# Leveraging Equity to purchase an Investment Property

**Thinking about expanding your property investments? If you've paid down your mortgage or if your property has appreciated in value, you might be able to use your home's equity to fund the purchase of an investment property. This strategy can help you achieve your financial goals sooner, but it's important to understand the potential risks and benefits involved. Let's explore how you can wisely use your equity to grow your property portfolio.**

## What Is Home Equity?

Home equity is the difference between your property's current market value and what you still owe on your mortgage.

For example:

- Your home is worth **$1,000,000.**
- You owe **$200,000** on your mortgage.
- Your equity is **$800,000.**

However, not all this equity is necessarily accessible. Banks usually lend up to 80% of your property's value, minus your existing mortgage, which is called usable equity.

Calculation:

- 80% of $1,000,000 = $800,000
- Less your mortgage: $200,000
- **Usable equity = $600,000**

In some cases, with credit approval and possibly additional insurance (Loan Mortgage Insurance or LMI), you might be able to borrow more.

## Why Use Your Equity to Invest?

Utilising your home equity to purchase an investment property can be a strategic move, but it requires careful consideration. Here's why many seasoned investors choose this path:

## Advantages

- **No need for a large savings deposit:** You can use your existing equity instead of saving for a sizable new deposit, allowing you to act quickly on opportunities.
- **Tax benefits:** Investment properties often qualify for deductions, like interest on the loan,
- property management fees, repairs, and negative gearing strategies, which can reduce your taxable income.
- **Portfolio growth:** Investing in additional properties can provide long-term capital appreciation and rental income, diversifying your assets.
- **Enhanced borrowing capacity:** With access to more funds, you can consider larger or multiple property investments, expanding your income streams.

## Potential Drawbacks

- **Increased debt:** Borrowing against your home increases your overall debt load, so you'll need to be confident you can manage higher repayments.
- **Market risks:** Property values can fluctuate. A decline in your investment property's value might reduce your equity, possibly putting you in negative equity if debt surpasses property worth.
- **Tax implications:** Selling an investment property can trigger capital gains tax, and the tax treatment of borrowing against your home can be complex. ***Consulting with a tax professional is advisable.***

## How Can You Access Your Equity?

Here are some common ways to unlock your home's equity for property investment:

**1. Raise a New Loan against your Existing Property**

- Take out a new loan against your existing property.  These funds can then be used as a deposit for an investment property. The loan will be separated from your Owner Occupied debt for tax purposes.

**2. Cross-Collateralisation**

- Use your current property as security for a new loan on the investment property. This involves having two loans secured by your home, but it might streamline the borrowing process.

## Ready to Grow Your Property Portfolio?

The key is to find a solution that aligns with your financial goals and risk appetite.

***Want to learn more?  Reach out today!***

***We're here to help you explore your options and develop a strategy that makes the most of your home equity to support your investment ambitions.***


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