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# Investing in Real Estate - FAQS

### What are the advantages of property investment?

Smart property investment can offer a steady ongoing income and/or the potential for capital growth. Traditionally, property investment is considered a good long-term investment strategy.

### Is it easier if I already own a property?

If you have equity in any existing property, for example your family home or another investment property, you may be able to use this to increase how much you can borrow and more quickly build a substantial property portfolio. Ultimately it will depend on your personal financial situation and investment goals.

### How does the housing market work?

The property market is cyclical in nature, meaning that it experiences periods of growth, often followed by falls in property prices or at least periods of flat prices. Property is generally considered a long term investment; the shorter your investment timeframe, the greater the risk you are exposed to. If you are borrowing money, it is good planning to budget for an increase in interest rates of up to 3 percent.

### What costs are associated with purchasing an investment property?

There are other costs in addition to the purchase price of a property. These may include building and pest inspections, survey report strata inspection report, loan application fee, valuation fee, mortgage registraton fee, stamp duty, legal fees, disbursements, lenders mortgage insurance, and sundry fees like refinancing or switching fees. Speak to your local NRG mortgage broker for a full overview of the costs that will apply to your situation.

### How does negative gearing work?

A property is negatively geared when the cost of owning it - for example interest on any loans, bank charges, real estate agent costs, maintenance, repairs and capital depreciation - exceeds the rental income it produces. You may be able to reduce your personal taxation liability by using this loss to reduce your taxable income. Long term capital growth of the property is necessary to offset these short term losses. Always consult your accountant or financial advisor before launching into a negative gearing investment strategy.

### Do I need a lot of flexibility in my investment loan?

Flexibility can take many forms, including the ability to make extra repayments, to redraw on your loan, split you loan between a fixed and variable interest rate or even transfer the loan between properties. Some options may be standard and some may cost you money, so you need to be clear about your investment strategy before choosing a suitable investment loan. Always compare loans with similar features when looking for the right loan for you situation and beware of choosing a loan with costly features you are unlikely to use.

### How will a mortgage broker help?

A good mortgage broker will assist you to find the investment finance package most suitable to achieving your property investment goals, working closely with your accountant and/or financial planner. Your mortgage broker has access to investment loans from major banks and other secure lenders, and may be able to save you time and money. They will also complete your investment loan application, working closely with the lender through to settlement, and help you with future finance so you can add to your portfolio.

### How can I pay my investment loan off faster?

If your investment strategy calls for you to pay your investment loan out quickly, there are a number of approaches you can take, including:

- Dividing your minimum montly repayment into two and paying this amount fortnightly, or dividing by four and paying weekly; this effectively increases the amount you repay every month
- Making both consistent and ad-hoc additional repayments
- Maintaining a higher repayment amount if interest rates fall.

### Should I choose an interest-only repayment option?

Interest only loans suit investors who are focused on achieving capital growth in the short to medium term, and often go hand-in-hand with negative gearing. These types of loans will have lower repayments than a principal and interest loan and may work to reduce yourtotal outgoings, with any savings potentially able to be put towards paying down any personal debt.

### How does paying interest in advance work?

Paying interest in advance is the option to pay the interest that will accumulate on your loan over the next year before it is actually charged. This allows you to claim the costs against your tax a year earlier than you would normally be able to. Usually available on fixed rate loans, lenders may offer a discount on the interest rate if you do pay in advance. The loan term may range from 1 to 5 years, depending on your lender. Paying interest in advance is only an option for those who are able to afford to pay the loan interest in a lump sum.

### What about capital gains tax?

When selling an asset like an investment property, any profit on the sale of the asset may be subject to capital gains tax. Always talk to your accountant or financial advisor about your specific situation.