# Is Australia's Great Love Affair with Property at an End?

Theo Marinis takes a cold, hard look at property investing and asks if the lessons you learned from your parents are still valid today.

By Theo Marinis
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In 1958, at the age of 24, my father arrived in Australia from civil war-ravaged Greece. He was told that the way to make money in Australia was to buy property, advice he duly passed on to the brothers and cousins who followed him.

For many Australians, those already here and those just arrived, it was sound advice.

At the time, on wages of less of than two pounds per hour, many new arrivals soon discovered that they wouldn’t realise the Aussie dream of the quarter-acre block. But they could still get on the property ladder by buying their fish and chip shop, or other business premises, and making their home above it.

New Australians often purchased cheap single-row cottages in what were then classified as inner-city ghettos. These properties were rarely sold. As a result, the children of those first-generation migrants are now inheriting incredible wealth as those previous inner-city ghettos become gentrified and fashionable.

There is still merit in this approach of investing and holding property, but you should always consider the market you are buying into. Many Australians continue to love the allure of investment property and, while it remains available, using the current negative gearing legislation to their tax advantage. But, as with all things alluring, there are some caveats.

During the pandemic, regional Australia has seen an increase of around 30 per cent in residential property values. Will that be sustainable? In five years, a Rockhampton property valued at $500,000 today might be worth an equivalent $300,000 as the Great Resignation and the associated tree change effects dissipate – or if/when the next "recession we have to have" materialises.

As a financial strategist, I will consistently advise diversity in all investing. Don't get too heavily into shares or property without diversifying across asset classes and investment management styles – in other words, look to spread the risk as insurance against the inevitable downturns.

Depending on your appetite for risk, a rule of thumb might be to have one third of your wealth in direct real estate, one third in superannuation investments (appropriately diversified) and another third in accessible investments.

Property is a large, lumpy asset. Unlike shares, it is hard to readily liquidate a house, a factory or your business premises when there is a downturn, a change in circumstances (such as illness or death) or a change in relevant legislation. To put it another way, if something goes wrong "you can't eat bricks".

Many investors have recently enjoyed a massive capital gain on their property holdings but on their sale (if owned for more than a year) approximately 25 per cent will need to be shared with the ATO – up to almost 50 per cent if held for a shorter time. Bear in mind too, that subsequent governments may choose to close the negative gearing loophole in future electoral cycles.

Robert T. Kiyosaki, author of "Rich Dad Poor Dad" (who himself owns over 8,000 properties globally, including properties in Australia) has called for the abolition of negative gearing, even though he benefits from this tax rule. "My question is this to you: If I'm losing $200 a month, how many properties can I afford? None. And if I'm making $200 a month, how much can I afford? As much as I can get," he says.

Don't discount the value of the time spent in the personal management of rental properties. Maintenance, repairs, mowing lawns and/or generally taking on the role of an untrained handyman (all before taking into account the time involved in handling possible rent defaults) are opportunity costs.

Do you really want to deal with your tenant's blocked toilet at 3 o'clock on a Wednesday morning? Just because you can, doesn't mean you should. When you factor in your unpaid hourly rate, make sure you avoid being in a position where it might have been more profitable driving for Uber.

In my view – and this is a frequently contested point within my own ethnic community – a better strategy would be to upgrade the tax-free family home (another contentious Australian tax loophole) and invest any excess income, up to $27,500 per annum per person, into super.

If you want to live in the property and don't view it as an investment, it doesn't really matter how eccentrically grand your home is. But overcapitalizing can make it hard to get your money back – and many buyers want to be able to see how they can improve their home themselves and make a quick paper gain by renovating a kitchen or putting in a pool.

If you are a committed property-lover, but don't want to place all your bets on 57 Mount Pleasant Street, consider investing in listed property. Good quality listed property trusts allow much greater diversity, flexibility and liquidity; they can be used to form an important part of a well-managed investment portfolio.

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