



What you need to consider when buying your second property

If you have already purchased your first home, congratulations! The next step in building wealth for your future could be to plan for the purchase of a second property as an investment.

Owning two properties is a great financial ambition and with Australian house prices on the rise in many areas, doing so has great potential to improve your financial situation in the long term. But please don't be fooled - just because you have done it once before doesn't mean it will be easy! Buying a second property also requires hard work, discipline and effort. Here are some financial pointers to help with the process of buying your second property.

1. **Property purchase purpose**

The first thing you need to understand is why you want to buy a second property. Are you planning to rent out your original property and buy something else to move into? Are you buying a 'renovators dream' to knock down and develop? Are you buying because you want a beach house and you will spend half your time in each location?

Really understanding why you want a second property before you set out will help to inform all your other decisions in the property purchasing process. For example, if you are buying as an investment property, decisions around location, capital gain potential and rental yield will influence you in a different way than when you are buying something for yourself to live in.

2. **Your cash flow and budget**

There are no two ways around it - having a second mortgage is going to have a significant impact on your monthly cash flow! Ask yourself: can you easily service both mortgages? Do you have a stable income?

Better still, keep a budget so you know what you can reasonably handle so you won't over-extend yourself. The key here, and this is what a lender will look for, is your ability to earn enough to service both your first and second mortgage effectively, on top of the cost of living.

It is important to fully assess and understand your borrowing capacity. (We can help you with this – just give us a call). As with any other home loan application, your second mortgage will be assessed on your income versus expenses. Lenders will look at your overall position of asset and liabilities, which means if you have any existing debts such another mortgage (which you do have), personal loans or credit cards, your borrowing capacity is going to be less, compared to if you were debt-free.

When considering your cash flow and budget, it is also well worth including a 'safety buffer' contingency plan. This could be three to six months' worth of repayments and living expenses, or similar, depending on

your savings ability. It is important to have a safety buffer if you are hoping to use your owner-occupied property as security to fund the deposit for the second home.

3. **Will you be renting out one of your two properties?**

If the answer is yes, and for most of you we imagine that you are buying a second property for investment purposes, it's essential to get a rental estimate for your second property before you make your purchase.

If you are just in the research stage, having a rough estimate of rental income will help with setting your budget and understanding your cash flow (see point 2), but if you have chosen 'the' property to buy, most lenders will require a rental estimate letter from the real estate agent currently handling the property at the application stage.

Lenders will factor in any possible rental income (if applicable) when determining your borrowing capacity, ensuring it is set at a safe limit – reducing your risk and theirs!

When choosing a property for rental income, it's important that the property is well located and will be easily tenanted so that it continues to generate income and support itself.

4. **Loan type & loan structure**

Interest rates have been very low for some time, which makes it a great time to consider buying a second property. And right now there are literally thousands of home loan options out there for you to consider. However, there are many variables to take into account when financing your second property purchase – so it's a good idea to give us a call. Finding the right home loan product for your financing needs depends entirely on your current financial position and your short and long term goals. This is why the right advice is imperative when taking on a higher amount of debt across two different properties. It is best to speak to us about these options and the best way to structure your finances, before you even choose a property to buy, so you don't get stung later on in the process. A few scenarios we could discuss include:

Using your existing equity

If you've lived in your first home for some time, there's a good chance you have grown your equity. Equity is the difference between what your home is worth and how much you owe on it. For example, if your home is worth \$550,000 and you owe \$200,000 then you have \$350,000 in equity.

Tapping into this equity could give you a larger deposit for your second property purchase, which could be beneficial for your borrowing capacity and your overall budget. If you're looking to do this, you will need to have your home revalued. In order to determine how much equity you have in your home, a lender will perform a valuation using an independent valuer before determining how much you can borrow and approving your loan.

Refinancing or staying with your current mortgage lender

Buying a second property offers the perfect opportunity to give your existing mortgage a health check. Use the opportunity to consider your home loan needs in relation to your future goals and ask yourself how well your current loan is performing for you. If you're satisfied with the service your lender is providing and you have determined that the interest rate and fees you're paying are competitive, there may be no need to refinance to another lender. However, there are some record low rates on offer at the moment and if you have had your mortgage for some time, it would be worth talking to us about what other home loan products are suitable for you and your goals.

Buying your second property is by no means a small task. We are here to help you with your financial goals, so please chat to us about how we can structure your loan so your second property purchase can really set you up for the future.