

## FROM OUR PROPERTY MANAGEMENT TEAM

### INSPECTING YOUR PROPERTY

#### A friendly reminder

If you would like to inspect your property it is important that you contact our office so that we can coordinate this for you. There are strict legislative guidelines for accessing a rented property to ensure that the tenant has peace and quiet and enjoyment of their home. Landlords must refrain from just turning up to the tenanted property. On many occasions if we approach the tenant in a courteous manner they will agree to the inspection to try and work in with the property owner.

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#### Inspirational Quote:

"Price is what you pay; value is what you get. Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."

- Warren Buffett

**IMPORTANT:** This is not advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice per se. Every effort is made to ensure the contents are accurate at the time of publication. Clients should seek their own independent professional advice before making any decision or taking action. We take no responsibility for any subsequent action that may arise from the use of this newsletter. Published by THE PPM GROUP - [www.ppmssystem.com](http://www.ppmssystem.com)

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## LMI, LVR, LOC and other TLA's

Or as a title more likely to attract your attention:

# WOULD YOU RATHER HAVE \$300K or \$600K?

One of the many TLA's (three letter acronyms) that may confuse new investors is LMI – Lenders Mortgage Insurance.

When you borrow more than 80% LVR (loan to value ratio – there is another TLA) the lenders will generally charge you LMI. This is a once off charge that you pay to protect the lenders extra risk (it does not insure you – it insures the bank).

Now if you don't have enough equity or cash then you go above an 80% lend and pay the LMI- So why would investors with enough equity still go above and willingly pay LMI??

Let me give you an example:

Two investors, John and Fred both have \$100,000 equity available in their own homes. They both have good serviceability but the limit to their capacity is equity – they have no cash deposits.

**John** goes for the conventional 80% LVR on a \$300k investment property. He needs therefore \$60k

(the 20%) from their homes equity plus approx 5% costs – another \$15k (legals stamp duty etc). That's a total of \$75k so they buy the one property and have \$25k left over – not enough to do much with.



**Fred** goes for a 90% LVR for the same \$300k property. He then only needs 10% of the banks valuation, \$30k, plus the same \$15k cost from their \$100k equity – that leaves them \$55k. But hang on – that means **Fred can buy a second \$300k property!** And still have \$10k left over.

Continued Over >



Yes there is a cost to LMI but it can be written off your tax in the term of the loan, generally the first 5 years. For people with a significant taxable income this can mean a slight decrease in holding cost – yes you add an additional expense of \$2-4k for example **and the weekly holding costs can actually go down!**

I was recently talking to an investor who was reluctant to do a 90% lend because he did not want to pay Lenders Mortgage Insurance. I put it this way to him – “you are going to be paying the bank extra money, either in giving them an extra 10% of the property value in your equity (if you do an 80% lend) or as a mortgage insurance premium if you do a 90% lend. The difference is if you do the 90% lend and save equity the ATO will give you the Lenders Mortgage Insurance premium back in tax deductions over 5 years. Which would you rather?”

- Martin, Investor

*\*Please note - I am not an accountant, finance broker or financial advisor. My comment above are purely from my own experiences in building a property portfolio and you should consult a professional if you are in doubt.*

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## Be Aware...

The Australian Taxation Office (ATO) is looking into property investment and has voiced concerns over some investors who seem to be:

- Claiming rental and share investment expenses that are not legitimate or cannot be substantiated;
- Not declaring capital gains on the sale of their investments; and

- Not reporting rental and dividend income on their tax returns correctly.

The ATO has also voiced concerns over GST issues with property transactions and has sent out a warning to taxpayers to ensure they report transfers, sales and purchases correctly on their Business Activity Statements and income tax returns.

The ATO conduct investigations on property owners by:

- Data matching of property sales; and
- Identifying those taxpayers who do not report the property transaction or do so incorrectly.

If you are unsure about any issues concerning property taxes, we recommend that you contact your accountant or the ATO.

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## Picking the right tradesperson

If you wish to appoint your own tradesperson to carry out work on your rental property we advise that you make sure they have:

- A licence to carry out the work you have contracted them to do
- Insurance to perform the work
- An ABN

If something goes wrong and they are not insured or licensed to do the work, then you could be paying for much more than their account.

Alternatively, you can use our list of tried and tested tradespeople and you will be protected against damage or injury to persons or property.



## The Pitfalls of Landlord Protection Insurance



Landlord protection insurance is available to all property owners to cover for the unexpected situation of lost rent should a tenant fail to pay and accidental and malicious property damage to name a few. When choosing an insurance cover, it is important to read the terms and conditions of the coverage.

Many bank & financial institutions offer a level of landlord cover during the mortgage sign-up process – but beware... these insurance covers are often not as comprehensive as the ones from specialised landlord protection insurance brokers and may offer a shorter rent loss coverage period, exclude malicious damage and have other factors and conditions that can impact on a claim. If you would like more information on landlord protection insurance policy details, please feel welcome to contact our office.

# MAKING REAL ESTATE WORK FOR YOU

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