

ASK PATRICK

Property expert Patrick Bright answers your questions and gives advice about the intricacies of buying and selling investment property.

Q. Should I set up my loan as interest only or principle and interest for an investment property?

A. This is an important decision that you need to examine carefully to ensure that the loan you secure meets your needs. Sure the monthly repayments will be less however do you want to acquire equity in the property faster than the market growth? Maybe you want to keep your repayments to a minimum so you can set aside some spare cash to renovate the property? You need to be clear on what your future plans are for the property so that you can discuss them with your tax accountant and ensure that your loan works for you and not against you.

When it comes to the repayments of an investment loan the only component that is tax deductible is the interest. Whilst buying property is a great way to increase your asset base you would be silly not to capitalise on a monetary benefit that the Australian Tax Office allows. However I recommend you speak with your tax accountant to confirm what is the best set up for you.

Q. Friends of mine purchased an investment property in the US as they feel it's very cheap over there at the moment. Should I be looking to buy in the US?

A. With any property or other investment purchase you're taking a risk. If you want to expand that risk then buy in an area that you're not familiar with and if you really want to increase it further, then buy in another country.

Ask yourself this question - Why do marketing companies spend hundreds of thousands of dollars promoting property developments to out-of-towners? It's not because they want to give overseas buyers a good deal, it's so they can make money and the best buyer is the uninformed buyer.

Unless you have a real estate insider such as an exclusive buyer's agent based in the overseas or interstate market who knows the price of local property and the good areas to buy, then I would avoid these types of investments. There are plenty of opportunities for you to invest well, right here in your own backyard.

Q. I've noticed that a lot of properties are advertised with a rental guarantee. Are they a better investment over properties that don't offer this benefit?

A. Definitely not, they concern me every time I see them. Rental guarantees are only there to make you, your lender and or financial planner feel safe. Quite simply, a good well-positioned property doesn't need a rental guarantee.

I have found in most cases developers and property marketers use rental guarantees in order to jack up the property's asking price. For example if a 5 per cent rental return was the norm for a particular area and the property is really worth \$500,000 then the expected weekly rent would be \$500 per week.

However some developers and marketers would offer a rental guarantee for say \$550pw. They then put the property asking price up to \$550,000. The property still has a 5 per cent rental return, keeping it in alignment with the area.

If the buyer hasn't done their market research on value, they may purchase the property for \$550,000 and overpay by \$50,000.

Of course, most of the time, the property won't rent for \$550pw because it's an inflated price. And even if the developer or marketer does come good on the guarantee and pick up the \$50pw short fall, it only adds up to \$2600 in costs over a year so you are still \$47,400 behind at the end of 12 months plus the additional interest costs.

If a property is offered with a rental guarantee then I recommend that you run in the other direction. At the very least you should seriously question the validity of the asking price. www.woon.com

Are you a property investor? Have your questions answered by Patrick. Email him at: askpatrick@epspropertysearch.com.au

Patrick Bright is a real estate buyer's agent. He has negotiated hundreds of real estate purchases, is a successful property investor and best selling author of "The Insiders Guide to Buying Real Estate".

