COVER STORY

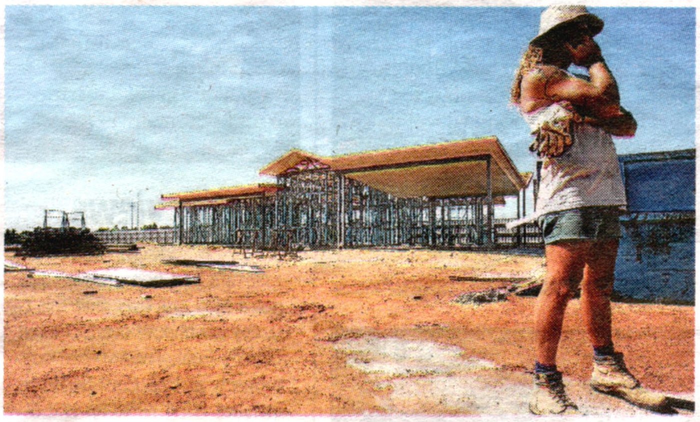
The quest for positive gearing

In the wake of the housing boom, **Kate Robertson** investigates the pros and cons of investing in property.

IT WAS all the rage in the late 1990s — get-rich promoters such as Stephen McKnight and Robert Kiyosaki made it seem as if anyone could become rich by buying multiple properties with little or no cash down and simply sitting back to reap the rewards of a rental return that outstripped outgoings. Positively geared property was the go.

While positive-gearing spruikers are still out there, rising house prices have made the necessary combination of low purchase price and high rental returns a tall order. According to the latest statistics from the Australian Tax Office, in the 2005-06 financial year 33.5% of taxpayers with rental income had a positively geared investment, down from 42.7% in 2001-02.

However, Debbie Brooke of Australian House Hunters, a firm believer in positively geared properties, says they are still out there, it's just a matter of knowing where to look; namely mining towns in Queensland or Western Australia.



A shortage of housing in mining communities makes them likely spots for positively geared investment.

Mrs Brooke says that, while the mining boom has driven prices up "unbelievably", demand still exceeds supply, leading to huge rental returns.

"Most people who come to us are looking for positively geared property. They have only looked in their own region and, when they do, of course they speak to agents and agents say: 'You can't find positively geared property anywhere in Australia', and that's because that's all they know. If they step outside and go to these regions, particularly mining regions, they will find positively geared property everywhere.

"One I just sold was bought for $460,000 and it will rent for $1100 a week," Mrs Brooke says. "If they were to take an 80% loan on that, that will cash flow at over $10,000 a year. If they had a 100% loan, it would still cash flow at $2000 to $3000 after expenses."

Mrs Brooke says clients interested in positive gearing are usually first-time investors or mum-and-dad investors who are risk-averse or lack the cash flow to sustain a negatively geared property for which the outgoings exceed the rental income.

While positive gearing is not as hot as it was a couple of years ago, Mrs Brooke says, it is still popular and she is dismissive of concerns that investors are being lured into risky regional areas by short-term financial gain rather than looking to the security of capital growth in cities.

"You are not going to get positively geared property in Melbourne 10 kilometres from the CBD," Mrs Brooke says.

"In a lot of mining towns at the moment you are really getting good growth. I would think that this property we sold this morning in 18 months will be worth about $600,000 and that's purely based on supply and demand.

"Most people are doing it (buying property) for a five to 10-year plan and over that period you are going to have growth. Probably not (as much as other places) but at the same time they are not pulling out of their pocket $200 or $300 or $400 or $500 every week to keep the property going.

"A lot of my clients have a plan; they say: 'Ideally, what I'd like to do is buy three or four or five properties in a couple of years and then I would like to buy a property on the coast or in the CBD'. So, ultimately, the goal of their portfolio is to be cost-neutral," Mrs Brooke says.

"I think that's a perfect plan."

Melbourne-based buyers advocate Peter Rogozik describes finding a positively geared property with good capital growth prospects as being as likely as winning the lottery. He thinks it still may be possible to find positively geared properties in regional Victoria or places such as Kalgoorlie but, quite frankly, he doesn't care to look. "I think it's a flawed strategy," he says.

Mr Rogozik is concerned that some people are duped into chasing the dream of a real estate utopia: "You are going to have this property, it's going to have cash flow and it's going to go up in value — it's an example of 'if it sounds too good to be true . . .'

"The problem is you are not going to get good capital growth, you are not going to get rental growth, you are going to be left with an asset that will not perform in the long term.

"Most people go into the property market because they want an asset that will double in value as quickly as possible," Mr Rogozik says. "It should double every seven to 10 years but for that to happen, you need to buy quality inner-city property.

"Real estate is like any commodity; it's at the mercy of economic laws of supply and demand. When you are looking in a mining town, it's dependent on one industry. You are taking a big risk because that can change very, very quickly.

"People say 'At least I'm in the market' but, if you are buying something for $200,000, I'd much rather buy a good one-bedroom apartment in Melbourne. The underpinning rental growth will ensure that eventually the property becomes positively geared, relatively quickly. In Melbourne at the moment the increases in rent are unbelievable," he says, referring to a one-bedroom flat in Elwood that attracted strong interest at $300 a week. "Watch the rental returns go up and that really is the way to end up on the beach, but it takes time.

"You are talking about ongoing perpetual growth and that's what happens when you buy in a major city, you are not relying on one industry and you have a large population that has really got a lot of demand.

"I just hope people don't get sucked into buying second-rate properties in provincial Victoria," Mr Rogozik says.