



**BERG  
FINANCIAL SERVICES**

**NEWSLETTER**

## ***Frequently Asked Questions Relating to Residential Investment Property Finance***

Investment in Residential Property is a popular and usually, a safe choice for growing your Asset Portfolio. Historically, Real Estate Investments have enjoyed steady growth with virtually none of the volatility of other long-term Investment options (such as shares). Investment in Residential Property may also have attractive tax benefits.

Berg Financial Services can offer invaluable assistance in helping you to acquire Residential Investment Property or Properties. We can assist in securing the Finance required and providing ongoing management of that lending facility. We can also give guidance to the Property Investor and answer questions regarding the “processes” involved in purchasing Real Estate.

Some frequently asked questions relating to Residential Investment Property Finance are:

### ***When is a Property deemed to be a Residential Investment Property?***

A Residential Investment Property is a House, Town House, Terrace, Villa or Unit that the owner does not use as a personal residence.

It is deemed to be a Residential Investment Property if the owner rents the property out to a tenant. This allows the investor to benefit from both the tax advantages and the rental income from that property.

## **What is Negative Gearing?**

Gearing is the word given to borrowing money to invest. Negative Gearing on an Investment Property occurs when the annual interest payable on the loan used to acquire the property (Investment Home Loan) plus other expenses incurred in maintaining the property are greater than the annual income that the property generates (rental income).

It is this negative cash flow that provides the tax benefit. Ongoing losses are tax deductible. This reduces your tax bill, effectively boosting returns.

## **What is Positive Gearing?**

Positive Gearing is where the rental returns (income earned) are greater than the outgoings (including interest on the loan, rates, insurances etc).

In addition to potentially high rental yields, Positive Gearing on Residential Investment Properties can create a cash flow that may be used to fund other Residential Investment Property purchases.

Positive Gearing will affect your total taxable income figure and may have tax implications.

## **What is Equity?**

Generally speaking, Equity is the term given to the portion of your property that you actually own, as opposed to the amount that is mortgaged as security.

For example, if your property is valued at \$350,000- and the amount that you owe is \$200,000- then your Equity in this property would be \$150,000- (Value – Mortgage = Equity).

If you wished to purchase a Residential Investment Property you can borrow against the Equity that you hold allowing you to borrow a higher amount. This Equity may also be used for additional borrowings to carry out home renovations and / or improvements.

The total security of Purchase Property plus Equity normally cannot exceed 80% of Market Valuation of combined properties. If 80% was exceeded Lenders Mortgage Insurance would be required. Conditions apply. Bergs can explain this in more detail and evaluate whether this would be an option for consideration in your circumstance.

### **What is an Investment Home Loan?**

An Investment Home Loan is the term given to the loan facility used to acquire your Residential Investment Property.

There is little difference between the features offered by a regular Home Loan and an Investment Home Loan. In some cases interest rates can actually be the same, this varies between different Financial Institutions. The main difference is that an Investment Home Loan offers the tax benefits as highlighted above in Negative Gearing question.

If you are considering purchasing a Residential Investment property you need to remember as a general rule of thumb that, Investment Properties can be expected to earn either a good rental return or a good capital return. Only rarely does a property yield both.



#### **BERG FINANCIAL SERVICES**

Suite 13 (Upstairs)  
41 Wharf Street FORSTER NSW 2428  
Ph 02 6555 6534  
Fax 02 6555 8646  
Freecall 1800 46 33 85  
Email [bergs@pnc.com.au](mailto:bergs@pnc.com.au)  
[www.bergfinance.com.au](http://www.bergfinance.com.au)