The Australian Finance Podcast Episode Transcript

Episode: Property Investing Strategies (Advanced) with Chris Bates
Release Date: 27/09/2021
Speakers: Kate Campbell, Owen Rask & Chris Bates
Duration: 49:34

Please read this prior to using this transcript:

*Please note that there **may be human transcription errors** within this document, and we recommend referring back to the original episode for a true depiction of what was communicated in this conversation.*

*The information in this document is **general financial advice only**. That means, the advice does not take into account your objectives, financial situation or needs. Because of that, you should consider if the advice is appropriate to you and your needs, before acting on the information. In addition, you should obtain and read the product disclosure statement (PDS) before making a decision to acquire a financial product. If you don't know what your needs are, you should consult a trusted and licensed financial adviser who can provide you with personal financial product advice. Please read our Terms & Conditions and Financial Services Guide before using this document.*

Episode transcript:

Owen:
Chris Bates from Wealthful, welcome back to the show mate.

Chris Bates:
Awesome to be here, loving it.

Owen:
It's always a pleasure to chat to you. We're just chatting off here. Kate's just dreaming up some suburbs of where she might want to buy.

Kate:
No, I'm not ready yet Owen. You haven't inspired me enough with your crazy renovation that's taken over 12 months.

Owen:
12 months for a renovation. I think maybe Chris could attest to this. Is a reasonable length of time. I'd say we've moved pretty quickly. Chris, how long have you been doing yours for?

Chris Bates:

We started in November. The wife jokes every day, "They've been here for 12 months. I can't imagine life without, waking up without tradies in our house." My 18 month-year-old daughter is just like, someone can walk into the house, walk straight past her while she's having her wheat bits and she doesn't even bat an eyelid, because she's just expecting someone to be there. It's definitely a testing thing on relationships and families as well. Don't jump into a renovation without thinking it through is my advice.

Owen:
Totally. Also, it's expensive too, right?

Chris Bates:
Yeah. Yeah, definitely. It's way more expensive than you expect. It's just the little things and the extra time it takes to get a quality result. That's the thing. Once you get stuck into one, you're like, you want the quality, you set the bar at a certain level and then you've got to continue everything. Up to that level, and naturally you want something that looks amazing and is amazing, etc. And that comes with money.

Owen:
I guess it comes to it as well, for me with our house being a bit of a shack in the Hills. We set the bar pretty low because we're being realistic about it, in terms of, we don't know what we want in three to five years. We just want something livable for the next three to five, so we haven't overextended or over capitalised. Did you guys make a decision just on that, when you did the reno, we're going to do it at this level, and this is what we want, because this is a house we tend to own for a long time.

Chris Bates:
A bit of both. A bit of playing to the market as well. We were like, what can we do to this property to solve issues with it, that the market wouldn't like ie our landscaping and our backyard? It was a big deterrent for a lot of families, but now we created it into, where family are going to love it, because there's lots of flat grass and there's decks and these things. Also, the market we're in, we're pitching to a certain type of target market, and we can elevate it from a certain point to hit a different target market by creating a different product, I guess. One thing's maybe over capitalising, but you also potentially can lift your property into a new bracket by changing features on it, maybe it's bedrooms, or whether it's the appeal of it from the street, or etc.

Chris Bates:
The other thing with over capitalising as well is that the market can save you. If a market shifts from a different type of buy pool, which is happening at the moment lot, where as prices of properties rise, different people can afford them, and different people move to suburbs because of different suburbs are different prices, etc. Fortunately our area has shifted to a much higher price point as well. We already are renovating for that higher price point, if that makes sense. If that market change didn't happen, then we probably have over capitalised, because we would've been expensive property for that target market, and there's other options as well. It's a

really good thing you got to be careful with. I think we got saved by the market moved, not by good planning.

Owen:
We've had a few guests in the show recently talking about property, and talking about the share's [inaudible 00:04:04] debate, which is never ending. How about for you? We're keen because you reached out to us after one of the episodes went live, and we had Andrew Page, the founder of Strawman on the show and he talked about his regret selling the house and not using it as a way to leverage his share portfolio. Instead, he decided to sell the property to buy shares. Then that led to this whole other issue with the emotional regret, I guess, of shifting his family around, a relatively young family and the issues associated with that. I guess just at a high level before we stuck into the strategies and whatever, can you just unpack where you sit just generally on that debate. I know that's a pretty big thing to ask, but I'm just going to throw it over to you.

Chris Bates:
I don't think it shares or property, I think it's just a sequence and a stage of life thing. If you are 20, you should potentially be looking at shares to maybe save for a house deposit. If it's over five, 10 years, maybe then when you get to higher incomes as your careers progress and you've got bigger deposit, then maybe you should start shifting into property. Then maybe you should be shifting some into maybe an investment property or into shares and then your super, and then as you get later in life, property becomes a lumpy asset, and you then want to be using other assets like your shares and your self your super and all that stuff. I don't think it's either, or. It's just using both of them strategically depending on what stage of life you've got, and what income you've got and what capital you've got, etc.

Chris Bates:
I think Andrew's story is a really interesting one. We haven't heard that one too often to be honest. Been talking around property basically since 2012, all day, every day with young couples, and before that was a lot of the older generation. We've seen lots of people who've sold out of the market and even yesterday a client was considering doing it. Maybe they're selling out because they're trying to top the market. They're thinking, "Oh, today's a great time to sell. I'm going to buy in cheaper next year." Like you do with shares, trying to time the market. We've seen people sell with the idea of buying again, but they can very quickly get priced out of the market. To Kate's point, initially they aren't willing to change their expectations.

Chris Bates:
They're not willing to move with the market, and then they get completely priced out and the market keeps moving and they end up just leaving money in the bank for years and years. We've seen people move into state or regionally, they've sold, they bought regionally and then they go, "Oh you know what, I'm going to get back to the city. It's too hard, the commute, etc." We're seeing people try to play around with their home, and it's a dangerous thing to do, because if it stuffs up, then you've basically, you've gone from fully really great security stability to none at all, and it becomes very stressful, the impact on relationships and life and work and

etc. I thought it was a really interesting one. Andrew's gone through the journey. It's not about me saying he shouldn't have done that, but he's figured out that the challenges with renting are serious, and when you're a single, you're a couple, I lived over 20,30 houses in my 20s.

Chris Bates:
I've travelled around heaps. I lived in London, Melbourne all over. Sydney, different parts of Melbourne, etc. You can easily move when you're single or you're a couple, and your housing needs are very limited because you can live quite minimally. You don't really want to buy much furniture because you know you're going to move anyway. It doesn't cost you that much, but as soon as you start get to that family formation stage, or thinking that you might have a family, the nesting takes over. Even yesterday, a client I've been trying to take action with for a year, what's driving him is his fiance is pregnant basically. It's just that, "Well, what are we going to do now? I need to provide, I need to get a house. We need to have that. We want to have that stability when they go school etc." Andrew really discussed the problems with that. Also, the aspirational part of life as well is a huge part. Obviously people want a house, but then they want that in a certain area, so they can have the community and the lifestyle benefits of that. It was a really interesting conversation you guys had.

Kate:
Chris, do you find that, like with your clients, once people are in the property market, they tend to stay and they won't sell one house until they've made an offer on the next one?

Chris Bates:
It's a really interesting one. I think a lot of people naturally are more conservative than aggressive with the way that they make decisions, and most people naturally want to sell first, and then they want to go and buy something else. Once we have a conversation with them, and we talk them through the logistics of that, and the challenges of making that happen, they come around to potentially buying first. That really depends on the quality of the asset they've got today. But you're right, not many people are doing what Andrew does, and selling, buying shares and trying to time the market. All of them come to us after doing that and going, "Oh, well, I've been trying to get in for two or three years and it keeps running on me. How do we solve this problem?"

Kate:
It's a bit like leaving one job without anything lined up. It's a bit scary then, and you're under a lot more pressure to line the next thing up. I know you shared with us after listening to Andrew's episode, a range of strategies for property investors that they can use to level up maybe their investment property journey. We talk a lot about strategies for share investors, but I thought it'd be really great if you could share some of the insights that you've gained over your career as a mortgage broker and expert in the property market, about how people can take that next step with their property investing journey. I know you started with the point about it being a, like your primary residents being a tax free home. Are you able to talk on that point a bit?

Chris Bates:

Yeah. This is, it's easily forgotten really, because it's your home, you're living in it and you're living there for a long time, it might be 10 years, and then when you decide to sell that property, the tax office doesn't come knocking and say, “Hang on a sec, you bought that house for 500 and you're selling it for a million, you owe us 100 or 150,000 of capital gains tax." Whenever you sell your home that you lived in, you don't pay any tax. That's a huge benefit as an investment over anything else really. It's the biggest tax write off. If you went 500,000 of income, you probably pay 30 to 50% tax on that.

Chris Bates:
You've got to earn 600, $700,000 of income to get that 500. That's the thing that's really forgotten about and something that you definitely, you can only do it on one property, so it's definitely one opportunity. It also means when some clients are thinking to us and saying, "Look, I've got a house. I want to live modestly." I want to have a house and a caravan, which I think Andrew spoke about riding in Burke. What they are also doing is they're missing out on the opportunity to have that asset growing tax free. The caravan in Burke's growing tax free, but he hasn't got a house in a good suburb growing tax free, so that one opportunity is wasted really. It's also something when clients come to us and they go, "Oh, I'm really happy in my house. But I don't really need to upgrade."

Chris Bates:
Potentially that's the best thing to do rather than buying an investment property or rather than buying shares, because the house they're in maybe now, might not be a great asset. It might be on a poor street, it might be dark. It might be a two bed house that couldn't convert to three. But if they went and spent another couple 100,000, they shift into a whole other market and they get a better asset growing from tax free. You really need to use it wisely because it is the one opportunity to have a good asset growing for you tax free. That's the most important thing. Whereas you buy investment property, you'd pay capital gain tax when you sell it, on 50% of that gain, as long as you hold it for more than 12 months. The thing with property rather than shares, you got to be pretty gutsy with shares to hold onto your winners.

Chris Bates:
It's all about behavioural economics. Unfortunately most people want to sell their winners and they want to hold onto their losers in investment portfolios. But it makes sense too, when you buy a share, if it goes up in value, you don't sell it, but most people want to take their profits. When you take your profits on shares, you pay capital gains tax, and a lot of people, sometimes those profits are under 12 months as well, so you pay a lot of capital gains tax on shares. But with property, even if you buy an investment property and it goes up in value, you never pay capital gains tax till you sell it. The best way to buy investment property is to hold them for a long time. Not just five or 10 years, you're talking 20, 30 or 40 years.

Chris Bates:
If it's a quality asset, it should always stay a quality asset. There'll never be a time when you say, “You know what, oh, I really want to just get out now because it's going to fall in value." Now, you go, "Well, why would I sell it now in five years time it's going to be even better?" It still

scarce, still even more desirable. What you can do with bank lending is use that equity to re-borrow, to buy shares, to renovate etc. and you don't pay any capital gains tax if you just redraw on an investment property gains. You can get the gains on an investment property, redraw them through a loan, and then buy other investments, and you still haven't paid capital gains tax on that investment property. It's one thing you definitely want to manage with property.

Kate:
Because these are a range of strategies that you don't really have available to you if you are investing in shares. If you have only thought about share investing, you might not have realised you have this capital gains free primary residents available to you.

Chris Bates:
Yeah.

Kate:
What about if you rent? I know you mentioned something about renting your primary residence. What happens with that? Does that change that CDT?

Chris Bates:
Yeah. There's a really interesting thing the ATO allows you to do, and that's something called the six year rule. You just type it into Google and do lots of reading on it, and you can go to the ATO website. The key thing is if you do buy a property and you move into it straight away when you first purchase it, you don't put it on the rental market, and you haven't got any other homes, then that becomes your principle place of residence. Now, you can move out of that property for up to six years and still have that property class as your principal place of residence for tax purposes, and it can grow tax free for up to six years. It's a really interesting thing what we do with clients. Sometimes where they go, "Look, I want to buy my future home, but I don't want to make that lifestyle shift to that location today."

Chris Bates:
I say, “Well, would you do it for six months? The ATO don't say how long you have to do it, but would you go and live, for example, if you're in Melbourne, say Mornington Peninsula or Gelong, or [inaudible 00:14:49] or something like that for six months, get that property growing tax free, then move back to the city and live in South Yara with your friends, and have that property growing for you tax free. Which can be a huge difference over six years if it grows substantially. That's another thing that a lot of first time property investors should be looking at.

Owen:
Chris, you mentioned before the quality, the quality of an asset being probably the most important thing. Can you maybe just for people that don't understand now, I know you and I have talked about this before. Talked about this in the property course. Can you just, maybe just and concisely as you can just, what defines a quality asset in your mind?

Chris Bates:

Concisely is going to be difficult here to be honest Owen, but thanks to the attempt here. The reality is, and while I'm pro property, I'm actually anti most property. Clients will send them to me and I'll just say, “Look, I don't like for these reasons." The suburb, I do believe every suburb besides fringe house and land packages, which I just find it hard to ever get excited about, just because of the future supply and the quality of the property housing that's getting built in these areas, and also areas where they're building lots of high-rise apartments. The same problems in house and land packages, you have in these areas where they're building lots of high rises. The reason is that, the type of property they're building is not that great, and they're building lots more of it from a supply.

Chris Bates:
Quality assets in shares or any investment markets, something where there's limited supply, like a share of a company does have that, and there's growing demand to own it. When in thinking about a property, you got to think, is this property really scarce? Are they building more of it? A lot of properties ruled out because of that. Even new townhouses fail that test because you go, "Well, are they building more townhouses? Well, yeah, this is what I'm trying to buy. There's actually more up the street." The first thing you do is you got to get scarcity, and then in that, so while you go, "Yeah. It's a house in Melbourne. They're not building any more of that in the inner ring," but is that property really scarce?

Chris Bates:
No, not really because it's on a main road, and it's not what people really want, so is it on a really good street? Then that cuts out a lot of properties. Then even in different sides of streets, you can think, "Well, where would people really want to live? It's actually on this side because this gets better sun than this side." Then you look at a house. You go, "Well, that house is great, but next door there's a mechanic and so privacy and noise." I guess the way to think about a quality asset is looking at the lifestyle it provides, and is that scarce, and who would really want that lifestyle. If it's a scarce property, but it's not in a great location, that's okay, but who really wants to buy it.

Chris Bates:
You've got to think of your property and go "Well, who are the demand pools that really want it?" Is it a young couple? Is it a high earning young couple? Is it a double income, young couple? Is it a couple that are maybe 30, 40 that want to upgrade into that area because of schooling. The quality of an asset is, it's due to its supply. How many of them is there? Is it scarce, and is it got a great offering, a great lifestyle, and who really wants the property? It's a really complicated thing to talk through, but once you start thinking about this demand and supply, you start overlaying in that the area that you want to buy, you can really start to say, "Well actually this is the part of the suburb people want to be, these are the streets."

Chris Bates:
You'll find that those properties are really hard to buy because the people in those streets in that suburb know it's the best street, and they have lived there for 20, 30 years. The turnover of those properties is much smaller, and even people within that suburb want to upgrade into those

streets. People moving into that suburb would love to live on those streets, and those streets and those properties will outperform that suburb, because A, there's less turnover of them, and B, most of the money will flow there because people want to upgrade into those streets and will pay a premium for it.

Owen:
For those listeners who don't know, Chris has got The Elephant In The room Podcast, which you co-host, which is fantastic. We'll put links in the show notes that way you can learn more. We'll also got the property 101 course with Chris about [inaudible 00:19:15] education if you want to learn more about that. Chris, one of the things that you sent through by email before this chat was this idea of comparing the rental cost versus the interest cost and not the total repayment. Can you explain what you meant by that? Is that only for interest only loans or? Explain it to us.

Chris Bates:
I think the other thing people misunderstand is that I don't really like these property myths that people and society put in, like property never fail, property goes up, it doubles in every seven years. You can never lose a property. I guess what a lot of the, our parents and our parents parents perpetuate in society, the media does etc. One of the things is rent money is dead money. I completely don't agree with that. Reality is rent gives you a social benefit. You get to live in that property and somewhere to sleep at night and shelter, and a lifestyle benefit of that space, so rent is actually giving you something. It's not dead money. The same thing is to think about mortgage interest. That's dead money too, that goes to a bank.

Chris Bates:
Yes, it allows you to hold the property, but it's also dead money. If someone's thinking about buying a property, we've also got to really reframe them is to what they need to be thinking about with the property is the interest is dead money. It's money that's gone to the bank. When you're thinking about what your repayment is, you really need to split it down to, let's say your repayments are three or $4,000 a month. What portion of that is interest? That might be a half, or it might be 60%. Then what rent am I saving by not renting, and how is that comparing to the interest? Then the actual other part of the payment that you're paying to the bank each month is actually saving. The principle part of your repayment is actually your mortgage going down and you'll get that money back one day when you sell, as long as you bought an asset that went up in value, then you get that savings back.

Chris Bates:
I think when people are looking at the move from renting versus owning, they should be comparing their rent to the interest cost, and then the capital portion is what they're trying to save every month. I think that allows people to navigate that repayment a bit and go, "Oh you know what? Okay. Yeah. I'm moving from 3000 a month to 5,000 a month, but I'm only really substituting my rent for my interest, which is the same, and then the $2,000 extra is paying off my mortgage."

Owen:

Which makes sense because ... Sorry, Kate, you go.

Kate:
I was just saying, that's a good way to frame it, because you hear the rent money is dead money getting thrown around all the time, but no one ever talks about interest being dead money at all, thinking about what they're paying there, do they?

Chris Bates:
Absolutely. If you buy a property that's not going up, it's exactly the same thing. Because you buy a million dollar property and it's still a million dollars in 10 years time, and you paid all this interest, that's the same as you could just rent it, and you would've had maintenance costs and you would've had repairs, and other things that make it more expensive than renting. Thats why it's so important to buy a quality asset, because if you're not buying an asset that's going up, then rent money, interest money. It's exactly the same.

Kate:
Did you have something Owen?

Owen:
No. I was just going to say just this makes sense. Not many people think about it on that, they just see what's coming out of their pocket, and they don't really think about which parts of it go where. One of the things that you sent through as brokers, was just this idea of building a property portfolio first, and then using that to buy shares, using that debt to buy shares. A lot of our listeners would know basically what equity is, but maybe you can explain this phrase, because we're switching equity to debt, to buy shares, which are also called equities, so it's all over the place.

Chris Bates:
One of the benefits is the Australian, the property market is a big asset. You're talking $9 trillion and the debt on that is around $2 trillion. What Andrew spoke about in this thing was it was an insight to say, “Look, it is too big to fail." The reality is our economy is built on the financial wealth of all households, their biggest asset is property. If you start playing with that, you start changing the mentality of Australian consumer. An Australian consumer drives our economy etc. What banks will do is will treat property differently as an asset class in terms of what they're willing to lend on. If you go into walk in to buy property a share portfolio, no bank's going to want to lend you 90% on a million dollar portfolio of shares, and only putting in 100,000.

Chris Bates:
They're not going to say I'll give you 900,000 to buy a million dollars of shares, but with property, they do it every day. We don't really like to encourage clients borrow more than 90%. We don't even do loans over that. We just think it's important for clients to get to that 10% deposit, because of the LMI savings. But let's say a client does buy, just use round numbers, a million dollar property with a $900,000 loan. That's in 2021. As over time they pay down that $900,000 loan, and the property value goes up. It might go up because they might do renovations to it, but

it just might go up because the area is shifting in terms of price. At some point though, the value of the loan decreases and the property value goes up and you start to build equity in the property.

Chris Bates:
Now, equity is always something that's often misunderstood because people say, if the property is now worth 1.2 million, and my loan's now 800,000, you go, "Oh, actually I've got $400,000 of equity. I could borrow that to buy shares, etc." No, because the bank needs to protect themselves. What they'll do is they'll lend generally up to 80% on the value of the property. In this situation, that person's got a $1.2 million property, 80% on that is 960, and they've got their loans now at 800,000, because they paid down that $900,000 loan down to 800. This person's in a $400,000 equity position, but from a bank's eyes, that's only 160,000 because of they reducing the property value to 80%. What that person could do depending on their income at that point in time, they could withdraw $160,000 to go and buy other investments.

Chris Bates:
They could use it for a deposit on a investment property and then go and borrow 80, 90% on the investment property, or they could use that 160,000 to buy shares. They could use it to do further renovations, and hopefully they never go and use it for lifestyle spending, which like buying caravans or going on holidays, which definitely does happen. Houses do get used as credit cards unfortunately. It's not something we encourage at all. But in that situation, someone could then use that 160,000 to go and buy shares. That would make a lot cents from a tax point of view, because what you would have is $160,000 going into shares, but also $160,000 of deductible interest. The interest on that $160,000, let's say it's $5,000 a year, would be used in your tax return would be a deduction offsetting the dividend income that those shares would provide.

Chris Bates:
It's negative gearing shares. Why that makes sense is because this person's got a home debt that's still outstanding, that $800,000, what they want to be doing is putting all their money into paying that off, because that's non deductible. Then as they get equity, they want to be using that to buy other things. That gives an example, why you wouldn't go and buy shares with cash is because it's actually better to pay off the home and then re-draw on your mortgage to buy the shares and have lower non-deductible debt, which is your home and then more deductible debt, which is your shares.

Kate:
Do you think it's even more important that people know what they're doing when they're investing, if they're using this debt to do so?

Chris Bates:
Absolutely, because people naturally have a short term mindset. A lot of people are thinking very positive around shares right now. I was a financial advisor for 13 years and a massive believer in the long term benefits of shares. But I do know that behavioural economics, which

you've had Daniel Crosby on a few weeks ago. That all those things kick in. I think when people start buying shares, the emotions take over unfortunately and they get over confident or they react irrationally when times are thick. I think you've got to be really careful. I'm not a big fan. When I was a financial advisor, not anymore, we focus solely around the property decision. But is drip feeding into the market dollar cost averaging, and just slowly building that portfolio.

Chris Bates:
I don't really believe in terms of really selling it. If I'm going to go and buy $100,000 of shares, in my mind, it's money that's going to sit there for a long time. When people are pulling equity out, we've really got to then go invest it wisely longer term, and don't fall to all these emotional stuff that'll kick off pretty quickly, because you'll start seeing that portfolio value every day.

Kate:
There's a lot of benefits I think to people having that money in a property because they're not seeing the price change every minute though. I've been told this in softwares now, that give you pretty up to date estimates of the property price. What about when it comes to super, is there any benefit to super versus property, because there are tax benefits there as well?

Chris Bates:
I think initially when you, because of the leverage in the property market. Let's say that scenario where, that someone can use $150,000 of savings to go and buy a million dollar property, and then that million dollar property can grow from, it makes sense to, and that can grow tax free from, to explore that first when you're younger, rather than trying to focus on when you're 65, 70 year super. I do think people, most people who have got a house though, they're starting to build equity in it, and they're on top of their mortgage. I think people are missing a trick if they're not thinking about their super. The reality is the government have really reduced how much you can put into super over the years. While there is a little bit of catch up things you can do, if you don't do it this year, you can catch up next year in terms of your contributions.

Chris Bates:
You sometimes you either use it or you lose it. The opportunity to put money into super, what we find when seeing people who are 20 years older, when they're ‘40s and ‘50s, they come to advisors, me in the past and they would say, “I want to start getting, take action for my retirement." I'd say, “Well, you probably should have done this in your 20s and 30s." There's only so much we can do with your Superfund over the next 10 years. We need to do other things and other investing. I think once you're on top of your mortgage, you've got a good asset growing for you. Maybe you start playing with your share portfolio, I think you got to really take ownership of your super and treat that as your share portfolio, to be honest, because of all the tax advantages of salary sacrifice, and the guaranteed returns that offers you straight away in the low tax environment of super, that's when I think you should really be trying to do a great asset like a property, plus maximising your super.

Kate:

Yeah. But I know you mentioned you would usually only do up to 90% in terms of what people could borrow, and they would have to save up that 10%, and there's some government schemes now where people only have to come up with 5%. Do you think that's dangerous in a way, because it doesn't get you to practise that force saving and getting to 10% or 20%?

Chris Bates:
When that actually came out, I remember the moment and I was driving and heard Scott Morrison on the radio, and I was screaming in my car, I just don't get the reality of the difficulties with property ownership. What they're trying to do is just win votes. It literally came out just before the election as well. I think it was the weekend before. That has been very successful for the government, just in terms of winning votes with young people, and while it's only 10,000 people, it's now maybe 30 or 40,000, I'm not exactly sure. The problem is there was so many limits on that policy in terms of the purchase price, and it's actually pushed people into different locations because of there was limits on it.

Chris Bates:
It hasn't really solved the issues in the capital cities. I do think it's dangerous when people haven't got a strong track record of saving, but what covid's done and for a lot of people who have potentially lived the good life, and there's nothing wrong with that. I did that in my 20s as well, and haven't been focused on savings, because they just haven't had that goal. Sometimes they do take a shift, and all of a sudden they've gone from no savings to 100,000, to etc. And covid's done that a lot. Because people are coming out to spend things on consumers, travel and cafes and all these things.

Chris Bates:
I do think that even though if you haven't got a great savings record in the past, things can shift pretty fast, and owning a property sometimes forces people to take ownership because they know there's a mortgage to pay. We have seen people who have really shifted dramatically even though they've gone in with a small deposit, and they maybe 12 months ago they didn't have a deposit.

Owen:
I think you've done a really good job of rebutting a lot of the points Chris. I think the one about that life cycle is really important, that if I could just double click on that, which is using property as like a tool to leverage into other things, and the order of operations in so far as the house, if it's a share portfolio that you could use equity for that, or you could use it to buy another property. Then also focusing on super. If someone's listening to this, and let's say, let's just use a case study. Let's say that 25, 26 they're in a relationship, and they're saving combined say 30,000 a year.

Owen:
This is not including their 10%, which goes from their employers to the Superfund. They would like a house before 30. I'm just throwing this at you on the fly, that's five years. Would you be

saying to them, save that money and wait to buy the investment property, what are some of the scenarios that might be, you might recommend to someone like that?

Chris Bates:
It's an interesting one, and it's really difficult to advise singles. A lot of brokers will help singles for example. It's hard because life changes right when you're in a couple, and you plan, you go from one income to the two income, there's a goal, a vision of your future. In that situation, if you've got a couple 26, and they go, "Look, we want to buy a house before I'm 30. Maybe it's a lifestyle time thing as well. We want to get married, have kids, etc." And there are saving. I think at this stage, it's an opportunity especially in your 20 to really be focusing on your career. Make something you're passionate about, but trying to increase your income because that's going to give you the ability to save more.

Chris Bates:
Once you can save more, then you start to compound and it starts to snowball. If I was them, I mean, a four year runway is also, if you haven't invested in shares in the past, it's looking at where markets are, all this stuff, not about timing markets, but you just got to be very careful investing in shares over a short runway. All investment things say that maybe is a bit short. Maybe if it's just, let's say they just leave that money in cash and they get a high interest savings account, but I would be doing absolutely everything I can to, for example, basically build that deposit as fast as I can really. That might be higher incomes, it might be saving harder. Some people got the benefit of asking family for support.

Chris Bates:
I think for a lot of younger generations, they don't want to do it. They've been independent since they were young and they want to do it in their own, but a lot of parents obviously do want to help their kids. That's sometimes a situation where they can just allowing you to get, help you with your deposit. It's a huge benefit for you, and a lot of parents want to do it. I'd be exploring that with them, saving really hard and then trying to get their first home or something they could grow into as a couple. Maybe it's for five or seven years, and hopefully that's a great investment. We're not really a big fan of going and buying investment properties that are cheaper, and then trying to sell those investment properties to then go buy something to live in.

Chris Bates:
If that investment property doesn't work, and a lot of the time when you're buying cheaper assets, it's not going to perform as well. You've got buy costs, sell costs. I feel like it takes people a big detour. They go, I've got a property, but then when they go and buy a house in a few years time, that hasn't really worked for them. It's delayed their home. There's opportunity, cost of that. For them, I'd just be saving really hard and just trying to increase your income to get yourself into, if that means not buying for a few more years, that's fine. You can't control the market, but they're the two things you can control.

Owen:

Would you tell them to explore things like the super saver scheme? We get a lot of questions about that, where you can deposit up to current rules to say 15 grand per single, and then you can withdraw that with an assumed amount of it's called interest. They call it earnings, I believe. Would you tell them to explore schemes like that?

Chris Bates:
Yeah, it’s definitely a good one. Out of all the government things, that was also used as a political thing. I don't like it from a philosophical point of view. I think you are confusing people, Super, I can put money into super and I can take it out. You want to buy a house? No super shouldn't be used like that. Super should be like a box that you keep, a money jar that you can't open, and you can open it when you're 65, you get all the benefits. It shouldn't be, but I guess can you use it? Yeah, absolutely. I just get frustrated with the government's implementation of these things. Generally, the government does things for first home buyers that are encouraging them to do the wrong thing, and financial incentives to buy new property.

Chris Bates:
In terms of the stamp duty concessions, it's always potentially for new property etc. But these is another thing where they're just making it difficult for people to understand. You do need to be very clear if you're going to do this strategy, you do all the right things to make sure you can pull that money out. We've absolutely seen people butcher it in terms of not made sure it's very clear that that's super saver money. In terms of getting it out, making sure they do the forms right etc.

Kate:
A fear thing about that scheme is what if you change your mind and you decide you don't actually want to buy a property, and suddenly you've locked all of your capital in your super, which is great for your retirement, but you might have actually wanted to do something with it in the meantime.

Chris Bates:
Awesome point.

Kate:
Chris, we just wanted to finish up with two listener questions from our Facebook community, around investment properties and negative gearing and exit strategies. I might read the first one, and then maybe Owen reads the second one and see what your thoughts are. The first one is, I'd like to know a bit more about investment properties and negative gearing. When is it worth doing and when is it not worth doing? I read for low to medium income earners and investment property isn't worth it compared to putting extra money into super, and shares giving you the opportunity to retire early and enjoy life while you're fit and able. If you have two houses on mortgages on average income, you're forced to work till your 65. Then at that age, this takes a turn here, you get serious health issues or even face death, so you can't enjoy retirement.

Chris Bates:

It's an interesting one here. The person said here in their question, it's a good question. Because they're thinking about things strategically here. They're not just following or maybe the parents say, and that's a big thing in property and society, just buy an investment property. A lot of the time we actually think it's from a financial advice point of view, it's not the right thing to do. Because there are alternatives. They are putting more money into super, there are just strip feeding money into a share portfolio and paying off the home or adding value to the home. It's not just, "I've got equity, let's just go, I can borrow $200,000. Let's buy an investment property." Because sometimes it doesn't work. The property might not go up, you make the negative gearing.

Chris Bates:
There might be big problems with maintenance and sometimes cheaper properties can very easily over capitalise and maintenance costs can basically blow all your profit, and the repair, etc. For this person, I'd probably say maybe not, because what they're saying is that they're on a low to medium income, the amount of money that they potentially can borrow on top of their home may be quite limited, and the amount of money you can borrow, plus the cash you've got, which shouldn't be any cash, because you should be using that cash to pay off your home, so you should be borrowing every dollar for the investment. It'd just be interesting to know what's a purchase price that they could borrow, buy for an investment property. Then that determines the locations you can look at. That might be the apartment markets of capital cities, and a lot of those have issues. It could be, has to go regionally.

Chris Bates:
It's not even nice like lifestyle locations that city people want to go to, could just be completely regional towns that no one from the cities are ever going to move to for example. I think you just got to be really careful buying cheaper investment properties. I know that sounds it's lit, and all that stuff, but it’s just the reality of the truth. You take more risk for less reward. For some people like this is, I actually think, you know what, pay off your home, maximise your super, and buy shares because I'd much rather have a smaller share portfolio that's going to grow long term, especially if it's negative geared with an equity loan, rather than a cheap investment property that doesn't grow and has a lot of risk.

Owen:
That's a great answer, mate. The second question was around investment property, exit strategies, which is not something that we get a lot of questions on, but it's a valid one. They say we have been investing in property over the years, which has been a great investment, but I'm currently at a fork in the road, whether I sell a couple of properties in the portfolio and take a step back from how hard I've been working, or whether I put my head down to set myself and my kids up for retirement. I would love to hear from you guys regarding exit strategies. I know this can be pretty dry topic, but everyone seems to talk about the investment and no one seems to talk about the end plan. I guess this is a lifestyle question as much as it is a property and investment question.

Chris Bates:

Exit strategies probably means he's thinking about retirement, so you're probably talking to someone in their ‘50s, ‘60s maybe even older, unfortunately the way the world is. It's a tough one, because they may or may not have access to super. If they've got access to super, if they want to dial down there, yes, you could sell your property, but if they're good assets, when you sell, you've got to pay capital gains tax. This person could be selling and paying capital gains tax because they're still working, so they're going to pay high capital gains tax. It might be better to sell those properties after they stop working, it might be better for them to use savings or other share portfolios or money in the offset to get them to that period.

Chris Bates:
Then when they may, you want to start using their super. The challenge with selling property is it's the easy thing to do, and you pay off the mortgage and you get this big lump sum of cash as long as its grown over many years, which I assume in this situation it has, hence why you can stop working, but there might be alternatives that they can use other cash and other financial resources without selling that property, and may sell that in retirement where there's lower capital gains, or actually may sell them over different years. But if they're quality assets, you may want to sell them last. You might just, the rent might be paying the mortgage. It might be paying off. It might be quite positively geared, might give them an income in retirement, and then you might sell it in their ‘70s and ‘80s, and use their super first.

Chris Bates:
Exit strategies are, they're very individual. But what are my view on it is with property is, it's not a case of trying to buy four properties to sell, to pay off two, so you've got two free. You're much better off to buy a fewer number of properties, quality assets, and try to hold them to the later years in life, and sell your properties basically last. Because then you pay your capital gains tax last and you keep that money invested in growing. If you want to retire before super, you've got to build up a pool of money to support you between when you stop working. A lot of people don't want to stop working as well. There's a lot of purpose that you get through doing something every day.

Chris Bates:
Yes, people may want to stop their high pressure job at some point and maybe work three or four days a week, but they want to do something with their time. What I find is that those people who are thinking about this transition, they don't go from working full time, flat out to no work at all. They dial it down, and in that dial it down period, they just get enough income to support them day to day, their needs are much lower because the kids have moved out and all that stuff, and then that income can get them through to when they completely stop working in their ‘60s, and then they can draw on their super and then they can draw on their other assets. I think it's a bit of a myth that people, or it's a dangerous path going to. I want to work, work, work, save money, and then I'm going to retire, and not work ever again. There still is a transition that I think's better for most people.

Owen:

It's interesting because obviously the [inaudible 00:45:01] community is very passionate in Australia, which I know you know about. I actually looked into this quite a few years ago and found that there are some big, big red flags associated with people going from working to then not working so quickly, and things like dementia and there are a hell heap of different studies that are linked to social anxiety and depression that come from actually turning off the switch on work. It makes sense. A lot of people try to replace that with giving and social things or charity. We have a heap of resources on our website for fire and people that are interested in those types of strategies and exit strategies in that respect.

Owen:
Chris, question for you. You're obviously founder of Wealthful mortgage broker base out of Sydney, but you work with clients everywhere, like me here in Melbourne. You've done the property course with us, with Amy Lunardi. Have you had people come through the course and reach out to you?

Chris Bates:
Absolutely. I think our approach is just to really help and get to know someone and get the strategy right. If they're still early in their journey, and it's just a case of saying, right, let's figure out what savings we need based on our situation. Where we want to live, what our incomes are, what our ... It could be at the start of that, or it could be like we're thinking about, we've been having challenges figuring out strategy what to do with these properties, etc. We've had lots of people who have done the property course come to us because there are further questions, and any type of education that you do in anything in life, you then have to use that education to tailor it to your personal needs.

Chris Bates:
Property is something where everyone's on different paths. Everyone's from different backgrounds, they've got different needs, aspirations. Might feel like everyone's the same, but you're only feeling you're the same, because you're going look at the same properties again, but all their different means are completely different. Absolutely when people have done their property course and they've got some questions outstanding and absolutely they are potentially coming to us sometimes to see, what do I do now in my situation, which we can help them think through.

Owen:
I just wanted to make sure that it actually, I got a lot of value from doing the course myself, so it was awesome. If you want to hear more from Chris, you can take the course, or you can reach out to Chris directly at wealthful.com.AU. He's brilliant team there. He's got a team, he's got someone based in Melbourne, and core team is in Sydney, right?

Chris Bates:
Yeah. Sydney, Melbourne. We've got a band business partners in Brisbane.

Owen:

I didn't know that.

Chris Bates:
We spread out a bit, and we're mainly on the east coast, but we've also lived in all these different cities as well. We've lived in Melbourne for three years, I know it really well. It's quite clients are constantly buying down there as well. No matter where you are, we can definitely have a good chat.

Owen:
The Elephant In The Room podcast, it's weekly?

Chris Bates:
Yeah. Every Monday we release a new guest. We had Simon [inaudible 00:47:59] on this week, who is a demographer. We get heaps of economists, lots of people in property. It's my fun, to be honest. I get to think, what's the question I want to be thinking about in terms of property. Who do we get on? We've done almost 200 episodes now, so it's been a long three years of crazy.

Kate:
Then if listeners want to geek out on property, that's a fantastic resource, and we'll link it all in the show notes. If this episode got you interested in anything, there will be plenty of resources there.

Chris Bates:
I really appreciate it.

Owen:
Chris, mate, we always appreciate your time, so thanks for joining us.

Chris Bates:
Thanks so much. Thanks Owen, thanks Kate. Cheers.