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The great (property) love affair

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 which he duly passed on to his brothers and cousins who followed him. For so many of Australia's migrants (and non-migrants) that advice worked for them.

On wages of less of than two pounds per hour, many 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 business premises (for instance a fish and chip shop) and living above it. This is not a cliché; it was, in fact, the wealth creation path of my parents-in-law.

Our 'new' Australians often purchased cheap single-row cottages in what were then classified as inner-city ghettos, a tendency which became known as the 'new-Australian love affair'. These properties were rarely sold. As a result, the children of our first-generation migrants are now inheriting incredible wealth – particularly now that those previously cheap inner-city ghettos have become gentrified and fashionable – something their parents would never have believed possible.

There is still merit in this approach, but you should always consider the market you are buying into. During the pandemic, regional Australia has seen an increase of around 30% in residential property values – but 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' dissipates – or if/when the next "recession we have to have" materialises.

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.

Nevertheless, as with all things alluring, there are some caveats.

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% will need to be shared with the ATO – up to almost 50% 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. He is quoted as saying "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."

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 un-paid hourly rate, make sure you avoid being in a position where it might have been more profitable driving for Uber.

Property is a large, lumpy asset; to put it another way, if something goes wrong "you can't eat bricks". 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. 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 pa 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.

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.

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.

And don't forget the current capital gains tax free benefits of your home.

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