NEXT HOME BUYERS GUIDE

Reduce Home Loans
2021 Home Buyer Guides

REDUCE
HOME LOANS

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HOW DO I KNOW WHEN IT'S TIME TO BUY MY NEXT PROPERTY?

Whether it's talk of growing housing prices or low interest rates on home loans, you may have found yourself wondering if it's time to buy your next property.

CoreLogic figures show that between January 2020 - January 2021, annual dwelling values increased by 3 per cent nationally. The strongest growth was seen in Darwin, with dwelling values skyrocketing by 11.4 per cent in this time frame.

Melbourne was the only capital city to not see annual dwelling value growth, most likely due to the strict lockdown regulations in place due to Covid-19. But even Sydney, which had some strict regulations for part of 2020, saw annual dwelling values rise by 2 per cent annually.

As regulations get pulled back while Australia continues to overcome the impact of Covid-19, many financial experts are expecting market growth in 2021. A recent Sydney Morning Herald article asked a range of financial experts their predictions on property prices in 2021 and almost all surveyed suggested price increases were likely.

With housing prices in capital cities finally recovering from the impact of Covid-19, the time may be ripe to strike before property prices reach boiling point. Especially if you're considering buying a property for investment purposes, as you'll want to take advantage of as many market gains as possible.

That being said, here are 4 key indicators that suggest it may be time to buy your next property.

1. You've built up equity in your property

Whether you've paid off your first mortgage, or have paid down a large chunk of it, both scenarios may make a next home loan application considerably easier. Mortgage lenders, like Reduce Home Loans, look favourably on applicants who have lower loan-to-value ratios (LVRs).

In fact, some of the lowest interest rates in Australia are reserved for applicants with LVRs of 75 per cent or less. You may be able to take the equity you've paid into your existing mortgage and use it as a deposit to purchase another property.

2. You're considering a sea or tree change

One of the best indicators that it's time to buy your next property is because your current property no longer suits your lifestyle.

Perhaps you've reached retirement age and want to relocate?

Or maybe your growing family can no longer fit into the house you have now, and you're considering an interstate move for greater housing affordability and space.

Putting aside the numbers and expert opinions, if you've outgrown your current property, and can afford to sell it and cover any remaining mortgage repayments, you may be safe to buy elsewhere.

3. You've had a change to your personal or financial situation

Sometimes it's time to purchase a new home when your personal or financial situation changes. This may mean you've increased your income and can now afford a bigger mortgage, have retired and are considering downsizing to a more manageable property, or have expanded your family through children and/or pets and want a more family-friendly house.

4. You're an investor nearing retirement age

If you've invested in property for some time, your ultimate goal may be to be self-sufficient from the passive income generated from your assets. If you're nearing retirement age and not sure if you're going to reach your financial goals, it may be worth considering whether you're purchasing another investment property, potentially in an up-and-coming suburb with expected high yields, may be worthwhile.

5. Interest rates are low

Having a mortgage is generally considered to be a "good" debt, but you still want to be responsible about the amount of debt you're taking on and what you can afford in repayments. If the home loan market is in a period of low interest rates, it may be worthwhile considering if repayments on a new, or additional, mortgage could fit into your budget.

Furthermore, if you're considering purchasing an investment property and housing prices are on the rise, by choosing your property wisely, you may be able to increase your chances of neutral or positive gearing on the property. If the rent you can earn on your investment property is able to meet your mortgage repayments, then this may be a sign it's time to buy.

> Jacqueline from Reduce Home Loans has been amazing through the process of buying our home in Jan 2021. Always following up and explaining every process along the way promptly. This is the second time we have purchased with RHL and the service and interest rates are 5 star. Would definitely recommend to anyone looking at purchasing a house to give RHL a go. *– Amy B*

SHOULD I USE A BRIDGING LOAN FOR MY NEXT PROPERTY?

Using the funds you gain from the sale of one property to pay for your next? There is a risk that you may not have the available funds to do so, often due to delayed settlement periods. This is where a bridging loan may come in handy for some financial situations.

A bridging loan is a type of short-term finance where a lender helps a borrower by providing the funds required to purchase your next property while you finalise the sale of an old property. As there can sometimes be cash flow issues when it comes to timing the sale of one property to fund the next, a bridging loan may come in handy when it comes time to buying your next property.

The total amount you borrow is also referred to as your 'peak debt', and includes the outstanding balance of your existing mortgage as well as the purchase price of the next property. This may include upfront costs like stamp duty, legal fees and more.

Once the existing property has sold, the proceeds of the sale may be used towards the peak debt. The remaining debt, also called the 'end debt' then becomes a regular mortgage moving forward and is repaid as such.

There are two types of bridging loans:

1. Open bridging loans

These are available to borrowers that have not found buyers for their existing property. An open bridging loan is typically for a period of 12-months or less. You will also need to showcase to the lender that you are actively looking for a buyer and have a considerable amount of equity in the property.

2. Closed bridging loans

This type is better suited for those who have found buyers but have not yet completed the paperwork, and still need funds urgently. A closed bridging loan is generally more affordable as there is less risk of a lack of payment due to your already having found a buyer.

Mortgage providers in Australia will traditionally only lend an ordinary borrower 90-95 per cent of the mortgage, particularly if the borrower is using a guarantor or the First Home Loan Deposit Scheme. A key advantage of bridging loans is that you may be able to borrow up to 100 per cent of the value of the next property, plus added upfront costs.

The choice whether to use a bridging loan or not will depend on your specific financial needs and situation. If you find you fall into one of the two above scenarios, you may want to weigh up whether taking on a new loan to lock in your next property is the right move. Or, if you're looking to avoid the added debt, whether it's better to wait.

Reduce Home Loans General Manager, Josh Beitz, says "In our current record-low interest rate environment, you're leaving money on the table by sticking with a big four bank. Consider comparing the latest low rate, low fee Home Loan options at Reduce Home Loans for your next property."

> Leon from Reduce Home Loans managed the process from start to finish. He was extremely knowledgeable and facilitated the two loan transactions without any issues. I would definitely recommend to anyone who looking for a quality product and huge savings. – *Dav*

HOW DO I CHOOSE MY NEXT PROPERTY?

Choosing your next property is a personal decision which may be determined by a number of factors, including your intended purpose for the property and what you can reasonably afford.

If you're on the search for a new property, it may be worth asking yourself these seven questions to determine if a property is right for you:

1. Are you taking on too much debt?

If you'll need a home loan for your next property, then the first thing you need to do is assess your personal finances and be honest about whether you can afford mortgage repayments. Mortgage Repayment Calculators can be an essential tool at this stage.

2. How long has the property been on the market?

If the property has been on the market for over six weeks, it's safe to assume it's either been priced incorrectly, or it may have major issues. Both scenarios may impact your decision to make a bid on the property.

3. What have neighbouring properties sold for?

Take stock of the area where a property you're interested in is located Look at local real estate listings to see what price properties are selling for. RealEstate.com.au offers suburb profiles that indicate the median selling price of a variety of property types in suburbs across Australia, which can be a good place to start.

4. What is nearby?

It's not just the property you need to assess, but the area you're buying in. Take stock of the distance of the property from public transport as well as the CBD if in a city. Also note its distance to green spaces or its distance to water, such as lakes or beaches. You may also want to note its proximity to schools and daycare.

5. What are the council rates?

It's not just the property sale you'll need to budget for, but ongoing costs like council rates, utility bills and possibly strata levies.

REDUCE TIP: Before you start the property search, consider valuing your current home to see how much money you may realistically have to use for the next property. Then, make a list of must haves for the next property, such as more storage space or closer to work. These steps may help you to be better prepared around how much your next home could cost.

6. Why is the owner selling?

It's always worth asking why an owner is selling their property for negotiation purposes. If a property owner has already purchased a new home, they may be in a rush to sell. If so, you may be able to negotiate a lower price on the property.

7. Are there any structural issues with the property?

It's invaluable that you hire your own independent building and pest inspector when considering a property. They should be able to identify any major or minor issues with the property so you can make a better judgement about whether you still want to invest and make an offer with any additional costs in mind.

8. Buyer's Agent – A buyer's agent can be a valuable asset to have when searching for your next home. Buyers' agents are licensed professionals that work on behalf of buyers to find, evaluate and negotiate the purchase of property. They can help to save time searching for your ideal next property, take over the buying process and give you access to off-market properties.

WHAT ARE THE BENEFITS OF PURCHASING AN ADDITIONAL PROPERTY?

If you're still weighing up whether to purchase a new property, it's worth considering some of the advantages of doing so.

1. Generate passive income

One of the biggest reasons Aussies purchase additional property is to nab an investment property they can rent out for passive income. This can come in handy for a range of reasons, including helping to pay off a new or existing mortgage, as well as funding your lifestyle now or in retirement.

2. Capital growth

Much like with any earning asset, you have higher capital growth potential if you own more than one property. Put simply, if you purchase one property for $300,000 and its value increases by 15 per cent, you will make $45,000. But if you had two properties valued at $300,000 that had its value increase by 15 per cent, you make $90,000. And speaking of funding a greater lifestyle for retirement, having multiple properties that you can sell at a profit is one of the main ways to achieve this.

3. Negative gearing and other tax deductibles

Negative gearing is when you borrow money to invest and the return from the investment is less than the borrowing costs. For an investment property, this can occur when the rental income you earn is less than the interest repayments on the mortgage used to purchase the property.

How this can benefit a next-home buyer, is that generally, you can claim a tax deduction for the investment loss. In addition, taxes associated with investment property expenses, such as property maintenance, council rates and more, may be able to be claimed back on at the end of the financial year.

4. Climb the property ladder

Whether you're planning on buying a new house to live in or rent out, a general rule of thumb with property is that you won't always get your dream house the first time around. This is why they call it a property ladder - the idea is to climb it. By purchasing more affordable properties and selling them for a profit, you may be able to generate enough income to afford your dream property.

Mark Chapman – Director of Tax Communications at HRBlock

"Really, negative gearing is a "win:win" situation – rents are low enough for renters to afford while the investor makes a tax loss which can be offset against other income. In addition to interest relating to the property acquisition, you can also claim a deduction for interest on loans taken out to carry out renovations, purchase depreciating assets (for example, furniture), or make repairs or carry out maintenance."

Great company, dedicated people, simplified the lending process, some of the best rates currently available, with minimal setup and ongoing fees, pleasure to deal with, would highly recommend if you are in the market for a new home loan. *– James S*

WHAT ARE THE COSTS OF PURCHASING AN ADDITIONAL PROPERTY?

Much like when you purchased your first property, there are a range of upfront and ongoing costs you may be charged when you purchase an additional property. These may include:

- Lender's mortgage insurance (if your LVR is above 80 per cent)
- Stamp duty
- Solicitor costs
- Conveyancing costs
- Council rates
- Building and pest inspections
- Removalist costs (if moving into the new property)
- Home and contents insurance
- Property management fees (if for investment purposes)

What are the added costs if I own multiple properties at once?

If you're keeping your existing property, keep in mind that some of these ongoing costs may double up, such as council rates and insurances. Also, if you're renting out a property, you'll have to budget for potential costs like building repairs and other issues that can arise.

It's also worth keeping in mind that if you're intending to invest in property, not all investments will earn you a high yield. In fact, a recent **article by Michael Yardney** found that of the 2.2 million property investors who filed a rental schedule in Australia only 40 per cent were cash flow neutral or positive. Around 60 per cent were instead in a net rental loss situation and negatively geared.

This goes to say that the costs of owning additional property can begin to climb when one isn't earning the return you expected - or budgeted for. This is why it's important to keep in mind that when it comes to purchasing additional property - it's quality over quantity. In the same article, Mr Yardney argues that "the location of your property will do 80 per cent of the heavy lifting".

So, ensure that when it comes time to choose your next property, you're considering growth areas or blue-chip suburbs that are more likely to earn you a return on your investment. This may help to keep the potential costs of juggling multiple properties down.

Harry Singh – Conveyancer at Sydney Conveyancing

"Conveyancing costs in NSW are usually between about $1200 - $2500 depending upon the property being purchased. Off the plan properties usually cost more than existing property to purchase given that their contracts are much more complex and the transactions last longer. Property purchasers should look for fixed price quotes so they are not surprised at the end."

WHAT ARE COMMON TRAPS OF BUYING AN ADDITIONAL PROPERTY?

Making any major financial purchase is not without its own risks and traps to look out for. Just like when you purchased your first property, you'll need to do your due diligence before you make an offer on any house, unit or land.

Here are some of the most common traps to be aware of when buying an additional property.

1. Interest-only loans

A popular loan type for investment mortgages, many investors will opt for interest-only loan repayments for a number of years, and then aim to sell the property at a profit before principal and interest repayments kick in.

However, there is inherent risk associated with one, or multiple, interest-only home loans if you find yourself unable to service the full cost of repayments. Repayments on interest-only home loans are, understandably, significantly lower than principal and interest. However, once the interest-only period ends and if house prices have fallen in your market, many borrowers may find themselves unable to service the principal on their mortgages.

Furthermore, by only paying the interest on a mortgage, you're not chipping away any of the principal. Once the loan reverts back to principal and interest repayments, you may find that the repayment amounts are considerably higher than if you paid principal and interest to begin with. This is because you've shortened the length of the loan while not decreasing the principal.

If you're considering taking out a loan to purchase an additional property to use as an investment, ensure you have enough savings and can budget for the principal when the interest-only period ends.

2. Double the ongoing costs

If you're keeping your original property when you purchase your next, it's important to remember that you'll be doubling up your ongoing costs. As mentioned earlier, these costs may include:

- Home insurance
- Council rates
- General repairs and maintenance
- Real estate advertising (if investment property)

As returns on any investment aren't guaranteed, it's important that you're able to budget for any and all ongoing costs. It may be worth also growing an emergency fund for any unexpected costs that may arise, such as replacing old or faulty appliances in your investment property.

3. Believing that bigger is always better

Whether you're purchasing a new home to live in, or looking for an investment property, it's important to remember that bigger is not always better. A common situation next-property buyers can face is added financial stress by taking on too much debt from an expensive property and giant mortgage.

Instead, consider the benefits of saving for more affordable properties and lower your targets. If you're still paying off a considerable amount of your first mortgage, or your income hasn't increased that much since you first bought, it may be worth looking at properties in 'bridesmaid' suburbs. Meaning, suburbs that are next to your ideal 'bride' suburb, that are up-and-coming and tipped to grow. You'll get away with having a smaller deposit, and this may be much more achievable for first-time investors as well.

SHOULD I SELL MY FIRST PROPERTY BEFORE BUYING MY NEXT?

Once you've made the decision to purchase a new property, you'll then have to face the conundrum of whether to sell your first property before buying your next, or waiting to sell. There are benefits and disadvantages with both scenarios, so let's explore these to help you identify the best course of action for your financial needs.

The pros and cons of selling a property before buying your next property

The biggest advantage of selling a property before buying a second is the knowledge of how much capital you'll have to use to make your next purchase. The funds you earn on your purchase may be used as a deposit for your next mortgage, potentially decreasing your expected LVR than if you sold afterwards. If you earn a significant enough profit on the sale of the property, you may also be able to use the funds to purchase the next property outright and avoid adding more debt to your personal finances.

If you're going from one owner-occupied dwelling to another, once you accept an offer on your property, you'll only have a short settlement-sized window to use these funds to purchase your next property if you want to move into a new one. While this is a downside to selling first, you may be able to negotiate a longer settlement period with your buyer to ensure you have adequate time to find a new property to live in.

Furthermore, if property prices increase in the time it takes you to sell one property and buy the next, you may find yourself spending more than you anticipated on the additional property purchase.

The pros and cons of not selling a property before buying your next one

While it may appear riskier to not sell a property and use the funds to purchase another, not every Australian homeowner wants to sell right away, or at all. And this can work to their advantage.

Firstly, if you're planning on using one property as an investment and living in the other, you may be able to generate passive income. This passive income from rental payments may be used to pay off the new mortgage, or add to your overall income.

Also, if market conditions are ideal, there may not be a rush to sell. If auction clearance rates are high and experts are tipping prices to grow, the pressure is lessened, as your current property may sell quickly anyway. In addition, you may be planning on using the equity in your existing home loan to bolster a deposit for your next property. In this instance, selling the first property may not be necessary.

But speaking of keeping your existing property, you'll still have to juggle the costs of 2 or more mortgages, as well as duplicate ongoing costs. Multiple home loans may mean juggling differing repayment amounts and frequencies, as well as multiple interest rates and fees.

NEXT HOME BUYER FAQS

Is buying another property a good investment?

Diversifying your property portfolio is, generally speaking, considered a worthwhile investment idea. However, like with any investment, buying property is not without its risks. The return you get on an investment property depends on a range of factors influenced by market conditions. Meaning, there's no guarantee that buying another property will result in continuous high returns.

Can I buy my next house and rent the first?

Assuming you're in a financially stable position and - if you need a mortgage - meet the criteria to qualify for an investment home loan, you may be able to buy a second property and rent out the first.

Can I borrow against my property to buy another property?

If you've paid down a considerable amount of equity into one property, or even own a property outright, you may be able to use this as equity to secure a new home loan. If you're unsure whether you qualify, speak with a home loan expert from your chosen mortgage provider.

Is it easier to get a mortgage the second time?

It may be easier to get a mortgage the second time around, presuming your financial situation has improved, your credit score is good to excellent, you've maintained consistent mortgage repayments and have not accrued any new debts. A lender will still need to assess your ability to service a loan against your current financial situation, so if it has improved since your first mortgage application, it may make you more likely to be approved for a new loan.

Is it easier to buy a house if you already own one?

Purchasing a property can be challenging regardless of whether you currently own a property or not. However, if you're increasing your 'spending money' by selling a property to purchase another, you may find the process of making an offer on a property, or competing at the auction, slightly easier with funds r eadily available.

Is now the right time to sell my current house?

There are a few factors to consider before selling a property, including the size of an existing mortgage, the property value and current market conditions. Speak to an expert, such as a property manager or real estate agent, before making a decision.

Should I consider bridging finance?

Bridging finance may be helpful when you need funds to purchase a new property while waiting for the sale of an old property. Take into consideration your personal financial situation and budget before making any financial decision.

Do we have to pay off our house before buying our next home?

No, you do not have to pay off an existing mortgage before purchasing your next property. Australians can have multiple mortgages at once, but will need to specify which property is the primary residence for taxation purposes.

How do I know how much equity I have in my current home?

Calculate your home loan equity by finding your property's current market value and subtracting your remaining loan balance from this number. For example, a $500,000 property with an outstanding mortgage of $150,000 has $350,000 in equity.

HAPPY REDUCE NEXT HOME BUYERS

This was our second application with Reduce Home Loans, again great rate and supportive customer services. A big thank you to Dane, the Personal Finance Manager for my case and to the Settlement Department team. ***– Eva***

Cheapest rate on the market, you can't beat it! Great service, very responsive, highly recommend to anyone chasing the cheapest rate on the market, every % point adds up to save you $. ***– Ben Skinner***

This is the second time I have refinanced with Reduce Home Loans. Aside from giving us a very competitive rate, the one which I really liked is the customer support. Noel Cosca was very prompt on providing me the information I needed all throughout the process of refinancing until settlement. Even after hours if I needed to get some key details he would still respond to my text message. I even recommended Reduce Home Loans to my friends. Give it a go. ***– Geraldine***

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