

Note to Self

12th May 2011

Dear Owners & Investors,

For those of you that missed my April newsletter, the link for it is

http://www.plrealty.com.au/uploads/media/Property_Ladder_Realty_Newsletter_April_2011_01.pdf

For those of you that know me, you realise that I make the world's worst sales agent. Over the years many of you have thought about selling, and I have tried my best to talk about the benefits of keeping things long term. I know we are in a slump right now, but things will get better and as they do the demand for investment properties will increase and with this, the prices will go back to at least where they were pre GFC.

Property is an emotional thing, and sometimes we have to step back and look at it logically. I will give you an example

A person bought a property for \$190,000 pre GFC. It is a property that we wouldn't touch in a million years. There are two separate units on the same title, both bringing in income. The current costs I guess to be

Loan of \$190,000 @ 7% interest only \$13,300

Body Corporate Levies \$4800

Council Rates \$2000

Management Fees \$2060

Total Outgoings \$22,160

Currently each side is rented for \$150 per week = \$15,600

At the moment the cost to the owner is approximately \$6560 per annum. At one point in time the rents were at \$225 per week. If they can go back up to this level then the difference between the incoming and outgoing is nil.

Although this is not a dream investment, sometimes you have to work with what you have. Right now this owner can claim the difference between the income and outgoings as negative gearing. They can also claim other expenses such as building depreciation, again to help lower their tax.

My understanding is that to make a loan tax deductible, it is the purpose of the loan that either allows a deduction or not. If you borrow \$100,000 against your investment property to go on a world cruise, then this isn't a tax deduction. If you borrow the same to purchase an investment unit, then all the interest payable is a tax deduction.

The property market has dropped, and even more so for this style of unit. The market is currently at \$95,000. If this person sells at this price, they look at having a \$100,000 loan after the sale. This loan can be "absorbed" into their current housing loan. What this means is

They have \$100,000 less equity in their own home

As it is not an investment loan, the banks normally charge principal and interest - not interest only.

The cost to this investor for \$100,000 at 7% for the next 30 years will be \$665.30 per month or \$7983.60 per annum

There are no tax deductions for interest - this figure is after tax dollars.

There are no other tax deductions such as building depreciation.

If they have another investment property, I don't believe they can transfer this debt as it is the purpose of the loan that determines if it is tax deductible.

If they can carry this property for the next few years, the market should increase and the hopefully the gap between buying and selling is minimal.

Now to share my tenant story for the week. We have a person that has been with us for the past three years. In this whole time never has he missed a week's rent. I get a call from him to say that he was going to PNG to work as a chef on a boat and would be gone for a few weeks. He arranged for the neighbour to feed his fish until he came back. The rent stopped coming in, and I thought he will notice it not going out. I sent him emails and left messages on his phone. A week went by and nothing - not too concerned at this stage. Blink and another week has gone - still nothing. Week number three comes and now starting to get a bit worried. Week number four comes and now I am starting to get real antsy. It wasn't that the rent hadn't been paid - it was that he had just vanished and nothing. I had visions of him being eaten by cannibals, or a mutiny on the ship he was working on and he was thrown into the ocean, then a plane crash in the paper got me even more worried.

On Monday I decided that if we didn't hear from him then I would need to start to make a plan. Yesterday we went in searching for clues as to who to contact, and found a number for his sister in New Zealand. I spoke to her on the way home last night and she was going to see what she could find out. Less than an hour later - he turns up at home! I have never been so happy to hear from a tenant before.

Hope that all is well in your world.

Linda