

Often Asked Questions

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Should I buy new or used?

How do I know it will go up in value?

Are huge capital gains necessary?

Isn't this a lot of money to borrow?

How do we cover all the fees?

My friends / relatives said I shouldn't do this. Should I?

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Am I really ready to do this?

Is property the best investment?

Where should I invest?

How do I know the Property Manager will look after my property?

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What happens if Interest Rates go up?

This is a long term Investment. How long?

How do you make money on property quickly?

What if I lose my job?

How do we buy the property?

This all sounds too good to be true! Is it?

What if I get nervous and change my mind?

How do I know I'm not paying too much for the property?

Q/

Should I buy new or used?

A/ Buying new has

distinct advantages over an existing property in that a new property will provide you with greater tax deductions through depreciation. There is also a six-month builders maintenance and six year structural guarantee available with new property and its desirability to a tenant is greater.

The property is also likely to be in a new area which means infrastructure is still to pour in thereby increasing the value of your

investment.

If you were to buy second hand property you would most likely get a slightly better position with a slightly higher rent but this is often offset by maintenance and the fact that you are paying someone else's capital gain.

Q/
How do I know it will go up in value?

A/ You are looking to purchase a product which provides a basic human need ie shelter. Think back 15-20 years ago as to what a property would cost to buy in your area and compare it to now. Most people understand that if you have \$100,000 in cash to invest you would not put it in a Bank because in 10 years time it would only be worth \$50,000. This is because cash devalues as its purchasing power reduces. Its purchasing power reduces because the cost of goods increases. It is therefore logical to assume that if \$100,000 cash is worth \$50,000 in 10 years (1/2 its value) it's because the cost of everything has doubled including housing.

Q/
Are huge capital gains necessary?

A/ While they would be nice no one can predict what, if any, capital growth will occur. There are only two ways to increase wealth through investment be it in shares, coins, stamps, property or paintings. Firstly, capital growth which is unknown and uncontrollable and secondly, the elimination of debt which is both known and controllable. If you eliminate the debt on an asset the capital growth becomes a bonus.

Q/

Isn't this a lot of money to borrow?

A/ No! Relatively speaking you are borrowing the same money now as you would have borrowed 20 years ago to buy your own home and surprisingly people sacrifice all sorts of lifestyle decisions to make this purchase. This time we not only structure a package to have minimum to no impact on your lifestyle but you have two people helping you own this property that you didn't have with your first home ie the tenant and the taxman.

Q/
How do we cover all the fees?

A/ We provide for these in the borrowings and ensure that all aspects are covered. Following settlement there will more than likely be a refund to you, but these are generally earmarked for things like Interest and Insurances and these funds may be required shortly after settlement.

Q/
My friends / relatives said I shouldn't do this. Should I?

A/ This is common, but ask yourself, what knowledge, experience or qualifications do they have to give you this advice. Have they done anything with their life that gives you the confidence to heed their advice.

It is very common for people to resist change, accordingly if you change others will try to bring you back to their comfort zone because if you succeed it means they may have to change what they are doing.

Be careful as their negativity or apathy will ensure you both enjoy a poor lifestyle in

retirement.

Q/
What if I don't get a tenant?

A/ New, median house priced property will always attract a tenant, at a price. If the market dictates that rental for your property is \$340 not \$350 take the \$340. It's better than not getting \$350.

Refer to the later negative gearing example, which explains how extended vacancy is not as costly as you think.

Q/
Am I really ready to do this?

A/ The bank will determine whether or not you're ready. If you can't afford it or can't secure it, they won't lend it to you. If they will, then you should.

Q/
Is property the best investment?

A/ Banks or money lenders in general are the most conservative investors of all. Consider the following:-

Shares - Banks lend 50% of the value of the
shares with

a
margin call. Which means if the Shares
fall in

value
you have to reduce the amount of your

loan
to 50% of the new value.

Rural Property - Many banks won't lend at all.

Commercial
Property - Banks
lend to 70% of the value.

Residential
Property - Banks,
Credit Unions, Building Societies,

Insurance
companies, Superannuation Funds

etc
will lend up to 100% of the value of the

property.

This pretty well
answers this question, doesn't it?

Q/
Where should I invest?

A/ Property investment should always be in an area, which is growing. Bernard Salt is a recognised expert on demographics and population shift in Australia and he explains where the people want to live. He is very positive about South East Queensland. You are making a business decision not an emotional one. Buy where the experts tell you not just because you like a particular area.

Q/
How do I know the Property Manager will look after my property?

A/ Like every professional involved with your purchase, the Property Manager works for you. If you don't like what they do, sack them and employ another. Remember they don't get paid while there is no tenant in your property. Ask for a resume and outline of the services they offer.

Q/
Can I Insure against not getting a tenant?

A/ No! You can insure against getting a bad tenant and your Property Manager should put this in place for you.

Q/

What happens if Interest Rates go up?

A/ Firstly, one of

the most important factors in preparing a finance package is that of

protection. Accordingly for that

portion of the debt that you are not looking to repay immediately we strongly

recommend a Fixed Rate to cover against the contingency of rising rates. Secondly, Interest Rates are very closely

aligned to inflation. If inflation was to

increase then you will see an upward trend in interest rates. However, you will

also see an upward movement in salaries, rents and property values.

The highest

increase in property values generally occurs in times of higher inflation and

Interest Rates.

Rising Interest

Rates are generally good news for the property investor while during periods of

low rates it is a good time to buy.

Q/

This is a long term Investment. How

long?

A/ The

length of time you need to hold a property depends on several factors such as:

-

-

The economy
generally.

-

Where in the
cycle you purchase ie. is property booming or is it flat.

-

Where you buy
ie. is it a new area or an old area.

Remember
you only lose money on an Investment of any sort, if you sell it
at the wrong time.

Q/
How do you make money on property quickly?

A/ There are
really 3 ways to invest in property: to speculate, develop or invest. If you speculate you are purchasing a property on the basis that some event or infrastructure is going to occur which will cause the value of your purchase to increase in value rapidly. The risk is that the event or infrastructure either doesn't occur or doesn't have the impact hoped for.

If you develop
property you are purchasing something, which you intend to improve either by building or renovation, then offload quickly.
The risk is that holding costs can rapidly diminish your profit if the property does not sell as anticipated.
Remember you are not renting it therefore there is no tax benefit.

If you invest you
are purchasing a property specifically to hold long term. The assistance of rental income and tax benefits (if geared) assists you to hold the property long term.

The right debt
reduction strategy will see the property freehold in time there by providing you with an income later in life. The
capital growth is not as important if you eliminate the debt.

Q/

What if I lose my job?

A/ This is a

question uppermost in people's minds when taking on further commitments. Part of what we advise during the finance interview is to look at your Insurance options. We build in, wherever possible, an amount of funds to purchase Insurances such as Life, Trauma, Disability and Income protection. We then ask an Independent Insurance Consultant to contact you to discuss these Insurances. What you choose to take is your decision but at least you are able to explore your options to cover against losing your job or even against death, injury and sickness.

We also ensure where possible that there are sufficient buffers in your finance package to get you over short-term financial difficulties.

Q/

How do we buy the property?

A/ We recommend

that the property be purchased predominantly in the name of the highest breadwinner taking into consideration the fact that there are unlikely to be any changes in the family income stream in the near future. By purchasing the investment predominantly in the name of the largest income earner (ie. 9% and 10% as tenants in common) you are able to maximise the tax benefits available thereby minimising cost to you. If both parties are on similar incomes and this is unlikely to change in the foreseeable future then joint names 50/50 would be fine.

Keep in mind also

that calculation of cash flow in relation to the actual cost of owning the property is based on the highest income earner (in the case of 90/10 ownership). If the other party were to cease work it makes no difference to the physical on going cost to you of owning the investment property.

Q/

This all sounds too good to be true! Is it?

A/ The common

adage is that "If it sounds too good to be true, it probably is!" However, all that has been told to you

should be logical and easy to follow and if it were logical it would be difficult to fault it.

Most people are just not aware of the ongoing benefits that can be taken advantage of if you possess income and savings (remembering that equity in your property is your savings.)

It only seems too good to be true because the professional people who specialise in this area have made you aware of the opportunities and how to take advantage of them.

Remember the ongoing support of these professionals is yours for the asking.

Q/
What if I get nervous and change my mind?

A/ It is not uncommon to feel uncomfortable a couple of days after your purchase as you may feel suddenly on your own. This information booklet is designed to allow you to revisit your reasons for becoming involved and to enable you to answer any negative comments thrown at you by those who would try to bring you undone.

Remember also that all the people you have dealt with are only a phone call away.

Q/
How do I know I'm not paying too much for the property?

A/ Consider the following:-

"When you buy on price alone you can never be sure. It's unwise to pay too much, but it's worse to pay too little. When you pay too much you lose a little money - that's all, but when you pay too little you sometimes lose everything because the thing you bought is incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot. It can't be done. If you deal with the lowest bidder it is well to add something for the risk you run, and if you do that, you will have enough to buy quality."

RUSKIN

1819-1900

Everyone has a different opinion of the value of an asset depending on the position of the person assessing the value. In the case of a residential property the vendor may have a different opinion than the purchaser and the bank or their valuer may have a different opinion again. All these parties are assessing the value of the property for their own purposes. Its difficult to quantify this question but if the bank valuation is within 10% of the purchase price it is probably acceptable.

Ultimately, if you are happy with the product and the price, buy it, if not, don't.

Remember a bank valuation is for a specific purpose. As an example, if you were going to sell your house would you ask the bank's valuer to value if for Mortgage Security purposes and then put it on the market at that price?