The Australian Finance Podcast Episode Transcript

Episode: 🏡 property - will I ever afford a house? | starter pack
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Speakers: Kate Campbell & Owen Rask
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Episode transcript:

Owen:
Hey there, here's a quick note. This podcast contains general financial advice only. That means it's not specific to you, your needs, goals or objectives. So don't act on the information until you've spoken with your financial advisor. You'll find our full disclosure disclaimer and linked to our financial services guide in the show notes. Property doubles every seven years and it's guaranteed to go up. These are some of the things that people tell us about property, Kate. And it is such an important part of people's financial lives. We just thought we'd had to cover it and debunk some of these myths and also give people a strategy for investing in property or buying property. Basically anything you want to do that's property related. This is the episode in which we'll go into depth about how you do it, the smart ways to do it and maybe some of the dumb ways to do it.

Kate:
Absolutely. And I think most of us do understand property in some way because even if we are renting, growing up, we understand that physical presence of a property. So it's a much easier way to start opening up that conversation of investing rather than diving straight into of shares and exchange traded funds.

Owen:

That's it. Yeah. So normally with you, when we get to investing in the startup pack series, what we'll talk about is more the share market side of things. So how can you invest in things through a computer, through your phone. And it becomes intangible, meaning that you can't physically touch it, you can't smell it or feel it. But property is one of those things you definitely can smell. If you've ever been to an inspection, you'll know what I'm talking about. You can touch it. Hopefully it stands up after you touch it and you can see it, you drive past it, if you own a property or you live in it. So you can actually see this tangible thing. And I think for a lot of people that gives them comfort. The one thing that doesn't give them comfort is how high property prices are.

Kate:
Yeah. [crosstalk 00:01:42]It has been a bit scarier the last few years, hasn't it?

Owen:
Yeah. We could have recorded this podcast probably any time for the past 20 years and everyone would've said how expensive it is. And so that's an important reminder that property typically is the most expensive purchase that people make in their lives. So what we're trying to do in this short episode is really just give you the strategies that know how to navigate the property saving process, how you get that deposit, what you can expect when you buy property, how to go about it.

Kate:
And some other alternatives to investing in property that don't look like buying a physical apartment or a house that you can see and live in.

Owen:
Yeah, that's it. So we're going to try and differentiate between the different types of property as well. We have a free course on this. So this short episode is not going to do justice to this massive financial decision that you're going to make, which is to buy a house. We teamed up with two of Australia's experts in this regard, a mortgage broker named Chris Bates and a buyer's agent by the name of Amy Lana de, who both run their own businesses. And like I said, kind of like at the forefront of their respective industries in Australia, and that's a totally free course that we've collaborated with them on. And so let's just start with some property myths. Kate, what are some that you can think of?

Kate:
Property doubles every seven years. I know you like busting that one.

Owen:
Yeah. So, I mean, if you thought that property doubles every seven years, which to an extent in some suburbs throughout Australia, particularly Melbourne and Sydney.

Kate:
Some suburbs have been doubling very quickly in the last couple. Yeah.

Owen:
Yeah. So at the time of recording this, we've seen here in Melbourne and Sydney in particular, we've seen house prices probably more than double in the last seven years. And this is kind of contrary to what a lot of people thought when we had the coronavirus outbreak. People thought that property's going to fall. I remember seeing one forecast to say, "Property prices were going to fall 32% in 12 months". And lo and behold in some areas actually rose 35%. So they couldn't have been more wrong. And this is just I guess a reminder though, that even though we say property doubles every seven years, that is not a hard and fast rule. Some of the experts that you come across will say there are markets within markets. And what they mean by that is even if you want to buy a house, let's say, I had to own Surry Hills in Sydney, you might be paying a few million dollars, right?

Owen:
This is on the extreme end, but that property may not double, that may still go up, a million dollars over the next 10 years. But a house in drew on the outskirts of Melbourne, like right out in the countryside there, that won't go up to the same extent, but it might double, but it might not go up anywhere near a million dollars. And so it's important when you take these kind of property myths and urban myth, I should say, depending on where you live, you take them in context. I think that's really important.

Owen:
And this is not something like if we said this about stocks, we'd probably end up in prison because to make a forecast like that is pretty much illegal for us to do.

Kate:
But people can say a lot about property, can't they?

Owen:
That's one of the things, that's one of the important points you bring up Kate is that properties is unregulated as a class, meaning that you don't need a licence to have an opinion on property. You could start a blog, you could start a podcast and have an opinion and no one can tell you that that's wrong or that's advice. Whereas if we give advice on a thousand dollars worth of shares, we can be held legally responsible for that. And so that's a massive difference between property advice and investing advice.

Kate:
Absolutely. And another myth is that you need a 20% deposit to purchase an apartment or a home.

Owen:
Yeah. We'll get to how to save for a deposit. But one of the things that people think is that they must have 20%. So if they had a $500,000 home that they were looking to purchase, they would have to have a $100,000 saved up. Now, the only reason we saw a 20% is this magical figure is because typically at 20% deposit, you can avoid something called lender's mortgage insurance.

Now lender's mortgage insurance protects the bank, if you default. It does not protect you, but you have to pay for it. So that's a key key point. And this is why in the past, I've always said, save a 20% deposit because you can avoid paying this very expensive thing. And so, what does it mean? On say $600,000, it might be 15 or $20,000 of LMI.

Owen:
So the key is you do not need the 20% deposit and you can pay LMI. It actually works on the sliding scale. So when we spoke to Chris Bates, the mortgage broker about this, he basically said that if you can get down to 12%, so that's a lot more achievable for a lot of people. If you can get down to that level of deposit, you're actually going to find that the LMI price drops away rapidly. And it's more affordable for you to save that amount of money.

Kate:
Yeah. And there's various government incentives and schemes that have popped up over the last few years. And if you're listening to this in the future, they'll probably be different again.

Owen:
They will be, yeah.

Kate:
But one of them, I think the government allows you to, if it's a certain price property, you don't have to pay LMI. I'm not sure if that's just Victoria.

Owen:
That's so, I think the one that you are thinking of is actually stamp duty.

Kate:
Oh, okay.

Owen:
Yeah. So the one in Victoria is that at the current time of recording was that if you spent up to 600,000 and then they actually extended that, and they said up to 750,000 on a sliding scale, like it would slowly go away. The stamp duty would slowly fall off.

Kate:
Yeah.

Owen:
So as you go up, it would slowly increase back to a normal rate. So what is to stamp duty? I think that's a good definition point, is stamp duty is like if you think about it like brokerage, that's probably not a great way to think about it. But if you think about it as the cost to get into a property, it's the price that you pay to get in. And that goes to the state government.

Owen:

So in Victoria, it might be a certain percentage, in Queensland, it might be another percentage, even though the house prices are the same. And so let's throw some numbers around this. It might be 4%. So if you buy a house for $500,000, it might be $20,000 for example. Now there are certain incentives for first home buyers in particular, that mean that up to a certain price, there's typically no stamp duty as you alluded to. And that's a great incentive, right? However, it actually it's great for first home buyers, if you are around when it is announced. But typically after a year, what we find is that the government introduces these ideas. And then within a year, all that happens is the prices go up. So then you don't necessarily benefit from it. You just end up paying more.

Kate:
And some of the incentives, like we've spoken to some of the property experts before, they're more to incentivize the building and construction industry when you actually.

Owen:
For sure.

Kate:
Even in Melbourne at the moment, there's this massive push to there's a lot of brand new apartments that just haven't been purchased. So the city of Melbourne's bringing all these incentives in to get you buying these brand new apartments. So it's just interesting to see you think, "Oh, property prices gone up". But there's obviously properties people are aren't buying.

Owen:
Yeah. It's about nine or 10% of Australians working in the construction sector, I believe. So you can see the importance for them to stimulate those workers.

Kate:
Yep. All right. I guess next up we are saving for a deposit.

Owen:
Yeah. That's [crosstalk 00:08:33]-

Kate:
Can we ever-

Owen:
Actually I am going to bring out one more myth, which is that you need to own a home.

Kate:
Yeah.

Owen:

So we'll get to some other ideas further down this discussion. But you don't necessarily need to own a property to be wealthy. The Australian Dream is built on a white picket fence, a golden retriever and two kids. And the reality is you don't necessarily need the white picket fence to be living your ideal life. A lot of people in particular, older generations tell us that we must, because house prices have gone up and it gives you security. And I agree that it is great to own a home. However, it's not for everyone. And if you invest your money wisely elsewhere, you can find comfort in knowing that you are making money on your money. So saving a deposit, Kate, yeah, is a good point.

Owen:
So why do you need 20%? Like we've already explained that 20% is like the rule of thumb. It is not the rule, it is the rule of thumb. And the reason why 20% is set at 20% is because the banks will lend money to you more confidently, if you can prove to them that you can save. Because what happens is, let's say for round figures that you buy a house for a million dollars. Now, if house prices fail 20%, that's $800,000. So that would be the value of your loan, right? And that would be basically what the bank is at risk of losing. So at any one time, if you put a deposit in the bank says to themselves, they say, "Okay, Kate saved 20%, therefore we have a buffer of 20%. And if Kate can't pay the loan, even if prices failed 20% and we could sell the house for 20% less, we would still recruit our money".

Owen:
And so that's why it's set at 20%. And you can buy a house for a 100% loan. If you have a really good income, a really stable income, you can actually get a 100% of the value of that in this instance, a million dollars as your loan for that house. Most of the time, the banks don't want that to happen. They want you to have enough money to cover a deposit and the stamp duty and as well as the conveying costs, which we will get to in just a minute. So that's probably the first one.

Kate:
Yeah. So if we do need, if we're buying a $500,000 apartment and say, we want to save up around a $100,000 to get around that 20%. What are your strategies for doing that?

Owen:
Yeah. Well, the first thing is you should always try and save this in a way that is sustainable. So try and save some money ahead of time. A lot of people come to the property market and they think to themselves, "I want to buy a property this year". And so that might sound like a long time. We're going to buy it in 12 months, but it really isn't. If you think about how much of a deposit you need to save, ideally it would be preparing for this two or three years in advance. Now that's really important because it means that you don't feel stress about saving it. One of the biggest pain points for any person in their twenties is saving a deposit for a house. And so give yourself some flexibility, give yourself some time. Obviously you don't want to get to 50 grand and then all of a sudden you go on a trip of North America and your spend $40,000 of it.

Owen:

So you've got to be disciplined. But one of the keys here is starting early, planning your buying journey early. And this also helps in many other ways. One in particular is that then you can work with a broker and a buyer agent, which I'll get to in just a minute to help you get the right property at the right price. Many mortgage brokers and buyer's agents will tell you that the single most important property that you buy is the very first one. And the reason for that is because if you pick the right property the first time around, you know it's going to take a few years for you to pay that off but it will compound quicker than anything else that you own. So it will grow quicker. And that's really important. So that's the first thing. Give yourself some more time. It gives you time to work with professionals. Obviously we've talked about budgets. We've talked about emergency funds. We don't want the emergency fund to become the deposit.

Kate:
No, I think that sometimes can become the trick. You've already got this $10,000 sitting aside and you go, "Oh, I'll just add it to the house deposit".

Owen:
Yeah. And you can within reason you might say to yourself, "Okay, I'm going to buy the house. And then I'll save in the six weeks or nine weeks between me buying and me moving in, I'm going to be able to recoup some of my emergency funds", that might be the case. But you kind of want to save on top of that. There are schemes that you want some that you mentioned around. And so these are really important because what people don't realise is when you save for a property, you have to save the deposit. But typically it's also got to include the percentage that you save also has to include stamp duty. So if you can avoid paying stamp duty on your first home, you will actually be a net winner because it means you'll have to save less.

Owen:
And so that's really important too, is taking advantage of the schemes available. At the time I was buying my house or our house, the $600,000 first home deposit scheme was in the market. And what this meant was you could avoid paying LMI because the government would effectively go Harvey's on the deposit with you so that they would cover the LMI. And so that was a really interesting thing. And final thing is and this is a really just it's a really important point for us to cover off now. At the time of recording, there's something called the First Home Super Saver Scheme or FHSSS.

Kate:
Yes.

Owen:
For sure.

Kate:
We love a long acronym.

Owen:

Yes. And basically this is the process of saving, putting your money into super and then bringing it back out. So why on earth would you do that? You can save on tax. And that tax saving can be for an individual, it could be $5,000. For a couple saving in there, it could be $10,000 or more. So that after two or three years is a really compelling thing to do but just get complicated.

Kate:
There are quite a few rules [crosstalk 00:14:18]. So, if you change your mind and decide you don't actually want to buy a property.

Owen:
[crosstalk 00:14:21] if you don't want to change your mind, if you meet someone.

Kate:
It gets a bit challenging.

Owen:
Yeah. You don't want to go through this process, then all of a sudden meet someone and you don't end up buying the house because your money might be in there for a very long time.

Kate:
It's not just like a savings account. You can't just do whatever you want with that once it's in super. There's a whole process. So I would definitely talk up to a mortgage broker or a financial advisor or-

Owen:
Yes. Any of those.

Kate:
Somebody for some expert advice there.

Owen:
Yep. And so those are just some of the things that you can take into account, obviously just saving in a good old fashioned savings account is the way to go if you can.

Kate:
Yep. And you might have to sacrifice a bit for a few years if you really want to buy that first time.

Owen:
It may mean moving back in with your parents. It may mean moving in with the in-laws. It could mean any of those types of things. One of the really popular strategies instead of saving more is actually just earning more. So then you save more. So it might be getting a few extra hours at work or on a Saturday and that is purely to juice that deposit. And so the deposit is a really kind of hard thing to save up for. It's really gut wrenching, when you see the property market growing at the same time that you are saving, you get that fear of missing out, that FOMO. The point is

to stay the course and just be really tactical about buying. So this next bit probably is where we go from here.

Kate:
Do you want to talk too much about that?

Owen:
I think that's it. I think maybe just quickly just I can now that in like a minute just ask.

Kate:
Maybe just go back into the course and then look it in.

Owen:
Yeah.

Kate:
And Owen, and if we've got the deposit ready to go and we've decided we want an apartment, maybe we can something around 500 or 600,000, how do we even start to figure out what to buy or where to buy it?

Owen:
So a very simple strategy that you can do and a buyer's agent, which is a person that can work with you to find the right property would do this with you. Is they basically sit down and do a property brief or a property strategy. And what that would look like is them sitting down, asking you a series of questions to find out what's important to you. But the really simple and easy way to do this is get one piece of paper. If you're in a couple, you can do this together, sit there and just write down the things that are most important to you. So that might be location of public transport. It might be the beach. It might be, in my instance, it was actually weird. I had super fast internet on my list. Why? Because I run an online business.

Kate:
Yeah.

Owen:
So I needed like reliable internet connections and I wanted coverage and that sort of stuff. It's just a tiny little thing. Obviously like having the right amount of bedrooms was up the top.

Kate:
Yeah. Room for the chickens.

Owen:
Room for the chickens, like lifestyle things. It's a pretty major commitment buying a house. So you want to make sure you've got all of those things. There used to be a show on Foxtel. I don't know if it's still runs called location, location, location. And those are the three most important

things when you buy a property for an investment. So keep that in mind, the location is by far the most important. You cannot replace the land, although you can replace the house. So there are a bunch of other things that we cover in the property course.

Owen:
I'd say, go check that out. But if you are buying, just buy within 10th, so purchase based on what you really want. Don't just buy based on like the FOMO and the fear of missing out. And definitely do not say what someone else around you says is a good thing to buy. In my instance, Kate, I wouldn't buy an apartment, but you might be inclined to buy an apartment. And so it's just about knowing why you're buying it, whether it's investment or for lifestyle, combination of the two and what you want from it.

Kate:
Yeah. And our free property course will link in the show notes has, I believe a downloadable worksheet where you can actually put your own property brief together.

Owen:
Yeah. That's it.

Kate:
So we'll, we'll definitely include that because that's something you've got to do if you are going on the DIY journey.

Owen:
Yeah. That's it. You do. And we did this, we just put down, actually, it was funny because it just made a bit of fun out of it. We drew ourselves in the middle and then around the outside, we just drew little pictures of things. So it'd have like a train. It would have like a park or things like that around the outside. And you would just then put a score next to it, to how important it is. And it's just a silly of thing, but it's actually really helpful when you search on domain or realestate.com that are actually helps you to be purposeful in what you're looking for.

Kate:
Yeah. Because if you're on a limited budget, which most first home buyers are, you might not be able to have everything. But if you work out what your non-negotiables are, then you can actually find something that fits-

Owen:
For sure.

Kate:
Most of what you want to get started. And I think that's like the adjusting your expectations. Like as a first home buyer, you're not going to be in the mansions.

Owen:

There's going to be a lot of that adjusting expectations. Yeah.

Kate:
Yes. You might want a house of a pool, but that might not be something you can do until 10 or 20 years down the track.

Owen:
That's it. It can be a decade long thing.

Kate:
Yeah.

Owen:
That you work towards. And the next thing is obviously getting funding. So I know haven't been through this journey yet yourself, but getting a mortgage can be simple or it can be in most cases, really stressful. People think, "Oh, you just go to the bank, you get a mortgage". It's like, when you do your driver's licence and you think, "Oh, everyone drives, it should be fine". And then you get to there on the day to do your test [crosstalk 00:19:05]-

Kate:
And you fail the first time.

Owen:
Yeah and it's really nerve wracking. You're like, "How does my grandma who can't see out of one eye do this? When I can't even do it, right?" And so getting a mortgage typically happens two ways. One, you approach a bank directly, either your existing bank or a new bank.

Owen:
You say, I want a loan. And they sit down with you and they go everything's or you speak to a mortgage broker. A mortgage broker surveys the market, not every bank, but they'll have a few banks that they work with. And they'll be able to tell you straight away, "Hey, Kate, you need to sort out your income. You're a small business. You're doing contractor stuff. We're not going to get you as much as if you were PIYG. And they'll say, "You've got X amount of savings. We'd rather you have Y". And this is where it comes back to that time piece before is making sure you give yourself enough time to work with these professionals. I've had any friends that have gone through the buying process only to find out that they couldn't get any money because they have a HECS loan or they have a personal loan.

Owen:
And they hadn't really thought about that. But a mortgage broker can work with you to sort that out. Mortgages come with a few things. Obviously the most important is the interest rate, which you pay, but they can also charge fees. I didn't know this, when I started on the journey or when I was researching this for my financial planning degree, that a bank can charge you a thousand

bucks a year to have a mortgage, which is pretty crazy when you think about it, you're already paying them interest.

Owen:
So how long does it take to get a mortgage? It generally takes weeks, if not months, to get what we call pre-approval. Pre-approval does not mean you have the loan it's meaning that they will lend to you for a certain amount, but you want to make sure that you understand the conditions of pre-approval. So let's say, for example, you want to buy a house in the next six months, you've got your deposit saved, or at least most of it, you would go to a broker that would work with you to get your ID, documents, your wages, all that sort of stuff.

Owen:
The broker would do what is basically a desktop assessment. They would look at your situation, run it through their spreadsheets and modelling say, "Yes, Kate, it looks like you are good to go". Then they would submit it to a bank that they prefer. The bank would then approve it or deny it. Now, some banks can take a few months to get back to you because there's such a backlog for some people. And so I've found that you've really got to hound the mortgage broker and you've got to make sure you've got to trust the mortgage broker. Some mortgage brokers are shocking. I am not going to lie. They are shocking. So shop around.

Kate:
And start early.

Owen:
Start early. Yeah. And make sure that they don't submit the kind of the application. Because every time you submit an application and it gets denied, that actually can be seen by other banks.

Owen:
So what you want to do is make sure that they just tell you straight up, "How much can you get me?" And they tell you for sure and what you need to do. If there's a bit of arming and arring, make sure you trust the mortgage broker before they submit. So that's it. And if it costs nothing to go through a mortgage broker. And so I would just like, they get paid from-

Kate:
They get paid by the bank.

Owen:
Paid by the bank. In the past, I was very against that structure. But now I realise the benefit of a good mortgage broker.

Kate:
Yeah. And most people won't go and pay $3,000 for a mortgage broker up front. So the structure does work quite well.

Owen:
Yeah, that's it. And this is a big thing that we saw in the rural commission, which was when they looked at all the financial industry. And they basically had every revelation under the sun come out. That is a key thing that they brought up was like, brokers are not incentivized to work in your interests. That may be true, however, the reality is that they do want to get you in a property because that's how they get a commission. So it all works out in the wash.

Kate:
Yes. And what about the risks on because I can just imagine buying your first home and finding the walls full of termites or something terrible like that.

Owen:
Yeah. So the way it works with property is basically buyers beware. So in this varies by state. So the important point is to do your due diligence, to look at the property to go there, to speak with the people that you trust around you, to do the inspections with you. And so I think you've got to sit down and decide what type of property do I want and what fits my needs and my wants. And then you bring in your friends and your family and anyone that you know to help you with the actual inspection process and actually going about it the right way. So some of the risks that you have or obviously if you just buy the wrong property. It could be, they might hide things under the carpet or under the rugs.

Owen:
We had this when we bought our house, we moved the rug over. And then all of a sudden there was a crack in the floorboards and you didn't know that. And there was another one in the hallway actually. And there was another one. And anyway, it just went on and on. And that wasn't the end of the world, because typically what happens is if there is a house that is slightly worse off, like it's a bit worse for where, you pay a price that reflects that, but you don't want to pay a higher price for a house that should have been cheap. And the way you get over that is you just do the work. You get a building inspection done, so you make an offer subject to building and pest. A builder goes through and a pest inspector goes through and they have like a little, it looks like a big mobile phone.

Owen:
If you think about it like that. And it goes against the wall and it kind of detects if there's Termites in there.

Kate:
They can find mould and [crosstalk 00:24:08].

Owen:
In the wall they'll do all that stuff. And hopefully if they're a good building inspector, they'll get in the roof and look through the roof lining. We've done a video in the property course. In fact, I did

a video on our property to show you how you can do an inspection. So if that's something that you're up to go and check it out.

Kate:
And we even have a checklist.

Owen:
You have... Yeah, checklist. Yeah, everything there.

Kate:
Yeah.

Owen:
Of the things that you can do wrong, obviously buy in the wrong area. You want unique homes on nice streets, you want to sell, if you're thinking about it as an investment and home, you want to sell to a middle income family. So if you think about who you would be selling this property to in the future, aim to sell to the parents with two kids and that's who you want to sell to.

Owen:
So that's when you're thinking about buying, work backwards from there. Some quick things, if you don't get the right advice on property, it's going to be much more tricky. It's literally the wild west, in my opinion, because I come from financial planning where everything is so regulated.

Kate:
Yeah. The complete opposite of that.

Owen:
Yeah, the range between good and bad in property expertise is like you could park a jumbo jet. Whereas with financial planning, there are still some shockers in our industry, don't get me wrong. But if they get it wrong, they're responsible. And that's the difference. So just make sure you shop around, get some good experts on your side because they do pay for themselves. The other thing is, I am underestimating Body corp or Strata Fees.

Owen:
So these are the fees that happen, when you buy an apartment or you buy a townhouse or you buy a unit.

Kate:
And it has a nice garden or a nice pool.

Owen:
It shares a driveway, has a gym, lifts, elevators, all that sort of stuff.

Kate:

It's not free.

Owen:
It's not free. And the way that works is everyone who owns an apartment or owns a unit in that building contributes a small percentage every year or percentage of the value. So it might be, say a 1000 bucks a year, 5000 bucks a year, that you pay, even as an owner, it's kind of like rent into this fund that is managed by the owners. And that's then used to pay for the gardening and for the painting and for the driveway and all that sort of stuff. If you underestimate that, you might be in for a rude surprise.

Owen:
So the other things, a bit more tongue and cheeky, three more risks to buying property, going to property events where they hand out pamphlets and they give you a very hard sell, do not take that [crosstalk 00:26:23].

Kate:
They are popular a few years ago.

Owen:
Oh, a few years ago they were all the rage.

Kate:
I don't know if it's because of COVID they couldn't have events, but [crosstalk 00:26:30] they were everywhere.

Owen:
But there's plenty of gimmicks out there. Like I have bought 450 houses in three years. You can see them a bit scathing of it, but it's because a lot of that stuff is very, very unsustainable.

Kate:
And all the new developments, they have a lot of sales people involved and sometimes it might not be the best decision.

Owen:
Yeah. And so you mentioned new developments. I would never buy off the plan, meaning I wouldn't go to a new housing estate and be like, "Can you please, I'm going to buy this and I'm going to buy it now", even though it hasn't been built, would never do that. There are too many risks between buying and it getting built. The other things are in an apartments, you also have to be very careful about those two because they don't go up as in price as quickly as houses. We've talked about the different schemes, you've got to be aware of those.

Kate:
Yep. They're up to date. They change all the times.

Owen:
They change basically every year. So those schemes around deposit guarantees, around using your super sounds great in theory but you've got to monitor them because the rules can change. And finally do not invest your deposit in things that change in value.

Kate:
Yeah. And we get a lot of questions about that.

Owen:
Keep approaching on this.

Kate:
Can I speed up my path to saving up my a hundred thousand dollars deposit by investing it in whatever word under the side[crosstalk 00:27:40].

Owen:
So I've heard of people investing their deposit in cryptocurrencies that then Creta in the share market that then fall like just before COVID, they would invest in their $50,000 in shares and then shares fall 30%. They've lost 30% of the deposit and so on and so forth. So those are some of the things you want to avoid. If you're planning to buy in three years or more, so say four or five years, maybe that's something that you consider. But you wouldn't do it with all your money. And you would always maintain a distance of around about three years, I think, between taking the money out of your investing and having it aside for deposit. Because property prices could fall too. In which case you want to be ready to buy and you don't want your shares to fall in value at the same time that you think, "Oh, property's cheaper all of a sudden I want to in".

Kate:
Yeah. And I think that's why it comes back to being super clear about your timeframe and what you're doing with that money. If you're not really sure if you're buying the house in the next few years or you want to invest and it starts to all get a bit muddled and you just need to make sure you're clear on what you're doing with that money and whether you choose to invest it or just keep it in a savings account.

Owen:
That's it. So, one thing that we did is we bought our house at the beginning of COVID like when it first broke out here in Victoria and we already had some cash set aside. So we were in that opportune time and moment, we took advantage of having cash at the same time property was expected to fall. So everyone was panicking. All the sellers were panicking. And the tables in the space of around about two weeks had all of a sudden turned from seller's market to buyer's market. Sellers were freaking out because they didn't know, "Oh, what's this new thing called COVID and buyers like ourselves were ready to go. Ready with our cash set aside. And so those moments don't come along that often, but that's the upside of having cash.

Owen:

So Kate we've covered some of the things that people should avoid when they're thinking of a property, we've got a whole course on this. So please, please go check that out. It's a massive thing in your life. So go and check out the course that's totally free. Some other ideas are important to mention just in case people are stressing out about property. I know I was. You don't need to invest in a property at all. You don't need to buy a property at all. You can invest in the stock market and you can feel comfortable knowing that your money is doing something.

Kate:
Yeah. And you've got your superannuation invested as well. So I think we get a little bit obsessed sometimes in Australia. Other countries do this too with this idea of having that physical property.

Owen:
Yeah.

Kate:
And that's the be all end all where there's so many other things you can do with your money in the meantime or just totally instead.

Owen:
Yeah. That's it. And so one of those things that you can do is you can use your share broken account and don't worry if you're new to the podcast will explain what those are in a couple of episodes. You can use your share broking account to invest in property. And you can do that with as little as $500. So it's a very easy way to get exposure to property and the returns of property over the long term, by using a brokerage account. Of course you're not investing hundreds of thousands of dollars, you're investing smaller amounts but you can do that. The other thing that you can do is sometimes it becomes very overwhelming and you realise you've got $20,000 and you need a hundred thousand dollars and you're thinking, "Wow, I am never going to get there".

Owen:
If that's the case, don't put pressure on yourself. What I would say is consider putting your money into investing like in the stock market, into ETFs, again, we'll get to that. And just being okay with that for now and letting it go for a few years, you might find that it's okay to have that piece of mind and to be a bit happier in the meantime. But are some of the things that you can consider. We've talked about all of these ideas in the property course. Totally free course. I'll give it another plug. So Kate, what are some episode takeaways?

Kate:
I think the big takeaway is that you don't have to buy a property. It's not the be all end all. We do have a lot of information in our property investing course. And I think we really should spend time learning about it as much as possible. Because it is going to be one of the biggest financial decisions we make in our lives. I think sometimes people spend just as much time thinking about which broker to use to buy their first $500 of shares as they do thinking about buying and

researching their first homes. So just if you consider the size of the asset and the deposit you need, you should be spending a lot of time doing as much in-depth market research as possible, getting all those pest inspections. Because that could be quite costly over the long term.

Owen:
Yeah. So, it's funny, there was a statistic out of the United States, which found that people spend more time picking a new TV than they do managing their pension or their superannuation. And if you think about it, maybe it's just this thing that we have in our brain where the more important it is, the less time we spend on it because it's so overwhelming for us. And so what I would say to anyone that's listening or watching this is take your time, be ready for when the property market does come down. Be ready and be smart about where you want to buy and have that checklist ready to go. Do your own property brief and you'll find the process a lot less stressful. Yeah, as a property owner myself, I can tell you, it's not all it's cracked up to be. It's great, but it does have its downsides as well but we thought it was really important to cover this. So we've got two action points here, very quick. Kate, what's action point number one for new listeners?

Kate:
So for the new listeners, if you haven't already created your account on RAS Education, do it, it's free. And then you can enrol in our free property course and that you get to hear directly from an expert mortgage broker and a buyer's agent. So they're people that, well, you don't have to pay for the mortgage broker but buyer's agents, you do have to pay a bit to use. So you get to hear from the experts for free and get all of those questions asked. So you feel more confident talking to them in person.

Owen:
And this gives you the runway before you take off on your property journey, you can learn everything you need to know before you really throw yourself into it. And the other thing that I would say for the more advanced listeners, those who have been on the journey with us for a few years and you maybe already have a home, is go to your mortgage broker or do it yourself, calculate the amount of equity that you have in your home. That's the difference between the property's value and your loan. And typically the banks, if you want to use that equity, they'll also subtract 20%. So let's say you have a million dollar house, that's what it's valued at on the market. Your loan is $600,000. So you think, "Oh, that's $400,000 difference", not so fast. The bank will want you to always have 20%.

Owen:
So it's really only $800,000 of value in the house against the $600,000 mortgage is $200,000 of equity. The reason why this is important, most banks allow you to re-draw that equity. And then you can use that to fund a new property purchase, or you can use that money to go and invest with. And of course it comes with risks. So you should speak to your mortgage broker and advisor. But those are some of the things you can do. So Kate wonderful episode on property, it's a very frustrating, very daunting process for a lot of young people in particular, but you can do it just like the guy out of the Adam Sandler movies, you can do it. It is possible. So keep your

head up, keep saving in a savings account. Speak to the people around you and use their expertise when you go on this journey. Kate as always, it's a pleasure. Thanks for joining me.

Kate:
Thanks for listening. Thanks for tuning in to this episode of the Australian Finance podcast, where our mission is to improve the financial futures of all Australians. If you'd like to learn more, create a free account@ras.com.au/account, to download free episode workbooks, bonus resources and take our amazing free personal finance courses.

Owen:
You can also join our online community by following the link in the description. If you enjoyed the show, what we'd love is for you to leave us a snap your review on iTunes. And you can follow us on Twitter and Instagram at RAS Australia. Kate and I are also on both of those channels. Finally, if you have any feedback, suggestions for episodes or guests to come on the show, or you just have a question for us, shoot us an email at podcast@ras.com.au.