



Investment Strategies

This month, *OUTthere* speaks to property guru Chris Gray, who has built a personal portfolio in excess of \$10 million, about property investment strategies. As well as appearing regularly on *Sky Business News*, he is the CEO of Empire, a company that builds property portfolios for time-poor professionals – searching, negotiating and renovating on their behalf.

INTERVIEW: MARK TAYLOR

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Why do you think property is a good strategy to build wealth?

Chris Gray: It is typically a safe, solid asset. It is tax efficient as you get a tax rebate on the cashflow losses and your capital gains are tax-free until you sell. In the meantime, you can leverage the equity. As with all investments, property does rise and fall as other economic factors change. Property tends to rise for a number of years, fall slightly, flatten for a couple of years and then it rises again. So the key with property is to have enough cashflow to support it in the short term, because it's almost guaranteed to rise in the long term.

There's an ongoing debate in property circles as to whether you are better off investing in positive cashflow property (which gives you a high rental yield) or negatively geared/negative cashflow properties (which typically give you a high capital gain). What are your thoughts on these two strategies?

CG: Negatively geared properties are generally closer to major cities and might typically have a 5 per cent rental yield and 10 per cent capital gain (compared to typically 10 per cent rental yield and 5 per cent capital gain in a positive cashflow property). The argument against them is that there is a limit on how many you can hold because they drain your cashflow. High-income earners can fund this through spare cash and you can always use the capital gain to fund the cashflow by simply refinancing.

These properties are great for creating wealth because by definition their prime aim is to grow in value. The main reason that the majority of the population chooses to invest in positive cashflow properties is the fact that they cannot personally cover the difference between the rent and the mortgage, or do not want to use the refinancing option.

Another popular debate is around whether you should buy a house or unit. What do you think sits behind these different views?

CG: The saying 'land appreciates and buildings depreciate' gives people the impression they should always buy houses over units because houses have a greater land component. Land is a scarce resource and therefore rises in value according to a corresponding rise in demand.

Logic then suggests to always buy a house. However, if you go to some suburbs, you will find that the rental yield on houses is significantly less than units. So while the house should give you more capital growth than owning a unit in the same suburb you need to be able to cash-flow the bigger loss. I would typically buy a unit if I was investing

in Sydney or Melbourne but a house if I was investing in Brisbane or Perth, because that's where 80 per cent of the population tends to live in those cities.

When should people buy property, and what are your views on the current property market?

CG: Unless you are at the peak of the market, my view is that you should buy when you are in a financial position to do so and can afford to cash-flow it for the next few years. Picking the market probably means you will wait too long and miss out on growth. So buy when you can.

In terms of the current market, of course it is an interesting time. If you have chosen the right type of property then the market is performing solidly, for example, many median-priced properties five to 15 kilometres from the major cities. The luxury market and some of the outer suburbs where all the houses look the same, however, are suffering.

The fundamentals are still solid and, of course, with interest rates at historical lows, the cashflow issues of owning properties are greatly

reduced. We are favouring Sydney, then Melbourne at the moment.

Any final thoughts that you want to give readers?

CG: Different people prefer different property investment strategies depending on their knowledge, attitude to risk and how much they want to be involved. I would always suggest that people should work on building up their knowledge and getting some personal advice to define a strategy that suits their profile.

While research is great, doing something is nearly always better than doing nothing. ■



FAST FACTS

Mark Taylor, our regular property columnist, is Managing Director of the Keys to Success Club, a must-have resource for anyone serious about property. www.keystosuccessclub.com/property. Chris Gray is currently giving away free copies of his latest book *The Effortless Empire*. Simply visit www.yourempire.com.au.

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