

21st Sept 2009

Property investing is a finance strategy

Investors,

One of the e-mails I receive is a newsletter from Money Morning. The writer, Kris Sayce, is a self professed Small Cap share speculator and has a bent against residential property as an investment. He argues that there is no firm documentary evidence that there is a property shortage and that prices can crash. Like many people who publish newsletters, he has a view and a bias to what he is interested in. In a recent article he did raise an argument that needed to be considered where he said "In fact, I'd go so far as to say that property buyers are not buying property at all. Rather, they are 'buying' a loan and using the house as security."

I responded to that article and posted a response on his website as below (in part):

Kris,

I receive your e-mail and read it and discard it in most part. I think you are biased against property but the argument you ran with for this article warrants consideration. I do agree property investment is about finance, it is about leverage and using other people's money to invest in capital growth assets. The reason I use property is because the banks will lend at higher ratios than they will against shares. It is the lenders who believe in asset class to lend against it. You are buying a loan, I agree.

The other benefit of the property market is that you will not suddenly be holding property with no value as you can do with shares. There is no intrinsic value in a share in itself, so having shares in a company like a Lehman Brothers (or many other listed companies) that overnight became worthless, the share itself is worthless. This does not happen with residential property, people still need to have a roof over their heads.

Most of the property owners in Australia are home owners with a considerable percentage having outright ownership. They do not consider their property to be a tradeable asset. One of the reasons that property should not crash 40% or more is that the supply of houses on the market will not suddenly increase greater than demand. Many people have no reason to sell. Property investors only make up a small part of the overall market. You still need to be smart in where you are buying investment properties and what type just as you do with shares.

I read the property spruikers also and in most part discard what many claim, however a well structured strategy over time can build a successful property portfolio. It is a finance strategy.

It is a finance strategy structured to help you achieve your financial goals. You have two real options, continue doing what you are doing with the same results as you are currently achieving or do something different. I also work with seniors who took their parents conventional advice, saved, bought a home, paid it off over 30 years and are now retired living off a pension. While they have worked hard, they had not used their assets and borrowing power effectively.

There are many investors that believe property is the Holy Grail, it is not. It is a means to an end. Property is not as sexy as being seen as a share traders, buying and selling, gambling away. You can see actual results, the market price is shown on the ASX where as property is a long term proposition.

There are also many others wary of property due to the high transaction costs (stamp duty etc) and the perception of illiquidity (you can't sell a portion of a property where you can sell 100 shares in a portfolio of 500), the risk of not having a tenant, what happens if the price is too high, how do I find a property, who finds the tenants, what about the paperwork, how can I afford the repayments, how do I find a deposit, etc, etc.

What if we can address all of these objections to property? What would then stop you moving forward?

It is a decision you can make, to take the steps to change where your financial future is heading.

Our Service to You

We provide a specialised service for investors wanting to create long term wealth for themselves and their families. We are finance strategists, credit advisers and mortgage brokers, helping you achieve your goals. Give us a call when you think it's time to consider your options.

As well as providing a service to investors, we will assist you in purchasing as an owner-occupier, or upgrading to a new property, or simply looking at better pricing or structuring options for your current loans and banking or assisting seniors looking at possible reverse mortgage options.

Our business is built on referrals provided by clients, so please don't keep us a secret, feel free to forward this e-mail to family and friends interested in their own financial future. Give us a call and book an appointment to see if it makes sense for you.

If you have any questions about any of these topics, give me a call.

Helping People through Finance