

From that point, talk to your adviser team to harness your ideas and see what is possible.

Please reach out to your MCP contact or our Corporate Hub in Melbourne for further support.

ABOUT THE AUTHORS

From our origins in 1999, MCP Financial Services has offered independent finance broking and business advice.

Much of our experience in property is generated through relationships with Accounting Firms, Financial Advisers, Bankers, Estate Agents, Lawyers, Conveyancers and related professional groups and most importantly our clients.

LOCATIONS

VIC:
Melbourne
Bendigo & Goldfields
Geelong & Western District
Wangaratta & North East

NSW:
Sydney
Albury & Riverina
Coffs Harbour & North Coast
Tamworth & New England

QLD:
Brisbane & Gold Coast
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