

# property for life



**Using property to plan  
your financial future**

**Mark Armstrong & David Johnston**

With Fiona Marsden

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## About the authors



Mark Armstrong and David Johnston are Directors of Property Planning Australia, a company that develops property, finance and financial planning strategies for local, interstate and overseas clients. They are prominent and respected commentators on property and finance issues, with regular appearances in *The Age*, *Sunday Age*, *Australian Property Investor* magazine and *Your Mortgage* magazine. Mark and David also work in partnership with Victoria University, lecturing on the principles of property investment.

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Fiona Marsden is a professional writer with extensive experience in property and financial services. She has contributed to several books and written articles for *The Age*, *Sunday Age* and *Australian Property Investor* magazine.

# Introduction



Thank you for taking the time to read *Property for Life*, a book designed to help you identify how property can be used at different stages of your life to create wealth and fulfil your lifestyle dreams. Property is an emotive asset because we all live in it and have an opinion about it, but it is also a largely misunderstood asset.

In recent years, lack of financial regulation has meant that many property investors made decisions that have not been appropriate for their individual circumstances. In many cases they were sold a one-size-fits-all strategy that made outrageous claims of wealth and were designed to line the adviser's pocket rather than the investor's pocket. The focus has been on selling a product or strategy rather than advising the individual. The government has allowed this to continue unabated due to the fact that it fails to recognise property

as a financial product. As a result, property investors are not afforded the same protection that their sharemarket counterparts are. *Property for Life* has been written to help address this problem. Before deciding what or where to invest it is important to review your current position, be clear about the goal you are aiming to achieve and develop a clear strategy.

As advisers, we are asked the same question continually — ‘What should I do?’ Our answer is always the same — ‘We really don’t know what you should do because we don’t know anything about you’. This book has not been written to provide you with all the answers—that would be an impossible task. It has been written to help you identify the right questions to ask and give you the tools to find the answers.

The authors of *Property for Life* together have over twenty-five years’ experience analysing the property and finance markets and helping people to make informed decisions based on their individual circumstances. It is our aim to impart some of the knowledge we have gained over the years. We have used a story approach to help you identify with some of the characters in the book as they travel through different stages of their lives. You may find the scenarios that you relate to vary depending on when you read *Property for Life*, and by reading it more than once different lessons will be learned.

The story begins with our main characters Jim and Jane as they first develop their relationship in their early twenties and follows them through their lives until retirement. They come from average middle-class Australian families and have a desire to create the life they have always wanted. As Jim

and Jane grow, they cross paths with a cast of characters who they are able to learn from. In some cases they learn from the advice they receive and in other cases by observing what is happening to the people around them. By telling you Jim and Jane's story we aim to illustrate that by seeking advice and making informed decisions anyone can achieve their lifestyle and financial goals.

As you read *Property for Life* you may or may not relate to Jim and Jane directly. You may relate to some of their family and friends or a combination of both. The objective is for you to identify different scenarios and how they relate to where you are now.

Property is a unique investment because people will always need somewhere to live. Regardless of broader financial issues such as interest rates, inflation, mortgage stress or consumer confidence, property will always be in strong demand simply because people need a roof over their head. Along with food and clothing, shelter is a primary need.

Unlike most other asset classes, the property market is driven by two major sectors—homebuyers and investors. Homebuyers make decisions out of emotion and desire while investors make decisions based on sound financial logic. One uses the heart to make decisions, the other the head. This fact makes property a complex asset because many people confuse emotion with investment logic. We can't count the times we have spoken to people who have purchased an investment property near the beach or in the country because they loved holidaying there once a year. They never actually got to use the property—it was purchased because of their desire to live there at some stage in the future.

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Within the property market there are a range of different types of assets you can buy to help you achieve your lifestyle and financial objectives. You can buy new or established property in the city or regional areas. You have the option to purchase houses, apartments or commercial property. On the other hand, you can buy run-down property to renovate or purchase land on which to build. In addition to the type of asset you purchase, the strategy you use can also vary. Your strategy can be aggressive or more conservative; alternatively, it could be a negative-gear or positive-gear strategy.

All of these properties and strategies will achieve different objectives and have different economic forces driving their long-term investment potential. Some will produce income while others will have capital growth as the primary benefit. Some are better for lifestyle purposes and others better suited to investment.

We are not suggesting property is the best asset class. In fact, investing in property should be done in combination with other investments. If selected well, property can make a great addition to your overall investment portfolio but can be a disaster if you make a poor decision. Mistakes in the property market can be extremely costly. Unlike sharemarket investments, when you buy property you are confronted with significant stamp duty costs. When you sell property you will again incur substantial selling costs due to real estate agent fees and advertising. These transaction costs will compound any losses and highlight the importance of making informed decisions before you act.

*Property for Life* is a guidebook to help you identify the principles of property investment and will assist you when making important strategic decisions at pivotal moments of

your life. These guiding principles do not change with your age, marital and family status or income levels. Everyone's personal and financial positions are unique—the principles however are consistent.

*Property for Life* has been written to be read through as a story with lessons learned along the way. The fact that Jim and Jane learn lessons at particular stages of their lives does not mean you have to learn them at the same point in your life. The one thing to remember when reading *Property for Life* is that everyone is different. Everyone has different goals and objectives and this means the property that may be right for someone else may be completely different to the one that is right for you.

The answer to the question 'What should I do?' does not lie in the property market itself. It can be found by analysing your own personal circumstances, determining your goals and developing a clear strategy. We all have the power to observe, ask questions, seek advice and find answers. *Property for Life* has been written to start that process. We hope you enjoy reading it.