

Demystifying Property Investment Jargon

Your guide to smarter decisions



Are you confident in your property investment knowledge? If terms like negative gearing or LVR sound confusing, you're not alone. Understanding these concepts can help you make informed decisions—whether you're managing existing properties or planning your next purchase. Let's break down the jargon into simple, practical explanations.

Key Property Investment jargon you should know

Negative Gearing: When Costs Exceed Income

Negative gearing occurs when your property expenses—such as mortgage interest, council rates, and maintenance—are higher than the rental income.

Example:

- Rental income: \$25,000
- Annual costs: \$35,000
- Shortfall: \$10,000

Why it matters: This shortfall can often be claimed as a tax deduction, reducing your taxable income. Many investors use this strategy when aiming for long-term capital growth.

Question: Could negative gearing align with your financial goals? Or would positive gearing suit you better?

Positive Gearing: Income Outweighs Expenses

Positive gearing means your property earns more than it costs to maintain.

Example:

- Rental income: \$30,000
- Annual costs: \$20,000
- Positive cash flow: \$10,000

Consideration: While this boosts cash flow, the income is taxable. Is this strategy right for your situation?

Depreciation: Claiming Wear and Tear

Assets like carpets and appliances lose value over time. Depreciation allows you to claim this decline as a tax deduction.

Tip: A Quantity Surveyor can prepare a depreciation schedule, potentially saving you thousands.



Capital Gains & CGT: Profit from Growth

When your property's value rises, the profit is a capital gain.

Example:

- Purchase price: \$500,000
- Sale price: \$600,000
- Gain: \$100,000

Important: Capital Gains Tax applies when you sell. Planning ahead can help minimise its impact.

Equity: Your Hidden Wealth

Equity is the portion of your property you own outright.

Example:

- Property value: \$600,000
- Mortgage: \$100,000
- Equity: \$500,000

You can use equity as security for loans, funding renovations or new investments.

Rental Yield: Measuring Performance

Rental yield shows how much income your property generates compared to its value.

Formula:

Annual rent ÷ Property value × 100

Example:

\$26,000 ÷ \$650,000 × 100 = 4%

Loan-to-Value Ratio (LVR): Borrowing Power

LVR compares your loan amount to the property's value. Most lenders prefer 80% or less to avoid extra costs like Lenders Mortgage Insurance (LMI).

**Ready to take the next step now you know this Property Investment jargon?
Understanding these terms is the first step to confident investing.
Want tailored advice? Contact us today—we'll help you create a strategy
that suits your goals.**



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