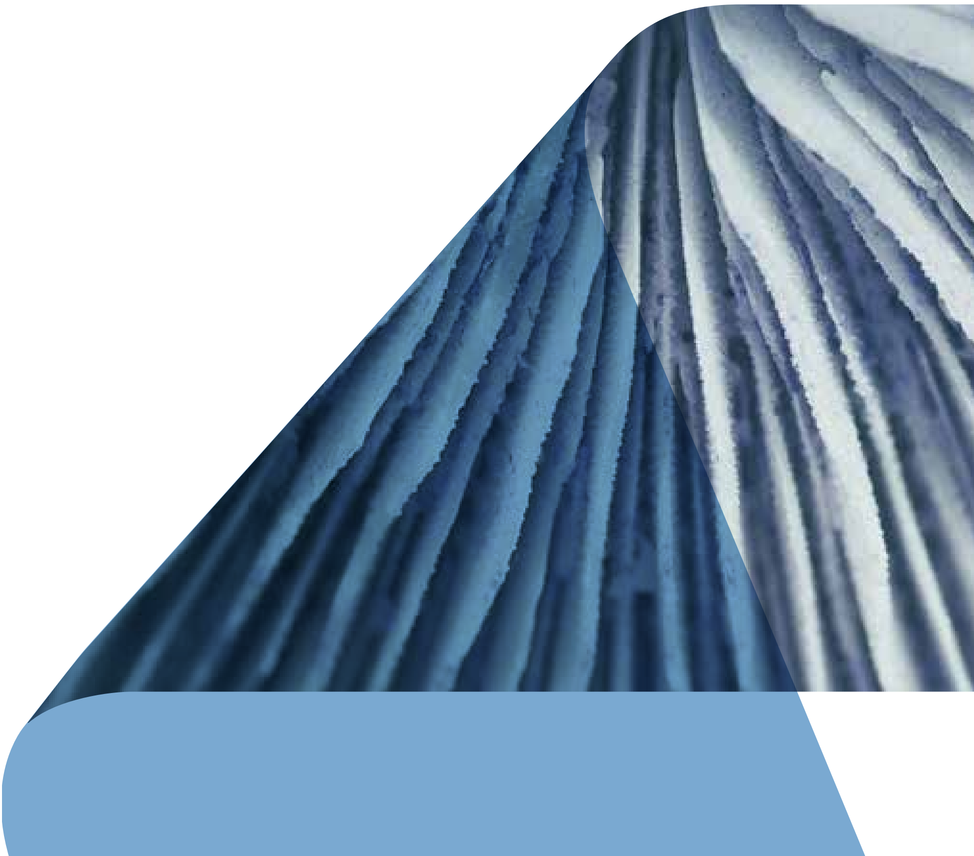
BOQ SPECIALIST
Distinctive banking

Partnering with you to buy your home or investment property



Contents

Buying your first home

If you have any questions our financial specialists are on hand to help you with:

- Estimating how much you can borrow
- Your deposit
- BOQ Specialist's waiver of Lenders Mortgage Insurance
- BOQ Specialist home loans
- Choosing a suitable finance structure
- Making the most of government grants, concessions and rebates

Whatever your specific needs, we can help, call us on 1300 131 141.

This guide contains detailed information and useful checklists that will help you focus on the most important things in terms of your financing options and give you the confidence to make an informed decision.

We have spent over 25 years helping doctors, dentists and other medical professionals build and run their practices with a range of tailored financial products and services.

As well as helping you with all your business and personal banking needs, BOQ Specialist can also help you buy your own home.

Buying a home is one of the biggest financial decisions you're likely to make. It's exciting, but there's a lot at stake.

Choosing the right location and type of home for the lifestyle you want is challenging enough without also being overwhelmed by the financial choices and options available to you.

Whether you're a first time buyer, next time buyer, renovator or property investor, this guide will help you navigate the process of finding the right home and the right loan.

Saving and borrowing for your home

The debt that is taken into consideration when lenders estimate your borrowing capacity includes but is not limited to your credit card limits, car loans, personal loans and HECS/HELP debt.

It's important to also include any plans you may have for the future in your calculations, and how they could affect your income or expenses. For example:

- Are you planning a family?
- Will you or your partner be going on maternity/paternity leave?
- Will you want to set up your own practice or go into partnership?
- Are you considering charity work with an organisation such as Médecins Sans Frontières?
- Might you need to move interstate for specialist positions?
- If your ideal home isn't close enough for on-call work, will you need to consider renting an on-call or emergency base?

Even with these considerations, you never know how your health, income and personal circumstances may change, so you need to be comfortable with the repayments you will make and this in turn will affect the amount you decide to borrow.

How much can you afford to borrow?

You might have a ball-park figure on how much you will need to spend on the kind of property you want, in the area you want but it's a good idea to begin by working out how much you can afford to borrow in the first place.

To estimate your borrowing capacity accurately, you need to consider what your total costs will be, the size of deposit you can afford and how much you can comfortably repay every fortnight or month.

A rough guide for calculating how much you can borrow is to multiply your gross income by four or five. For example: a first-year doctor earning a gross income of about $75 000 p.a. with limited existing debt could potentially borrow up to $400 000.

How much a lender is prepared to offer based solely on your current income can, however, vary from lender to lender. Lenders will estimate your borrowing capacity based on factors such as your income, expenses and debts and will factor in possible interest rate increases.

We can help

Our experience in providing finance for medical and dental professionals means that our financial specialists make their decisions not only on your current financial situation, but on our knowledge of your likely income trajectory. Home loan payments that stretch your budget today may become more comfortable as your income increases

How much do you need to save?

The amount you can pay as a deposit on your home will reduce the amount of the purchase price you need to borrow. Generally, lenders will want you to pay 20% of the purchase price before they will consider lending to you.

Saving for a deposit to buy your first home can be difficult when you've just completed a long course of medical study. You're likely to have HECS/HELP, other debts and rent to pay, all of which makes saving enough for a 20% deposit that much harder. But delaying your purchase until you have that 20% deposit may not always be the best move. You could save on ever-increasing rent and in the right economic conditions, purchasing sooner might allow you to lock in a deal when interest rates are low and you could even benefit from potential capital growth.

It is possible to borrow more than 80% of the purchase price, but most banks will usually charge you Lenders Mortgage Insurance (LMI). It's not compulsory, but many lenders will require it as a condition of settlement.

Contrary to popular belief, LMI protects the lender – not you. If you were to default on your loan, LMI covers the lender for any shortfall in a mortgagee sale.

LMI is an expensive extra cost, especially when you also have legal fees, stamp duty and other things to cover. For example, if you borrow 95% on a $350 000 property, LMI could cost you more than $8 000.

We can help
We are geared to lending to healthcare professionals. Our expertise and understanding of this sector allows us to offer up to 100% home loans, without Lenders Mortgage Insurance

Additional costs

Once you have worked out your deposit and borrowing capacity, you need to factor in other costs involved in buying a home:

- Legal fees, such as conveyancing and land transfer registration
- Stamp duty and other government costs. Stamp duty varies between states and territories and is usually the biggest government cost
- Building and pest inspections
- Strata searches if you are purchasing an apartment
- Valuation and bank settlement fees
- Mortgage Protection Insurance
- Moving costs
- Utility and telecommunications connection fees

Government concessions and rebates

If you're buying or building your first home, you may qualify for government assistance. The grants and assistance available and conditions to qualify vary from state to state and sometimes depend on circumstances. To find out more about the assistance available in your state visit firsthome.gov.au

We can help
Our financial specialists can help you make the most of government grants and rebates so that you receive all the assistance that you are entitled to

Budget checklist

The checklist below will help you estimate and budget for the funds you may need when you buy your new home.

Costs	Amount
Government costs	
Stamp Duty	$
Transfer of registration	$
Registration of mortgage	$
Lender costs	
Application fee	$
Legal fees	$
Lenders Mortgage Insurance	$
Valuation fee (depending on lender)	$
Other costs	
Solicitor/conveyancing fees	$
Pest inspection	$
Strata search or building report	$
Rates	$
Removalists	$
Connecting utilities	$
Land tax	$
House and contents insurance	$
New furniture	$

Finding the right loan

We can help
We are geared to lending to healthcare professionals. Our expertise and understanding of this sector allows us to offer up to 100% home loans, without Lenders Mortgage Insurance

A suitable finance structure

Before you embark on buying property, we recommend that you seek professional financial advice which takes your personal circumstances into account. It's vital that you understand the financial implications of your decisions and that you make the best decisions for your circumstances and your goals. It's all too easy to sign up for a loan that meets your immediate requirements, but doesn't fit your medium and long term goals.

Home loan types

Choosing a home loan can be difficult if you don't know the pros and cons of each type. The first thing to understand is the rate of interest that will be charged, and whether that rate will change or be fixed for a period of time.

Variable interest rates offered by most financial institutions move up or down in response to official rate changes. Official interest rates are fixed by the Federal Reserve Bank of Australia (RBA), and are determined by their assessment of a range of economic indicators – including the competitive nature of the mortgage market itself.

When the RBA announces its decision on the official interest rate each month, financial institutions will decide what their interest rates will be and will not necessarily follow the movement of the RBA's official rate.

Variable home loans

Standard variable rate
This home loan generally has features such as the flexibility to make extra repayments, an offset facility and a redraw facility.

Basic variable rate
This is a no-frills loan that tends to offer lower interest than a standard variable rate loan, but is less flexible and has fewer features and benefits.

Discounted variable rate
This is similar to a standard variable rate loan in that the interest rate offered will move with interest rate changes, but the rate offered is a discount of the standard variable rate advertised by the financial institution.

BOQ Specialist's competitive variable rate home loan
BOQ Specialist's competitive variable rate loan offers an interest rate that is discounted off the standard variable rate based on loan size and overall property profile. It's flexible, in that you can pay off the entire loan without penalty and if you've made additional loan repayments you can redraw when you need it. It comes with an optional offset transaction account. This fully transactional account offers the added benefit that any credit balance in the account can be offset daily against your home loan balance. You may borrow over 80% LVR without paying LMI. BOQ Specialist has a banking package offering value, rewards and service and comes with a suite of banking products and services. For an annual fee of $395, it comes with a home loan with up to five loan accounts, credit card and everyday account.

Fixed home loan

Fixed rate home loans provide you with surety of repayments by having the interest rate fixed for one to five years. You won't be caught out by interest rate rises during the fixed period, although if variable rates fall you won't see the benefit. There may also be significant penalties (or break costs) if you pay off the loan early.

BOQ Specialist's fixed rate home loan
Our fixed rate home loan has competitive fixed rates with terms ranging from 1 - 5 years. There may be penalties (break costs) for paying off the loan within the fixed period.

Split home loan

Split rate loans give you the surety of repayments for a portion of your loan and the benefits of a variable rate for the remainder of your loan. If you would like, you can have part of your loan fixed and part variable.

Construction home loan

Standard home loans give you the total loan in one lump sum. If you are building a new home or planning major renovations, there are loans (sometimes called construction or investment loans) that can be drawn down in stages, as and when you need to finance each stage of the project from land acquisition to final finishes. This means you pay less interest as you only begin paying interest on each part of the loan as you use it.

Line of credit home loan

This kind of loan offers a credit facility secured by your property. This option is useful if you are investing in property or shares, but is only recommended if you can manage your spending.

BOQ Specialist's line of credit home loan
Our line of credit loan allows you to draw and repay funds up to your limit at any time, and even enables you to make withdrawals through ATMs. You only pay interest on what you use, not the total credit limit.

Offset home loan

This is a transaction account that links to your loan account. Funds in the transaction account offset the amount owing on your home loan, which can reduce your interest payments.

BOQ Specialist's variable offset home loans
BOQ Specialist's variable home loans come with an optional offset transaction account, which means you can make extra repayments that minimise the interest you pay, but can be redrawn if you need to.

BOQ Specialist banking package
The BOQ Specialist banking package combines a home loan with a credit card and an everyday bank account. What's more, you are able to establish up to five separate loan accounts and the banking package includes initial valuations to a combined cost of $1 000 under the one annual package fee of $395. The package also includes an optional offset account on variable loans to reduce the interest payments you make on your mortgage and the convenience of an optional overdraft facility.*

Introductory or 'honeymoon' rates

If you're a first time buyer, a low 'introductory rate' can tempt you to sign up with a particular lender, but once the honeymoon period is over the rate typically reverts to a standard variable rate. These loans also sometimes have higher fees.

Repayment options

Principal and interest loan
Every repayment you make on this kind of loan pays off a combination of principal and interest. At first your repayments will mainly pay off interest, but over time the amount of principal being repaid increases. This is the most common type of home loan.

Interest-only loan
If you're buying an investment property, this option may maximise your tax deductions. The balance of the loan remains constant as you only pay the interest, and don't repay the principal.

We can help
BOQ Specialist variable home loan products offer an optional offset account, so you can reduce on interest, and can still access your money when you need it

*Subject to credit approval

Five steps to home loan approval

We can help
Our Financial Specialists can guide you through the process and will work with you to collate the information. To find out how much you can borrow and to get your pre-approval today, call one of our financial specialists on 1300 131 141

Five steps to home loan approval

Getting your first home loan can be a daunting and confusing process, but if you apply for a home loan with BOQ Specialist your financial specialist will take you through the whole process.

Step 1. Submit your application
Your BOQ Specialist financial specialist will take you through the application process, including the supporting documentation you need to present.

Step 2. Review the documentation
Once we have approved your application, we will send you the loan offer and other documents to review.

Step 3. Accepting your loan offer
Make sure you read the loan offer and other documents carefully. If you agree with the terms, sign and return the documents to us.

Step 4. Exchange information with other parties
Once we have received your signed acceptance of the loan offer, we will exchange information with your legal representative. When you are buying a property, your legal representative will contact us to book a settlement date, and they will then advise you of that date.

Step 5. Settlement
We will lodge the relevant documentation with the state/territory titles office on your behalf. The vendor's legal representative will then tell the real estate agent to give you the keys to the property.

Pre-approval on your home loan

Getting a pre-approval on your loan allows you to look for your home with confidence. You will know how much you can borrow and can speed up the process when you find the right place and want to make an offer, which puts you in a better position to negotiate the purchase.

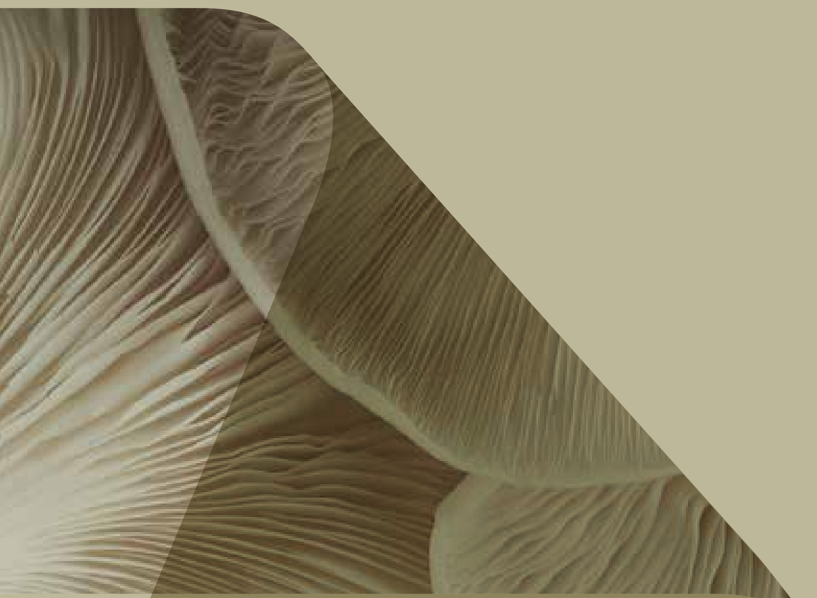
Property loans for temporary residents

There are specific requirements that need to be met if you are a temporary resident in Australia and wish to buy residential property. One of these is that you are likely to need approval from the Foreign Investment Review Board (FIRB – firb.gov.au).

Finding your first home

Some things to look for that might entail hidden expenses:

- Roof leaks and blocked or broken guttering. Visiting on a wet day is the best way to check for these, otherwise look for signs of water damage
- Substantial cracks in interior or exterior walls – ask about these to see how long they've been there, and whether the vendor has had them checked
- Leaking pipes or waterproofing – look out for damp patches on the other side of, or below, wet areas like bathrooms
- Drainage and waste pipe problems – look at the property drawings to check where drains are and note whether there are any trees that may damage or block pipes
- Roof damage – particularly look for broken or missing tiles, or signs that the roof needs repair or even replacement
- Floor damage – if the property has wooden floors, rotting or damaged joists might be indicated by sagging boards; missing or broken boards could be hidden by carpet
- Asbestos – look for asbestos roofing, sheds or extensions at older properties and especially for damage that may mean it would be safer to have them removed



Research the property and the area

Ideally of course you'll want to buy in an area that suits your needs and lifestyle, for example close to work or a direct transport link, schools or shops, or to parks and beaches. In the medical professions, you're also likely to have geographical considerations that mean you might have to compromise.

It's worth remembering that your first home is just a first step on the property ladder that can provide you with financial opportunities further down the track. You might find something that's perfect for now and will also be a great investment for when you want to move on.

You'll know what kind of area and property you want, and what to look for in terms of your taste, practical considerations and lifestyle. Visiting the property more than once and at different times of the day and days of the week (even if you don't go in) will give you the full picture of street traffic, noise and other environmental factors.

Not getting the full picture on environmental factors can be an annoyance later on, but there are some specific things to watch for when you inspect the property itself that could seriously affect how much money the property will cost you in the long run.

If there are things that need fixing in the property, but otherwise it ticks all the boxes, you can ask if the vendor is willing to take care of those inclusive of the asking price, or will take a lower price to reflect the cost of necessary repairs.

We can help
To help you with your research, BOQ Specialist provides specific information for home buyers, including monthly national property market reviews supplied by independent valuation companies. Call and ask to speak to a financial specialist on 1300 131 141

Property checklist

It can be hard to keep track of everything when you look at lots of properties, so we've created a property checklist for you to use when you inspect.

Property details

Address

Date and time of inspection

Overall score out of 10

Real estate agent

Company

Agent name

Agent's phone number

Property type

House/unit etc

Notes

General

- Overall in good condition ☐ Yes ☐ No
- Lots of natural light ☐ Yes ☐ No
- Good security ☐ Yes ☐ No
- Potential for value increase ☐ Yes ☐ No
- Visitor parking ☐ Yes ☐ No

Location

- Quiet & tranquil ☐ Yes ☐ No
- Close to recreation ☐ Yes ☐ No
- Close to shops ☐ Yes ☐ No
- Close to restaurants ☐ Yes ☐ No
- Close to cafés ☐ Yes ☐ No
- Close to schools ☐ Yes ☐ No
- Close to public transport ☐ Yes ☐ No
- On a good street ☐ Yes ☐ No
- In a good neighbourhood ☐ Yes ☐ No
- Good mobile reception ☐ Yes ☐ No
- Broadband available ☐ Yes ☐ No

Kitchen

- Renovated ☐ Yes ☐ No
- Good condition ☐ Yes ☐ No
- Open plan ☐ Yes ☐ No
- Good bench space ☐ Yes ☐ No
- Good cupboard space ☐ Yes ☐ No
- Pantry ☐ Yes ☐ No
- Dishwasher ☐ Yes ☐ No
- Space for microwave ☐ Yes ☐ No
- Enough power points ☐ Yes ☐ No
- Good light ☐ Yes ☐ No
- Will your fridge fit? ☐ Yes ☐ No
- Do all appliances work? ☐ Yes ☐ No

Bathrooms

- Good condition ☐ Yes ☐ No
- Needs renovating ☐ Yes ☐ No
- Bath & shower ☐ Yes ☐ No
- Guest toilet ☐ Yes ☐ No
- Good condition ☐ Yes ☐ No
- Needs renovating ☐ Yes ☐ No
- Water damage ☐ Yes ☐ No
- Natural light ☐ Yes ☐ No
- Cupboard space ☐ Yes ☐ No

Bedrooms

- Built in wardrobes ☐ Yes ☐ No
- Bathroom ensuite ☐ Yes ☐ No
- Will your bed fit? ☐ Yes ☐ No
- Natural light ☐ Yes ☐ No
- Quiet ☐ Yes ☐ No
- Double glazing on windows ☐ Yes ☐ No
- Second bedroom ☐ Yes ☐ No
- Built in wardrobes ☐ Yes ☐ No
- Guest bedroom ☐ Yes ☐ No
- Built in wardrobes ☐ Yes ☐ No

Living room

- Good condition ☐ Yes ☐ No
- Needs renovating ☐ Yes ☐ No
- Spacious ☐ Yes ☐ No
- Will your couch fit? ☐ Yes ☐ No
- Natural light ☐ Yes ☐ No
- Separate dining area ☐ Yes ☐ No

Internal general

- Phone connections ☐ Yes ☐ No
- TV aerial/Foxtel ☐ Yes ☐ No

Heating/Cooling

- Reverse cycle ☐ Yes ☐ No
- Heating only ☐ Yes ☐ No
- Cooling only ☐ Yes ☐ No
- Under floor heating ☐ Yes ☐ No
- Ceiling fans ☐ Yes ☐ No
- Internal gas outlets ☐ Yes ☐ No

Laundry

- Internal ☐ Yes ☐ No
- Washing machine fittings ☐ Yes ☐ No
- Sink ☐ Yes ☐ No
- Storage space ☐ Yes ☐ No
- Clothes dryer space ☐ Yes ☐ No
- Washing line ☐ Yes ☐ No

Parking

- Garage ☐ Yes ☐ No
- Covered parking ☐ Yes ☐ No
- Off street parking ☐ Yes ☐ No
- Street parking ☐ Yes ☐ No
- Number of spaces

Outdoor area

- Balcony ☐ Yes ☐ No
- Garden ☐ Yes ☐ No
- Low maintenance ☐ Yes ☐ No
- Sunny ☐ Yes ☐ No
- Storage shed ☐ Yes ☐ No
- BBQ area ☐ Yes ☐ No
- Swimming pool ☐ Yes ☐ No

Please note: This checklist is a guide only and should not be relied upon as a comprehensive checklist.

The buying process

Auction tips:

- Go to plenty of auctions while you're looking around, just to get used to the process
- You will need identification to register, so take your drivers licence or passport
- Before you register to bid at an auction, make sure your deposit and finances are in place before you bid so that you can commit on the day
- Get the valuations and inspections (including pest and building inspections) done beforehand and make sure you're happy with them
- Get a pre-approval so you know how much you can bid at the auction
- The Department of Fair Trading will be able to provide you with more information on the auction process and relevant regulations in your state

Private treaty or auction?

Most homes in Australia are sold by private treaty or auction and negotiated through a real estate agent. In both cases, sellers want the highest possible price for their property, buyers want to get a fair deal and it's the real estate agent's job to find a happy medium – so it's worth getting to know the agents in the areas where you're looking to buy.

Private treaties

A private treaty is a sale negotiated with the vendor (which can take place over a period of time), and there is likely to be a 'cooling off' period before you commit to the purchase.

Private treaties usually conclude with the vendor and buyer agreeing to a price that both are happy with, which might be lower than the advertised guide price. Sometimes you can agree on a conditional offer, for example you may agree to buy the property on the condition that pest and building inspections are satisfactory. You may also withdraw from the sale during the cooling off period, the length of which varies from state to state. Equally, if the vendor receives a better offer during this time, they may ask you to beat that offer and if you can't, they may sell to the other party.

Auctions

At auction the sale is made to the highest bidder during the auction period – often in a matter of minutes – and there is no cooling off period, so you're immediately committed to the purchase and the sale is legally binding and unconditional.

In most Australian states, you are required to register your interest before bidding at auction, which you can do beforehand or on the day. Registering entitles you to bid, but it doesn't mean you have to do so.

When a property is presented for auction, the vendor sets a reserve price which is provided to the auctioneer but isn't revealed to bidders. When the reserve is met during bidding, the auctioneer will announce that the property is 'on the market' or that the 'reserve has been met'. After that, the bidding continues until there are no more bids and the property is sold to the highest bidder.

The buyer is then expected to sign the contract and pay a deposit immediately after the auction. The deposit is held in trust until settlement.

If the bidding does not reach the vendor's reserve price, the property will be 'passed in' rather than sold. Usually, the highest bidder has the first opportunity to negotiate with the vendor, through the agent. Sometimes a sale can still be achieved on the day.

We can help

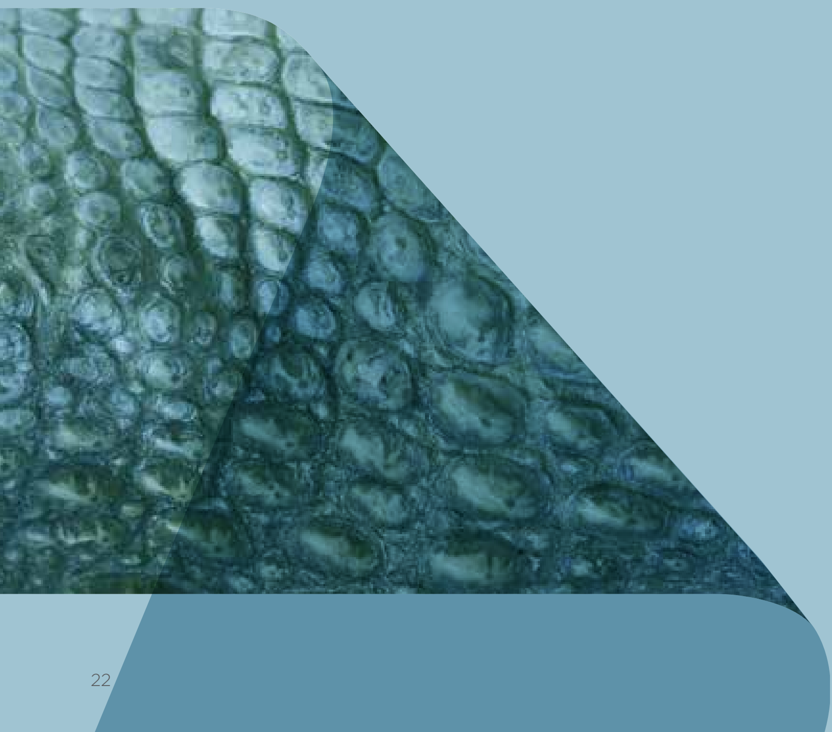
We are geared to lending to healthcare professionals. Our expertise and understanding of this sector allows us to offer 100% home loans, without Lenders Mortgage Insurance

Your next home (improvement)

Getting the most out of the renovation

There are plenty of things you can do to maximise on final value and resale value, when you renovate:

- Choose classic, timeless designs over what's trendy
- Complement or closely match the original architecture and design of your home
- Demolishing a brick wall will cost you 50% more than demolishing a timber wall
- Extending out is cheaper than going up – a new staircase costs approximately $10 000
- Swimming pools rarely add value to any home



Move on, or renovate?

As your life changes, you're likely to need different things from your home and you'll be looking to buy again. There are a number of reasons for wanting to move out of your existing home, but sometimes you'd rather stay in the area – and that might make it hard to find just what you want, where you want. That's when renovating might look like a better option than searching for and buying a new home.

Moving makes most sense when you want to move to a new area for one reason or another, or you simply wouldn't be able to do what you want to do to your existing home, either because of structural or space considerations, or local planning restrictions.

Here are some things to consider:

- Will you want to stay in the area for the long term, and does it have everything you will need in the future – such as the kind of schools you want to send your kids to?
- Does the existing structure of your house enable you to do everything you want to do?
- Can you get planning permission to do what you want to do?
- Can you stay in the house while you renovate, or will you need to find somewhere to rent locally? How much will that affect your budget?
- Will you need to supervise builders and contractors yourself or can you afford to employ a full-service building contractor?
- Will doing what you want to do over capitalise the property? Over capitalisation is where the amount you've spent renovating is more than the value it adds to your home. It's usually recommended that it's best not to spend more than 25% of the property's value on a renovation

Case study: Jack and Sarah's renovation

Jack and Sarah purchased their home for $700 000 in 2010 and the current value was estimated at $875 000 - $950 000.

In 2014 they were ready to move to meet the demands of their growing family. They liked the area, but their home was built in the 1970s and, as well as additional bedrooms and larger living areas, Jack and Sarah also felt it was in need of a general update.

After nine months of searching they realised that they would need to spend at least $1 400 000 to get what they wanted, and in all likelihood would still need to spend money on minor alterations. They decided to compare the cost if they moved with the cost of renovating.

Jack and Sarah's cost analysis

Option 1: Purchase new property

Estimated price	$1 400 000
Stamp duty	$62 500
Agents commission on sale (Approx. based on 2014 value $900K)	$23 750
Moving costs	$10 000
Improvements (Approx. and up to $100K depending on property)	$75 000
Total	**$1 571 250**

Option 2: Renovate existing home

Construction costs	$310 000 (Estimated)
New appliances, air conditioning, carpets, tiles, blinds, curtains	$55 000 (Estimated)
Rubbish removal & landscaping	$35 000
Total	**$400 000**

Jack and Sarah had their existing home valued, and the estimated market value (in 2014) after renovations was $1 450 000. It made more sense to renovate, as buying a new property could add an extra $621 250 to their mortgage while renovations would add $400 000, and they would be able to realise some extra capital on the value of the renovated home. Jack and Sarah decided to undertake the renovations and tightly manage the budget to ensure minimal overrun of costs.

Financing your renovation

Construction loans
Major renovations can be funded with loans that can be 'drawn down' in stages, as and when you need to finance each stage of the project. This means you only begin paying interest on each part of the loan as you use it.

Refinancing
Refinancing your home loan (which we explain in the next section) can enable you to borrow against the equity in your property and increase the loan to finance renovations.

Planning your renovation

Once you've decided that you want to renovate and what your renovation needs to achieve, you need to find out how much it will cost, and how it will be built. This is a job for an architect, who will suggest design ideas and solutions to meet your needs, and will draw up plans that can be submitted for planning permission, costed and built from.

Architects can also help you with getting planning permission from the local council. It's worth making contact yourself with the local planning officer early in the process to get an idea of what can and cannot be approved for your property. Looking at other approved DA's in your area might also help.

Once you are fairly confident you can get approval, you'll need to lodge a formal development application (DA) with the local planning authority, a process which differs from council to council. It usually takes several months (often six or more), and you will need to submit detailed building drawings and project plans, and these will also be made available to your neighbours for comment.

Executing your renovation

Once you've got permission, you can start building. It's always a good idea to get at least three quotes and to do as much homework as you can on your prospective builder's credentials, previous work and approach. Some architects may be able to recommend builders they have worked with previously.

While the work is underway, you and your family will have to live not only with disruption, mess, noise and restricted access to parts of your house, but also with builders and contractors coming in and out of your home. Your neighbours may also be inconvenienced, so you need to be prepared for the difficulties that may arise while the work is being done. It's another reason to find builders you can trust and who will work to make life a little easier during this hard time.

Renovation is always tough, but if it's done right, it's also well worth it not just in dollar terms, but in lifestyle and comfort too.

Buying an investment property

Investment property expenses

To run a successful rental property you'll need a detailed budget. Here are some of the expenses you might want to include:

- Advertising for tenants
- Loan interest
- Rates
- Insurance
- Professional services fees (such as an accountant or lawyer)
- Taxes and/or tax returns
- Body corporate fees – mainly for apartments and townhouses on shared land, and these can be quite expensive
- Property management fees – if you use a property management service
- Maintenance – floor coverings, interior and exterior painting, exterior cleaning (like gutters, decks, railings or water blasting slippery pathways) bathroom, laundry and kitchen upkeep, and don't forget replacing appliances if they are part of the rental package
- Lawn and garden care – you might not want to rely on your tenants to do this

Buying an investment property

Investing in property is different from buying a property to live in and comes with a different set of considerations. Before you even begin looking, it's important to consider what you want to achieve from the investment. Are you seeking capital gains from a quick make-over and re-sell, or would you like a steady income from rent? Your objectives not only influence what kind of property you look for and where, but it will also affect your budget and your financial structure.

Residential property is a popular choice for starting an investment portfolio, and it's important to understand all the pros and cons of all the options available to you before you make a purchase, and have strategies lined up so that you can stick to your plans and make money from your investment.

Investment property comes with responsibility

Of course you've considered the benefits of owning an investment property, but have you considered the responsibilities? If you're going to rent it out, you can either pay a managing agent or manage it yourself. It's cheaper to self-manage, which is tempting, but you will need to do everything yourself:

- Marketing and leasing the property
- Collecting rent
- Maintaining accurate records of expenses for your tax return
- Conducting inspections
- Managing repairs and maintenance
- Resolve any complaints or conflicts with the tenant

If you have plenty of time and the appropriate skills then this might be the best option for you. If you don't, it's worth the extra expense of using a reliable managing agent. Agents' fees will take a percentage (usually about 6-7%, which may be tax deductible) out of your rental income, but it's worth it in terms of reducing your stress and avoiding the potential for mismanagement.

Understanding the financial risk

Owning an investment property is usually a long-term investment. This means you need to be able to ride through the financial lows so that you are still there to cash in when the market goes through an upward cycle.

When you're working out how much you can afford to borrow to buy an investment property, it's tempting to try to maximise your borrowing against the purchase price to make the most of tax advantages. Borrowing up to 95% or 100% can seem like a great strategy, but if the market drops or interest rates rise you could find yourself with a loan you can't afford to repay, and a property you can't afford to sell. Consider having a 'buffer' in your finances so that you know you can still cover payments if there's a downturn, and you know you'll do well if there isn't.

Understanding the financial risk

As with any investment, research is all important before you commit. With investment properties, the key to success is continuous tenancy, as you'll need the rental income to help cover your loan repayments. Make sure that you have the kind of property that will attract good tenants, who will look after the place and pay their rent on time and gear your marketing and price-point to them. Even the best properties can see gaps in tenancy, so you may also consider suitable insurance to cover any unforeseen circumstances that might affect your rental income.

There's always a chance you could lose money, so taking the advice of an accountant, lawyer and financial planner is a good idea before investing in anything. Professional assistance in the investment process has helped many people achieve their financial goals through property ownership.

If you are investing in a unit, you may be able to simplify your research: a managing agency may have a complete history of the unit and the apartment block or, for a small fee you can get a strata search.

Market research

When you look for an investment property, you're not looking for your personal dream home. Remember, if you don't intend to live in it yourself, look at it with 'investment eyes' only.

Look at things like proximity to public transport, schools, shops and parks, and consider noise, neighbours and future growth plans in the area. Sometimes it's a good idea to check with the local neighbourhood watch or local police to get an insight into the relative safety of the area. Nobody wants to buy an investment property in a high crime zone, and taking the time to ask questions will help you avoid this.

If you have the time and patience to look at a lot of properties, and your financial plans don't call for an immediate start, then you might decide to wait for a bargain. They are rare but they do turn up – getting a top price may not be as important to the vendor as a fast sale.

Comparing different investment properties

When you're choosing investment properties, one way to decide which is the better investment is to look at the yield. The yield is the return (expressed as a percentage) that you will get on the cost of the property after expenses but before tax. Don't include the loan in this calculation, as the amount may differ depending on the property you buy. Your total return is the yield plus or minus any tax advantage, capital gain or loss, loan costs and interest.

Renovating the right property

If you already have renovation skills, or you're willing to manage and pay for a renovation project, then buying a cheaper property that needs work might represent a real opportunity. The secret is in budgeting the renovation correctly and only undertaking smart alterations that will add value. These can give you an early increase in value and help you attract higher rent and better tenants. If you have the capacity to service the loan while the property is being renovated it's a good option to consider.

If you need to spend money on renovations before you can rent a property out it's particularly important to pay the right price in the first place. It's easy to be tempted by a cheap 'renovator's dream' but you need to be careful (especially in the excitement of an auction) that you don't overpay. Build the cost of renovation and lost rent into your financial plan when you're calculating how soon you will break-even or make a profit, and make sure you can cover the expense.

Choosing the right loan

The right loan for an investment property is not necessarily the same loan you would take out for your own home. Our financial specialist can help you to select the best loan option and structure to meet your investment needs.

Interest only loans are often useful for investment properties if you still have a loan against your principal residence. During an interest-only period, you only pay back the interest that your loan incurs, so any spare cash flow can be used to reduce your home loan debt which, unlike the interest on an investment property loan, is not tax deductible.

We can help
To help you with your research, BOQ Specialist can provide specific information including monthly national property market reviews supplied by independent valuation companies. Ask for a financial specialist on 1300 131 141

Insurance considerations

Compared with the insurance you might be used to as a home owner, the insurance you need as a landlord needs to take other things into consideration. These include:

- Loss of rent if your property becomes uninhabitable due to some insurable loss (such as a fire)
- Loss of rent because the tenant left without giving notice or you had to evict them
- Theft or loss of your own possessions from the property
- Deliberate damage or vandalism to the property or your possessions – standard home insurance will normally only cover accidental damage

If you're thinking of using the equity in your family home to help buy an investment property, you should also review your life insurance. It is important to be sure that you have enough money to cover the mortgage should something adverse happen to you or your investment property.

Tax considerations

Owning an investment property is like running a business and, as with any business, income (in this case, rent) is taxable. This means you'll have to include your rental income in your tax return each year.

On the upside, legitimate expenses relating to the property are normally tax deductible. These are usually payments you have made during the tax year for things essential to the management of your investment property. These things include the interest you pay on the investment property loan, and normal repairs and maintenance. Capital improvements to the property, such as renovations that add to its value or increase the rent you could charge, are not tax deductible.

Tax laws can change at any time and as your investment property could be a mid- to long-term investment, you need to keep this in mind when you make your calculations. For this reason some property investors don't rely on tax savings in their financial plan, but simply treat them as a bonus when they occur.

When you decide to sell your investment property you may be liable for capital gains tax. If you have had the property for longer than 12 months when you sell the rate is reduced, but it is still an expense you need to consider.

For detailed and current information on the tax treatment of investment properties, we recommend you visit the Australian Tax Office website at ato.gov.au or talk to your accountant or tax adviser.

Positive and negative gearing

You've probably heard the phrases 'positively geared' or 'negatively geared' in relation to investment properties. A positively geared property means that the rental income you receive from your investment property is greater than all of the costs of owning it, including interest rates, insurances, body corporate fees, maintenance and so on. With a negatively geared property, the expenses are greater than the income, and you are reliant on tax deductions or future equity to make it worthwhile.

Sometimes the rent a property earns will always be less than the ongoing ownership costs (such as the interest on the loan) and management costs (such as the agent's fees), and you will need to make up the difference from other sources of income.

The loss you make on the rental property may reduce the tax you pay on your other income, but this is not guaranteed. If, over the years, the property does increase in value, you will only see a return on your investment after the property is sold, or if you decide to borrow against the equity.

You may be happy to put your own money into the investment in the expectation that the property will increase in value and compensate you in the long term.

The easiest way to influence the gearing of a property is by adjusting your expenses. Normally the one major expense you can change is the interest, usually by either borrowing more or less where possible.

Depreciation

You can also claim a depreciation deduction for items such as furniture and some appliances that you have purchased for an investment property. Depreciation works by writing off the cost of the item over a set number of years (known as the effective life of the asset). For properties constructed after July 1987 you can also claim depreciation of the building itself.

It's a good idea to start talking to a quantity surveyor or a depreciation specialist early so you make full and correct use of the available depreciation deductions. If you're using negative gearing, the higher your depreciation bill is, the more you can offset against your income.

Ownership structures

There are many different ways you can own an investment property, and the ownership structure can make a difference to the way taxes are calculated and managed. Different structures also offer different levels of separation between the property investment and your other possessions and businesses if things go wrong. Some of the more common structures are personal or joint ownership, or ownership through a trust or a non-trading company.

- Individual or joint ownership is where you buy a property in your own name or joint names. Any rental income you have left over after expenses is added to your personal income/s and is taxable. If your investment property makes a loss because the expenses are more than the rental income, it might be possible to deduct that loss from your other sources of income. This can reduce your total taxable income and therefore the tax you have to pay. It won't recover the entire loss, just a percentage of the loss up to the total of any tax you have paid.
- Ownership through a trust helps separate the income or loss from the rental property from the rest of your commitments. Trusts have separate accounts and tax returns, which can add to your accounting costs. Trust income can be shared by the members of the trust, which can make it easier to share the proceeds of a rental property with others, such as family members.
- Company ownership is where you establish a company and the investors in the property become the company's shareholders and directors. The rental property is owned by the company and the income, loans and expenses are all in the company's name.

It's important to get advice from your accountant, lawyer and/or financial planner before deciding which structure would best suit your requirements. For the most up to date information on investment income tax visit the Australian Tax Office website at ato.gov.au

Refinancing your home loan

Five reasons to refinance

- Get a better deal. If you think you can get a better deal on your interest rate or you can structure your home loan to better suit your needs, then refinancing is a good idea
- Home loan product changes. Lenders are always changing their products, so if your home loan is more than five years old, it's worth looking around to see if you're missing out on new features such as additional payment options, offset accounts and interest only repayments
- Consolidation of debts. You can save thousands of dollars in interest and fees by consolidating your credit card, car loan and personal loans into your home loan – and you can structure your repayments so that there is one single statement and regular repayment. Home loan interest rates are less then credit card rates, but rolling your short-term debts into a long term debt means you will only save money in the long term if you pay both principal and interest and continue to make the same payments you were making before you consolidated
- Change in circumstances. Starting a new relationship, ending an old one, getting married, starting a family, getting a promotion or changing career – they all affect your financial needs. Reviewing your home loan to see how refinancing might help you meet those financial needs might make a big difference
- Renovating. If you've had your loan a while, you've also had your home a while and there may be equity you can use to renovate. By refinancing you could borrow against the equity to pay for the renovations

Refinancing your home loan

'Refinancing' simply means taking out a new loan to replace your current loan. Refinancing your home loan is not only for buying an investment property, financing home improvements or a renovation; it also provides a great opportunity to negotiate a better deal on interest rates and fees or, if your circumstances have changed, to find a new home loan to better suit your current needs.

And its easier second time round – you've been through the paperwork for your existing mortgage, so you know the procedure and should have a lot of the information from your original mortgage documents to help you navigate the process.

Refinancing costs

When you're refinancing your home loan you need to make sure the up front costs don't cancel out the savings you will make. Make sure you include everything in your calculations and refinancing your home loan could give you significant savings.

Exit fees
Home loans issued before July 2011 will generally have exit fees attached. Check with your lender how much they are.

Establishment or application fees,
loan approval fees, settlement or handling fees
You might have to pay some or all of these for your new loan depending on the lender. Check with your prospective lender.

Additional stamp duty
If you refinance to borrow more on your home loan, you will need to pay extra stamp duty.

We can help
Take advantage of BOQ Specialist's extensive experience in providing financing for medical and dental professionals – ask one of our financial specialists about the loan products and services we offer specifically tailored to your business and personal needs

Definitions

Home loan term(s)	Description
Offset account	This is an account attached to your loan. The interest on the attached loan is calculated on the loan principal minus the balance in the offset account, helping to reduce interest.
Application fee	This is the fee that you may need to pay when you apply to a lender for a home loan.
Approval in principle (or pre-approval)	See ‘Pre-approval’.
Comparison rate	A percentage figure which includes both the interest rate and most fees and charges you will need to pay during the life of the loan. Other costs or savings, such as redraw fees, early repayment fees or fee waivers are not included.
Construction loan	These allow you to take out your loan in small, incremental stages rather than in one lump sum so that you can finance each part of the project as it arises and only pay interest as each increment is used.
Contract of sale	This is a written agreement between you and the vendor that provides details of the terms and conditions of a property sale.
Conveyancing	The legal process of transferring ownership of property from the seller to the buyer.
Deposit	Usually 20% of the purchase price of the property, this is the amount you need to pay from your own funds towards the property price. It is non-refundable after the contract has been exchanged. If you pay less than 20% deposit, most lenders will ask you to pay Lenders’ Mortgage Insurance.
Draw-down	The term for the incremental amounts loaned to you in a construction or investment loan. By drawing down what you need in stages, you only pay interest on what you use as you use it rather than on the whole principal.
Equity	This is the difference between the value of a property and the amount of the loans owed on that property. (Negative equity is where you owe more than the property is worth).
First Home Owner Grant (FHOG)	This is a grant from the government for first home buyers. Visit firsthome.gov.au to find out more.
Fixed interest rate	The interest rate at which your loan is fixed for a period of one to five years. This means your repayments won’t change during the fixed rate period, even if interest rates do.
Government charges	Amounts and types of charges you need to pay to the federal and state governments when you buy a property, such as stamp duty, transfer and mortgage registration fees. Amounts vary from state to state, so check with your state government website.
Guarantee/ guarantor	A guarantee is a promise made by another person to repay your debts if you are unable to do so. The guarantor is the person providing the guarantee.
Honeymoon rate	See ‘Introductory rate.’
Interest-only loan	As the name suggests, you only pay the interest accruing on the loan and do not make payments on the principal. This means the amount of the loan is not reduced for the interest-only period.
Introductory rate	Also known as a ‘honeymoon rate’, this is a tempting low interest rate that lenders offer at the start of the loan period. Once the introductory rate period is over, the loan generally reverts to the standard variable rate.

Home loan term(s)	Description
Investment loans	As the name suggests, these are loans specifically designed for investment property purchases. There are many varieties, from simple standard variable loans to construction or line-of-credit loans.
Lenders Mortgage Insurance (LMI)	LMI is an additional insurance that most lenders will charge you if you need to borrow more than 80% of the property price. LMI protects the lender if you default. BOQ Specialist does not require LMI on loans of over 80% to medical professionals.
Loan agreement (or facility agreement)	This is a written agreement between you and the lender that provides details of the terms and conditions of your loan.
Lump sum payment	This is an additional payment, on top of your scheduled repayments, that you make against your loan. If you have a BOQ Specialist loan with an offset transaction account, you can redraw these payments at any time.
Mortgage/ mortgagee/ mortgagor	A mortgage is the legal document which secures your property against a loan. The lender who holds the security is the mortgagee and you, as the borrower offering the security, are the mortgagor.
Official interest rate	This is the interest rate set each month by the Reserve Bank of Australia (RBA). Your lender will change their variable interest rates according to the official interest rate but may not follow the same movement.
Pre-approval	Also known as ‘approval in principle’, this is when a lender will make an estimate on how much they can lend you based on the information you provide before you find a property.
Prepayment	See ‘Lump sum payment.’
Principal	The amount you owe on a loan. Interest is calculated on the principal.
Principal and interest loan	Each payment you make on this kind of loan pays off both the interest and some of the principal. This means the amount of the loan is reduced and over time you will pay less interest and more of the principle.
Redraw	This feature allows you to withdraw lump-sum or advance payments you have made (but not payments made as scheduled repayments).
Refinancing	Taking out a new loan to replace your current loan, usually either to borrow more against equity or take advantage of better loan products.
Repayments	These are the scheduled payments that you make on your loan, as specified in your loan contract. Usually these payments are made fortnightly or monthly.
Settlement	This is the end point of the property transaction – the moment you get your keys as the new owner.
Split loans	Your loan is split into two, one with a fixed and one with a variable interest rate.
Stamp duty	One of the government duties that you may need to pay when you buy a property. The amount of stamp duty (and whether it is charged at all) varies from state to state, so check on your state government website.
Variable interest rate	Variable interest rates move up or down depending on your lender’s response to official interest rate announcements. If you have a variable interest rate loan, your minimum payments will also go up or down.

Contact us

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