
How To Finance an Investment Property

In order to qualify to purchase an Investment Property, there are two primary tests you must satisfy before lenders will consider your application. The first is the Equity Test, and the second is the Income Test.

The Equity Test is broken into two options, and one or the other of the options needs to be satisfied.

The first option of the Equity Test is if you have your own real estate property with between 20-30% equity in that property. Equity is the difference between the market value of the property and the amount you owe to your lender. This is as good as cash to a property investor, as the lenders will allow you to use this amount as a deposit on your investment property.

This equity in property can be either an Owner/Occupier property or an Investment Property, and either residential or commercial property.

The alternative option of the Equity Test available to you if you do not own your own real estate is that you will require a cash deposit. You will require a minimum of \$25,000 in cash or access to this cash amount; with the ability to save some additional funds to cover loan interest during the construction stage of the project.

If you have either the required equity OR the required amount of cash, you will pass the first test.

Please note that many lenders will now allow an Equity Guarantor to provide this Equity or Cash for you. This could be a family member or a friend, or a Joint Venture partner for example.

The second primary test lenders will require you to satisfy is the Income Test.

To pass the Income Test, you will require a regular income. This could be from full time, part time or in some circumstances regular casual employment. Income could also be derived from your own business. As long as you have sufficient regular income that will make the investment loan affordable, you will pass the Income Test.

Most lenders will now allow you to use an Income Guarantor if you do not have sufficient regular income, depending upon your own personal circumstances. Like the Equity Test, this could be a family member or a friend, or a Joint Venture partner for example.

These rules are not hard and fast, and it depends on your individual financial circumstances, so you are encouraged to contact your own property finance specialist to ascertain your eligibility or have OzInvest help you.