More prosperity

Paul Woodley

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Those mighty Roosters are travelling well early in the season. Hopefully I'll still be crowing later in the year. Apologies to non Rooster supporters.

Coming up to tax time I thought I'd introduce you to a good local accountant, Justin Ajaka of Ajaka & Co Accounting – Telephone 02 8347 2239. Justin's office is at Maroubra Junction, he specialises in the preparation of BAS & business returns for small & medium sized businesses and the preparation of personal tax returns. If you have been struggling with your tax paperwork or are not happy with your current accountant give Justin a call.

Finally, I'll leave you with some words of wisdom – *A bird in the hand is safer than one overhead. A lack of leadership is no substitute for inaction. A day without sunshine is like night.*

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Seven Tips for Negative Gearing

The use of negative gearing is a common strategy for property investors. Here we give you some tips to make this strategy work for you.

Through a careful assessment of your financial position and the rental market, a negative gearing strategy can help you to achieve your financial goals. Here are seven tips to help you do that:

1. Assess your financial situation

Map out your own personal objectives and what you want to achieve. Assess your own individual financial situation and seek professional advice.

2. Consider the worst-case scenario

To have peace of mind you need to map out the worst-case scenario to "stress test" your finances. What happens if the property is vacant for a long period of time? What if you lose your job, or if you decide to start or extend your family?

3. Get insurance

As mentioned above, one risk is that you lose your income. You should seriously consider taking out income protection insurance so that most of your income will be replaced, at least for a period.

You should also consider landlord insurance. These policies can cover you for malicious or accidental damage by the tenant; theft by the tenant (e.g. furnishings); loss of rental income if the tenant defaults on their payments or if the property is vacant due to repairs; public liability (eg damages claim from an injured tenant); and legal expenses incurred in taking action against a tenant.

4. Understand the risks and benefits

Property promoters are not the best people to give you advice on the pros and cons of a particular property, location, etc. After all, they have a vested interest in you purchasing a property from them.

You need to do your own research, seek professional advice about the benefits and risks, and make your own decisions.

5. Take out an interest-only loan

Because this is an investment, the loan you take out to pay for it is a tax-deductible debt. On the other hand, a home loan for your own family home is not tax-deductible.

It therefore makes financial sense to concentrate on paying off the principal on your own home loan, leaving the investment loan principal intact. Then, once your home loan is paid off, you can concentrate on reducing your investment loan.

6. Buy quality property

You need to make sure that the investment property is going to meet your objectives in terms of regular rental income and good capital growth. Ask yourself which locations are popular with renters? Where is the vacancy rate really low? What are the long term plans for transport, retail centres, etc in the areas you're considering?

> *"Do your own research and seek advice."*

7. Get professional advice

You should consider using an **accountant** to prepare your tax return. This way you ensure that all available deductions are maximised, and that you don't make any mistakes.

Further, you should consider engaging the services of a **Quantity Surveyor** to calculate the property depreciation. It is estimated that 80% of property investors are not maximising their claims, which means that they're paying too much tax.

In summary

Property investment can be a great way to build your wealth. The most successful investors are those that plan well, minimise their risks, and use professionals.

Plan for Success

As the name suggests, buying "off the plan" means purchasing a property direct from the developer before it has been built. Whilst not for the faint hearted, if approached carefully this can be a good way to buy property.

Buying "off the plan" does have its critics, but it can be a sound strategy that has some advantages over purchasing other types of property.

How does it work?

Because the purchaser is buying the property before it is built, the process usually involves visiting a display home which showcases how the final property will look and feel, including the layout, finishes, and fittings in true to scale size.

To secure the property you will generally pay the developer a 10% deposit at the time of signing the contract, and then stamp duty (normally on just the land value) is payable within three months.

"A rising market means capital gains."

The balance of the purchase price is normally payable once the development is finished – and so settlement can be completed.

Advantages

- **Lock in a price** well before the property is built. In a rising market this means large capital gains can be made before you even move in to the property.
- **Tax deductions.** Investors can also claim tax deductions such as depreciation and fittings on new property purchases.
- **Continue to save.** Because they've only had to pay the deposit, the purchasers can continue to save money during the construction period.
- **Brand new property.** One further advantage to buying "off the plan" is that you will eventually move into a brand new property. You may even be able to select the fittings (e.g. lights, carpet and dishwasher) for your home.

Disadvantages

- **Locking in a price.** As mentioned above, this can be an advantage in a rising market. The reverse is also true: in a slowing or declining market, the value of the property could be less on completion than the agreed and committed price.
- **The delay.** The lag between purchase and settlement can be several months or even a year or more. This is a disadvantage for people who want to move in straight away, or simply cannot wait this long.
- **Hard to visualise.** It can be very difficult to see what the property will look like, and to understand the standard of finishes, the practical layout, the size and dimensions or the view or the outlook until completion, which can lead to buyer disappointment.

What to look out for

Before purchasing off the plan you should thoroughly **research the proposed development.** This includes viewing the developer's previous work, and establishing the price of properties located nearby in similar sized developments.

Apart from the unit or house itself, a purchaser needs to understand the issues which will arise in construction of the development. These could include the style, appearance and finish of common areas, likely noise, proposed security system, visitor parking, access to garages, ventilation, garbage disposal and landscaping.

It is also vital when reviewing the sale contract to **seek legal advice** to ensure you are covered if anything goes wrong. Some key points to look for in the contract include:

- A dispute procedure
- Proposed commencement and completion dates
- A description of the title proposed to be registered
- Details of the strata
- A clause that states the developer must inform you of any changes to the plan
- A full description of all finishes and appliances
- The ability to terminate the sale if the property undergoes structural damage.

Conclusion

There can be rewards in buying "off the plan", particularly in the case of a development in a highly desirable location. By being aware of potential issues and minimising the risk through research and the taking of legal advice, these rewards can be realised.

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