Investor.
Case study.

Helia

Christina and Mark.

Christina and Mark bought their first home in 2000. They diligently paid the mortgage repayments and watched the value of their home grow. 20 years later, their kids had finished school, Christina had been promoted to a senior leadership position and Mark had returned to work full-time after being a stay-at-home dad.

Christina and Mark discussed how they could further enhance building their financial wealth.

They thought they would like to buy an investment property, so they reached out to a mortgage broker to discuss their options. They calculated their savings and the equity their first home had built over time. After allowing for payment of stamp duty*, conveyancing fees and other upfront costs, their available deposit was approximately $77,000. Their mortgage broker explained that a lender may be willing to lend them up to $465,000 with help from Lenders Mortgage Insurance (LMI).

Christina and Mark spoke to a property manager who advised them that they could potentially earn up to an estimated $1600 per month in rental income in their target area, after paying taxes and other costs.

The property manager also explained to them that there are additional costs and obligations associated with an investment property and even if the property may not always be occupied, Christina and Mark would still need to be able to cover their mortgage repayments regardless of whether rental income is received.

After speaking with their tax accountant and weighing up the benefits and risks of buying an investment property, Christina and Mark decided that this was the right decision for them.

* The amount of stamp duty payable will vary depending on the Australian State/Territory where the property is located.

Benefits.

Purchase an investment property with less than a 20% deposit

Christina and Mark did not have a 20% deposit available but were still able to buy their investment property because their lender used LMI.

Build more equity

Christina and Mark were able to take advantage of rising property prices and can now watch their money work for them as equity in both of their properties is expected to increase.

Considerations.

Additional costs

An investment property will have additional costs, such as property management fees, ongoing maintenance costs, strata fees, water and council rates.

Tax

There are also tax consequences of owning and selling an investment property, which should be considered prior to purchase. Tax advice should be sought from a qualified professional.

Rental income is not guaranteed

There could be times where Christina and Mark's investment property remains unoccupied, but they will still need to cover their mortgage repayments and extra costs.

Rental income may change

Rental prices can increase and decrease over time.

Landlord responsibilities and obligations

Christina and Mark will have responsibilities and obligations as owners of a rental property. It is important they familiarise themselves with federal and state legislation and regulations that protect both landlords and renters.

Crunching the numbers.

Investment property price
$465,000

Deposit
$76,725

Loan amount incl. the LMI fee
$392,870*

Monthly loan repayments
$2,870**

Home value 3 years after purchase
$640,000^

In 2023, three years after Christina and Mark purchased their investment property, it's value had increased by $175,000.

They continued to build equity in both their properties, making their extra income work for them, securing their retirement and setting their kids up for a bright future.

Find out more.

The Helia website provides tools and resources that will assist you to better understand LMI and the mortgage market.

Among these resources are our Deposit Comparison Estimator, fact sheets and videos that further explain LMI, the process of buying and owning an investment property and information on what you should do if you find yourself in financial hardship.

Deposit Comparison Estimator

Factsheets

Videos

* Loan amount based on 83.5 per cent LVR plus the LMI fee which is capitalised into the loan. Excludes stamp duty and other costs of purchase. Assumes that no other fees and charges are payable. Lending criteria and conditions apply to approval of credit products. The actual LMI fee may vary from the estimate depending on a range of factors including, the loan purpose, borrower type, security type or updated information received at the time of the application.

** Estimated monthly repayments based on a 20 year loan at an interest rate of 6.34% p.a. Variable rate subject to change over the loan term at the lender's discretion.

^ 2023 home value based on a desktop valuation. The outcomes assume a rising property market, with no additional advances or redraw made. The example does not take into account monthly repayment amounts, fees, charges and additional loan commitments. The outcomes may differ in a falling property market.

Disclaimer.
This case study is based on real life examples, and is provided only for educational purposes. Information contained in this fact sheet is general information, does not constitute legal, tax, credit or financial advice, and is not tailored to a home buyer's specific circumstances. Home buyers should consider their own personal circumstances and seek advice from their professional advisers before making any decisions that may impact their financial position.

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