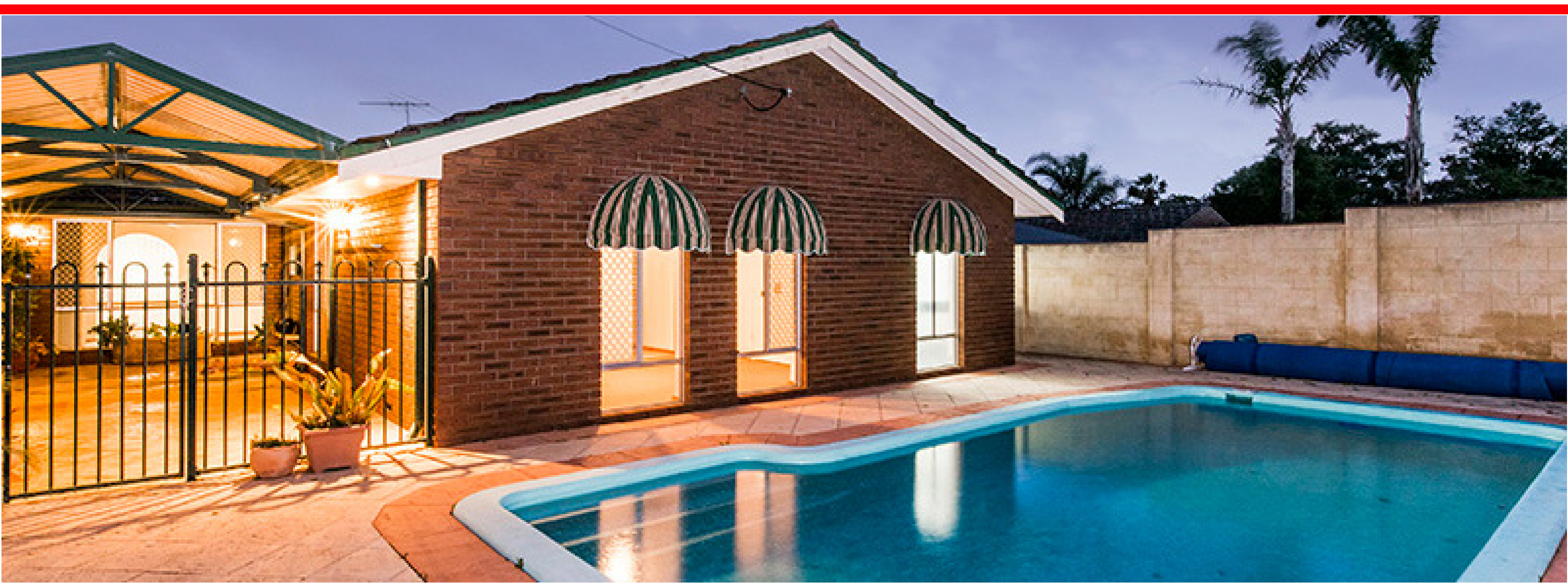


HIGHER RISK FOR INVESTORS USING EQUITY LOANS TO PURCHASE MULTIPLE PROPERTIES

A common strategy used by property investors around Australia to amass large portfolios of real estate is potentially very risky, experts warn.

More than half of all property investors are using equity in their homes or other investments as a way to pay for a deposit on another property.

While this strategy is popular with property investors as it doesn't require them to cough up any savings, some are raising the alarm, including LF Economics co-founder Lindsay David. Mr David claims that investors' high level of borrowing through accessing equity, which in many cases allows them to borrow more than the value of the property itself, puts them at a higher risk of default.

Mr David's research indicates that those with an "officially listed (Loan to value ratio) in the 50% to 70% bracket" common to those who have borrowed using equity, are more likely to be close to default than those with a loan size at 90% or larger.

In many cases, these investor loans are interest-only and "when house prices have fallen, many borrowers were unable to service the principal on their mortgages when the interest only period expired.

Usually, when someone buys a home they have to stump up a 20 per cent deposit or pay lender's mortgage insurance.
If they have another property also worth $500,000, they could borrow 20% of the value of the property they're hoping to buy, by using the value that is already in the property they own, known as pulling out equity, which usually involves refinancing.

Mortgage Choice's 2017 Investor Survey found more than half of Australian property investors surveyed relied on equity to build their portfolio, either by funding full deposits or part-deposits.

Ben Kingsley, Empower Wealth founder, warned that those who invest are able to use the borrowed funds to maximise the outcome. But it "magnifies risk as well as reward", he warned.

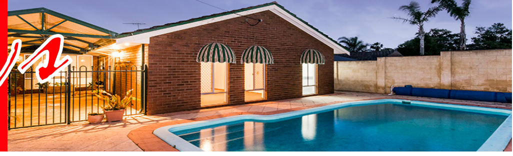
Dream Financial mortgage broker Paul Bevan said investors should remember the equity they have accessed is secured by the owner-occupier property, not the investment. "If you cannot meet your repayments on the new higher loan amount and default, then you could be at risk of losing your owner-occupied property," he said.

"If you are relying on rental income to service your investment property and your property remains vacant for an extended period of time and eventually default, then you are at risk of having your lender repossess your investment property."

Article Written By Jennifer Duke

Domain

relax . celebrate . enjoy



5 NOT SO COMMON TAX TIPS YOU NEED TO KNOW!

1 Bathroom Accessories

Bradley Beer, CEO of BMT Tax Depreciation, says that bathroom accessories are modest additions to an investment property that can be easily overlooked, but investors may be able to claim around $125 in deductions for things such as toilet brush holders, shower caddies and soap holders. "As these assets cost under $300, the ATO allows investors to claim their full value as an immediate deduction in the first full financial year," Mr Beer says.

2 Holiday Rental Assets

Investors with holiday rental properties may need to purchase assets so guests are equipped to enjoy their stay, says Mr Beer. "Such as kitchen cutlery or crockery sets," he adds. "If these items cost an investor $285, they can claim their full value in the first financial year of deductions."

3 Outdoor Assets

"Outdoor assets can attract valuable deductions as well," says Mr Beer. "Artificial grass or turf matting is considered a removable plant and equipment asset. If an investor outlays $960 to install it, then they may be able to claim a $180 deduction in the first financial year and $841 cumulatively over the first five years."

4 Home Automation Systems

Some investors may upgrade their properties to enhance their market appeal, says Mr Beer, and in doing so add big ticket assets to their property which can attract valuable deductions. "An investor may be able to claim a first-year deduction of $1,270 for a home automation system that cost $6,350 and $4,269 in cumulative deductions over the first five years."

5 Green Assets

"Some investors may install 'green' assets to enhance their property's energy efficiency, for their tenants," says Mr Beer.
"If an investor chooses to add a solar-powered generating system that costs $5,250, then they may attract a first-year deduction of $525 and $2,150 in cumulative deductions over the first five years."

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