

In The Know.....

March 2010 Newsletter

Inside this issue:

Is Negative Gearing History?	1
Why use a Mortgage Broker	1
Market Measures	1
Finance Structuring	2

Wealth Creation

The great thing about borrowing money to invest is that it allows you to gain access to a bigger slice of an investment that you couldn't afford if you were to use your own money. This is very much the case for investing in property. Another bonus that can occur from investing in property is the tax advantages associated with negative gearing.

Negative gearing can be broadly defined as when the outgoing costs associated with holding the property/investment outweigh the income that is generated by the property/investment. This results in a loss which can then be offset against the taxable income of the property owner. The tax deduction received has the ultimate affect of reducing the real loss on the property. The big trade off for making a loss on

this investment is the capital appreciation of that property over time.

The recently released Henry Tax Review has made recommendations for changes to the negative gearing system in Australia. Critics of negative gearing state that this type of benefit works in favor of the high income earner and to the disadvantage of those on lower incomes. There are others who say that the treatment of savings in the bank from a tax point of view means there is less of an encouragement for people to put their money into the bank. This in turns means that Australian Banks have to rely on funding from overseas, increasing the cost of funds which has the potential to drive interest rates up.

There are also others who blame negative gearing on the increasing housing prices as there are investors competing for the same properties as first home buyers and 'Mum and Dad' purchasers

Henry's recommendation was to offer a 40% tax relief on any income earned from investments, be that rental income, money in the bank or share dividends.

Treasurer Wayne Swan has come out and said that the Government will not be tasking up these recommendations so to this end property investors can still enjoy the benefits of negative gearing as they currently know them.

Cameron Morgan

Why use a Mortgage Broker

Mortgage Brokers are becoming an ever increasing mode of choice for the borrowers looking to finance their property purchases.

A survey conducted by Genworth Financial in 2009 found that 41% of all borrowers had used the services of a Mortgage Broker for their latest loan. This had grown from 30% in

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2005. The major reasons for more people choosing a Mortgage Broker was to obtain Specialist advice and guidance on products right across the market.

Other factors that were critical in the choice of using a broker were, the unbiased advice, a wider choice of products, to save time and get a better deal.

Significantly Mortgage Brokers that position themselves as the point of contact for the life of the loan and look to build long lasting relationships with their clients will

Market Measures: Median Values

Sydney

Houses: \$643,444

Annual Growth 12.0%

Units: \$406,000

Annual Growth 10.5%

Melbourne

Houses: \$554,000

Annual Growth 17.4%

Units: \$443,971

Annual Growth 18.3%

Brisbane

Houses: \$476,693

Annual Growth 5.9%

Units: \$362,093

Annual Growth 8.7%

Canberra

Houses: \$550,245

Annual Growth 13.9%

Units: \$414,404

Annual Growth 1290%

Perth

Houses: \$517,193

Annual Growth 6.8%

Units: \$489,465

Annual Growth 8.8.8%

(Source rpdata.com)

Finance Structuring for Investing

Choosing the correct Property is crucial to your future wealth when it comes to property investing. The focus of the investor is obviously on finding the best property and paying the right price. However, just as crucial in your property investing business is making sure that the structure of lending is correct for your portfolio now and for the future.

Once the property is purchased often the investor's focus shifts to getting the lowest interest rate, or for products that have features that are not really required, or a loan that does not have the required features. Just like the research that is done when choosing the investment property the same goes for choosing the best financing structure.

Understand your financial goals

It is very important that you have your investment goals clear. This is the first stage in making sure that the lending products you are choosing will be able to grow with you as you get closer to your investment goals. Having the flexibility to move money around via a line off credit or setting up an offset account to allow a property to be used more tax effectively in the future could be crucial decisions now that save you money in the long term

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Understand your Numbers

It is vital that as part of your investment goals, you have a detailed understanding of your budget. This will allow you to make an informed decision as to whether you have the capacity to meet the loan repayments. This exercise will then dictate the type of property you can afford as well as help to focus on the correct loan product for your portfolio

Understand the various features of the loan

Now that you have your investment goals detailed and have a good understanding of your budget, the features of the loan will now become more important. A structure/loan that allows flexibility of repayments, ability to capitalize interest repayments, the option to split a loan into different amounts with different products, paying an annual fee compared to an application fee become important considerations. These are just a few examples of the features you need

to be thinking about.

Engage the services of a specialist

Choosing to work with someone who has good understanding of the available products is crucial. Further to this, it is also very important that this person understands your investment goals so they are better placed to advise you on the product and loan structure that best suits your individual situation. A certain product that works for one investor's situation may not be appropriate for the next investor.

Make an informed, educated decision

Now that you have all the facts in front of you, you should feel confident that you will be able to make a decision that will allow you choose a loan that is going to be the best for your current situation as well as going forward with your investment strategy and it does not always come down to the cheapest interest rate!

If you would like to have an no obligation, free discussion on your current loan structure then please contact Empower Wealth and one of our Professional Strategists will be able to evaluate your current lending structure and make any recommendations as to the possible restructuring of your loan portfolio

Cameron Morgan, Director
Empower Wealth

Upcoming Educational Workshops:

eSearch Superior Property
Wednesday 26th May

How to Build a Property Portfolio
Tuesday 18th May (Free)

For more information and to book visit:

www.empowerwealth.com.au

"Paying for the right structure now will save lots in the future"

**Cameron
Morgan**

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T: 03 9326 8900