AUSTRALIAN PROPERTY: FAQ

UPDATED 2016

Everything you need to know about investing in Australia

The following is a list of some of the most common questions we receive about investing in Australia, or in a specific project in Australia.

What are the advantages in purchasing "off-the-plan"?

Buying off the plan means buying prior to construction. Benefits include the ability to lock in at today's prices. Many buyers who have got in early have enjoyed the benefits of strong price appreciation.

Another benefit is delayed settlement i.e. buyers are not required to settle or pay for their property in full until construction is completed and settlement has taken place. This allows the buyer to arrange appropriate finance.

Only a small deposit (10%-20%) is required and the remainder is not due until building is complete. There are also significant depreciation tax savings on new or off plan property, and some cities offer stamp duty savings also.

How much deposit do I have to put down when I purchase an apartment off-the-plan?

You normally only need to pay a 10% or 20% deposit.

What happens to my deposit?

The deposit is held in a legislated trust account. *By law the deposit funds cannot be used by the developer* until the property is completed, and final completion and settlement has taken place. This often gives you up to 12-24 months or longer to maximise and organise your financial affairs.

Are there any tax savings?

Yes. New Buildings can qualify for significant depreciation tax savings. (Up to 60% of the purchase price may be given back to you in the form of a tax deduction) Additionally properties bought for investment allow the owner to claim all expenses on the investment against future rental income.

Is there a building warranty?

Usually, depending upon the State Laws. New apartments usually include a structural warranty not available on older buildings.

I am not an Australian. Can I still buy?

Absolutely. Approval is given by the Australian Government for foreign persons to invest in brand new, or "off-the-plan" property.

If I sell, can I get my money out of Australia?

Yes. The funds can be sent anywhere in the world.

Does buying property help me migrate?

No! Buying a property is not a criteria to migrate.

I live overseas. How involved do I have to be?

Property ownership "from afar" is very common. There are very professional property managers. All bills can be paid for you. Rents are banked into your account. Property ownership can be pretty much trouble free.

However, being a landlord does carry with it some responsibilities, and from time to time you may need to get involved. With e-mail and the internet, overseas property investing has become a world-wide reality.

As a foreigner can I obtain a mortgage to buy one of these properties?

Yes. Finance is available for foreign investors. Like many countries, Australia has tightened up on the amount of the loan to the purchase price available. However, 60% of the valuation and up to 70% is available to non-residents for Australian dollar loans. For off-plan apartments, you only start repaying the loan after you take completion. No loan payments are necessary before then. (For House and Land,

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progress payments are made to the builder.) Foreign currency loans are also available for residents of certain countries such as Hong Kong, Singapore, the USA and Malaysia. Lower interest rates are available, but buyers should be aware of currency risk if borrowing in a different currency to the asset and there often minimum amounts of loan that must be taken.

For Australian citizens living overseas, 70% loans and up to 80% are usually available.

What type of loan is the best?

For investment property, very attractive investment loans are available, where you are only required to make the minimum interest payment each month, with capital or principle payments made at your option. These loans make property investment very attractive, as it means the rents will usually cover the monthly payment.

Is a stand alone house a better investment?

Houses are also very sound investments in Australia, but the maintenance is higher, and the rental returns tend to be lower.

Also they require more upkeep and looking after. Properties in a project usually have everything taken care of for you. They can be locked up and left. They are attractive to tenants and have low maintenance.

Am I paying too much?

All prices are fixed. There are no hidden costs. All prices are fair market prices.

Citylife guarantees that all prices are offered at exactly the same price offered in Australia to local investors. You pay no extra in the price by buying from overseas, although like many countries some extra taxes may apply for foreign buyers.

I feel that I can buy a cheaper apartment on the second hand, resale market. What advantages are there in buying new?

Legally, foreign buyers cannot buy "old" properties. But if you are an Australian citizen, you can also consider older apartments. Old apartments of course do not have the latest designs, or structural guarantees or internet wiring. New properties often have swimming pools, security, parking, spas, gyms and possibly other facilities, all of which are very attractive to tenants.

As an investor, you need to also look at what tenants are demanding - that is "lock up and leave" security, resort facilities, car parking, usable outdoor areas and convenience.

Also up to 60% of a new residential property investment will be tax deductable. This is a huge benefit.

Should I look for capital growth, or go for rental yield?

That is the question that investors have grappled with forever. ***Prime locations give higher capital growth, but rental yields can be lower.*** Lesser locations, or country areas away from the cities often provide a better "yield" or rental return, but give you less capital growth.

In reality both strategies have merit, depending upon your personal circumstances, financial circumstance and investment goals. If you are building a portfolio, then a mixture of the two often works well.

How complicated is property investment in Australia?

Not complicated at all. But you do need to follow the 6 Golden Rules shown below. Freehold titles are available. There is strong landlord/tenant legislation.

There is an increasing and available pool of tenants. *The population is increasing, and land is diminishing. It does not have to be complicated.* There are no constantly and complicated changing regulations. There are no age barriers to investment. Seek advice from experienced, successful property agents.

Is it risky investing in property in Australia?

For short term property traders, negotiating a bargain price, finding the best interest rate, and deciding when to buy and sell are extremely important. For those hoping to "flip" or quickly turn off the property, it can be risky and difficult to do so.

For long term property investment, the initial price, interest rates and timing have *far less impact because of the levelling effect of time*. Long term property investment has been relatively unaffected by downturns in the economy, high interest rates, fuel crisis, stock market crashes, natural catastrophes, and unemployment for the past 100 years. *A well located property has low risk, with good returns. The best time to buy is when it suits you financially, and then look to hold for the long term.*

What if interest rates rise?

Interest rates go up and down over time. However, you can also fix rates for up to 5 years.Or you can pay the loan off faster, to reduce the debt. And you will receive extra tax deductions on higher interest rates, reducing the impact.

In addition, when rates are up, it tends to mean less people buy property and more people rent, giving you

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higher rental returns. It is not unusual to see the rent increases more than offset the interest rate rises.

I was bought up to believe we shouldn't borrow money. Were my parents wrong?

Yes and No. The golden rule for borrowing money is to borrow for appreciating assets and pay cash for consumables, cars etc.

Borrowing to buy appreciating assets like property is an important tool in investing.

Are properties self funding?

Assuming you are borrowing between 60 - 70 percent, and take an Australian dollar investment loan, then the rent will in most cases pretty much cover all the bank's interest payments.

Why do you think the market will continue to rise?

Prices rise in response to demand. Demand is created by factors such as infrastructure improvements, new shopping business centres, access to transport, population growth, migration and shortages in supply of housing etc. It is important to know what is planned in the area you wish to invest in.

Based on current population and migration forecasts, a healthy increase in the requirement for additional housing exists. In fact, Australia faces a critical shortage of new housing into the future based on current trends.

This means buying investment apartments with starting rentals at 4%-6% are a fairly safe bet and you can reasonably expect to continue to see healthy capital growth. Migration will continue, and for various reasons a shortage of property is likely to continue in Australia for some time to come.

What does Return on Investment (ROI) actually mean?

The Return on Investment (ROI) is a measure of the return a property will achieve after taking into account the amount of money outlaid, compared to the total amount returned at the end of the period. Investors usually only look at the capital growth or rental income a property achieves, but this is misleading.

A property purchased for $600,000 and sold for $700,000 could be considered to have achieved a 16.6% capital gain. However, *is this the real gain?*

No. Unless the investor paid cash. But if an investor outlaid 30% deposit on such a property, ROI may go as high as 55% - a substantial difference! Don't underestimate the power of leverage when buying property.

Should I pay cash for an investment property?

Generally no! The golden rule for borrowing money is to use other people's money to use leverage for an appreciating asset. Interest expenses are fully tax deductible.

Everything looks attractive. But I'm still unsure whether I should leave my money in the Bank as the world situation remains uncertain?

This is a common question and ultimately, only you decide what is best for you.

Nervousness about making the "wrong" decision, and the apparent safety of leaving your money in the bank, often outweighs the "harder" decision of deciding to invest.

That's why the ABS (Australian Bureau of Statistics) tells us that just 7% (of those ages 18 and over in Australia) owned, or were buying at least one residential rental property for investment. And of those, 78% had only one rental property and just 13% owned two.

Our computer modelling shows that an investment in property, (even a modest 5% growth rate) will outperform cash on deposit (at say 6%) by over 75%.

"Annual inflation of just 3% cuts the purchasing power of a $100,000 cash hoard in half over 25 years… The impact of inflation shows putting money under the mattress (hoarding cash) is not a viable long-term strategy" BlackRock Investment Institute

How do I know this is a good area for capital growth?

Although it is human nature to want to find a bargain in an area of great capital growth, *it is false economy to spend a huge amount of time searching for gems that are probably buried in your own backyard.*

It is virtually impossible and really unnecessary to gauge just where the most valuable suburbs will be in the future.

History has shown that the right type of property (see the 6 Golden Rules) and one that is well-located should follow the pattern of steady rental and capital growth over the long-term.

Rather than spending weekend after weekend looking at the internet you can maximise your returns and better manage your investment by organising your finances in the best possible way and ensuring that you buy a quality property in a good area, at a fair market price, based on research fundamentals such as vacancy rates, stock on market, amount of rental property available and shortage of supply etc.

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Am I better off buying one property for $1,000,000 or two for $500,000?

It depends entirely on the area in which you are buying. A $1000,000 property may be the middle sector of the market in that area, whereas a $500,000 property in a provincial town would probably be a mansion.

In the former case, a $500,000 property in the lower to middle end of the market has a higher rental yield, which results in a better cash flow.

Secondly, the lower rent should attract more tenants. Thirdly, if you wish to sell, there's more flexibility in selling a lower priced small property than one large one. And finally, if you are selling property in the middle part of the market it should attract other investors as well as first-home buyers, so there should be more potential purchasers. However, prime properties will often attract higher capital growth.

I don't seem to have much spare money as it is now. Can I really afford to buy an investment property in another country?

If you have already made the commitment to pay for necessities first and luxuries last, then the only remaining stumbling block is more of a perceived problem than an actual problem. Too often, we think of an investment property in the same light as our own home. This being the case, we tend to see only the interest bill.

But remember after the tenant and the taxman have paid their share, what's left may be as less than $100 a month in holding cost in the first year and it gets less over time as the rents increase.

Won't there be a glut of vacant properties when everyone discovers the advantages of owning rental property?

There is such a small percentage of the population in the running to buy rental property. *People have been renting property since time eternal, and with more than 30% of the population renting, tenants will not disappear overnight.*

There should always be a pool of tenants looking for rental accommodation. Australia's population is expanding, and the demand for rental property is highly likely to keep increasing.

Supply and demand in rental properties is cyclic and vacancies can and do occur from time to time. *But there are certain things you can do to keep this time to a minimum.*

Choosing the right location in the first place helps and well-located, well maintained properties with reasonable rents attract more tenants.

Most people seem to emphasize position, position, position. Should I pay more and get prime residential property?

Property in prime locations do experience strong capital growth, perhaps slightly higher than normal, however the real return cannot be measured by the growth alone.

You should also ensure you get the current financing, advice and management services in place to maximise your returns.

Is it true that Stamp Duty Savings are only available in the state of Victoria?

No. Stamp Duty Savings are available throughout Australia. If buying a brand new house and land package, you will pay stamp duty only on the land value, not the full price if the home hasn't yet been built. This saving also applies if buying off plan apartments in the State of Victoria.

Are there a lot of taxes?

Like many countries, Australia taxes it's property investors by way of Stamp Duties on purchase, and also has other taxes such as on rental and capital gains. However, there are many ways to offset many of these taxes especially if you take a mortgage and buy new property. Australian property remains one of the most popular and safe property investments in the world.

Is Australian property investment still worthwhile?

Yes. Property Investment is so good in Australia it works even though it's not perfect. You'll never find the perfect timing, financing, and property, but you'll find something that can increase your wealth in a reasonable time.

One barrier is simply that there is too much information mostly on the internet around now. People are suffering information overload, and that brings them to a grinding halt.

Best of all, Australia still has amongst the lowest per square metre rates for new build projects in the world, and amongst the highest rental return, and very high rental occupancy rates.

What's the biggest mistake a foreign investor can make?

That's easy! They often seem to buy "student housing" or serviced apartments", which often are the worst investment you can possibly make in Australia.

Secondly, for some reason they seem to think investing in city centres is best, yet would not

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necessarily invest in the Central Business district of Hong Kong or Singapore, yet they seem to feel all Australian's want to live in their CBD'S.

Well, if not CBD'S then where? Outskirts?

No no no! As a rule look to invest in prime residential suburbs within 10 kms of the city centres. Exceptional CBD buildings can definitely be considered as demand is increasing, but not substandard, "all the same", average quality mass produced blocks.

What is a "simple formula" to follow?

You need to stick to basics; you need to find property that the Australian *tenants want to rent in an area they want to live.* And something that will resell easily to Australian "owner –occupiers" in the future. Then finance it in the simplest way, perhaps with an Interest-Only Loan that's fixed for a certain time. Have a good property manager and agent you can trust, and be prepared to hang onto it for 10 or more years. There's not much else you need to do.

But of course, ALWAYS follow the "6 Golden Rules":

The 6 "Golden Rules" for Australian Property Investment

Rule #1

Never buy anything under 40 m2. (Internal area) Never buy *'student housing.'* Never buy a *'serviced apartment.'*

Rule #2

Don't sell too soon! Hold your investment for a full property cycle. If it was a good property when you bought it, it will be an even better property in 5 years. Allow time to maximize the benefits of leveraging, compounding and inflation.

Rule #3

Always buy the "lesser" property in the best location you can afford. Prime locations in Australia are the last to fall, and the first to recover in a downturn, and hold their value better.

Rule #4

Think what tenants what, not what you could *live in yourself*. But remember to select something that will be able to be resold to local Australian "owner occupiers", in most cases young couples or singles.

Rule #5

Always look for a *'point of difference.'* It could be a different floor plan, a 1 bedroom in a block of 2 bedroom apartments, a great view, a never to be repeated location, or something else unique and not easily duplicated. Look for a mix of apartment types in the building for example a building with a combination of 1,2 and or 3 bedroom, not all 2 bedroom apartments, especially if they are all the same.

Rule #6

Check occupancy rates are over 95% in your preferred area, AND make sure they have usually averaged over 95% over the past 5 years also. Your agent can tell you this. (If not it's time to change your agent.)

There you have our 6 Golden Rules to help ensure investment success in Australia.

Ideally, your investment property should have all 6 of these in place!

If your property has NONE of these in place, then we suggest you implement additional

Rule #7

If you have made a truly poor buying decision, and have bought something that is highly unlikely to move up in value for years to come (if at all) such as student housing, or is getting a very poor rent return, then we suggest ignoring Rule #2 above, and cut your losses and sell sooner rather than later.

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The World is uncertain:
I am waiting for a "Better Time to Invest".

Fred Johnson, author of *"The Wealth Power of Property"* has this to say:

*"Consistently throughout the past 45 years, people have been telling me that **it's not a good time to invest in property.** In the early 1950's when a home loan was as rare as hen's teeth, they said – it's not a good time to buy; there is no money available; prices will not rise. In the late 50s when exports were flagging, they said the economy was heading for disaster: Don't buy property, interest rates were going up, import quotas were being cut and world prices for wool and wheat had dropped.*

*The Menzies credit squeeze of 1961 was a good reason not to buy property. Drying up of credit; lack of confidence in the economy. The doomsayers said **property as an investment was finished** and would never return to its old glory. In the late 1960s, Great Britain, our biggest export customer was negotiating to join the EEC. Menzies raced to London to point out the error of their ways. He was unsuccessful and proclaimed that Great Britain's entry to the EEC would make previous recessions look like a boom. **Don't invest in property now,** they said.*

*The early 70s saw low inflation. **Property would not increase in value,** they said. Then in the mid 70s, there are high inflation, high unemployment and then recession. The OPEC oil crisis of the late 70s caused the "experts" to say **the property prices would drop** as people and industry could not survive the expansion of our cities as oil prices soared. Property was out of fashion once again.*

*The abolition of negative gearing in the mid 80s had people saying – **don't buy property now,** there's no tax advantages. In the early 90s we had another recession and low inflation with a flood of headlines such as "**values cannot rise** when inflation is low".*

*Consistently for the past 45 years, "experts" have been telling me that **the time is not right to invest in property.***

Assuming you have sought out the right information, the biggest mistake you can make is not to own any investment property at all."

Jan Somers, author of *"More Wealth from Residential Property"*:

*"There is so much to be learned from these people who have been investing in property for a long time. **One thing they all tell you is: if you wait for the right time to buy, you'll never buy anything at all.** And if you sell when everyone says sell, you'll never have anything at all. **The trick is to buy whenever you can afford to. In other words, buy when it suits you financially, not when it's economically correct."***

"There is never going to be a perfect time. You can grow old waiting for the planets to align, and someone, anyone to give you a sign. If you wait until the wind and the weather is just right, you will never plant anything and never harvest anything." Mark Victor Hansen

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