

Negative gearing makes investment property attractive as first investment

Written by Greg Rogers



Sydney 27 November 2014. First home buyers in Australia are finding it very difficult to get to the first step on the property ladder. Although interest rates are low, prices are still rising to levels way beyond what is supportable from younger salary and wage earners.

Saving for a deposit is very difficult as income has not increased to the same extent as property prices in major capital cities.

A very large part of the purchase price of a new home is tax. Local government, state government and the federal government collectively take about 22% of the retail price of property as GST, council charges and stamp duty.

The Baird government in NSW has benefitted by about \$1Billion above expected stamp duty income from bracket creep as stamp duty is not indexed.

Researcher Bernard Salt has revealed that young people have put off buying a home until their late 20's or early 30's as they are using their income to travel and create the foundation of their income before buying a home. The first home buyer on average is above 30 now.

Governments could lower the price of new property by granting stamp duty concessions to local buyers. Young people have higher expectations now. They quite often do not want to buy a run down house in the outer suburbs and renovate it to sell at a profit to move into something better. At the same time there is a renovation boom going on with expenditure on labour and materials up 150% on last year. This shows that people are not selling and moving up. To save on agent fees and stamp duty they are renovating their existing property.

New trends in property investment are developing as young people with two incomes are working to the new rules. They are buying an investment property to take advantage of negative gearing and depreciation allowances. They put a tenant in it to pay it off while they rent elsewhere close to the city.

It is often a good idea for these investors to buy an investment property off the plan from a developer. Nowadays it is easier to find a range of off plan properties. [I Buy New](#) is one such company that encourages off plan investment with the ability to view planned properties across Australia.

Young people are encouraged to explore this option, if they live in the property they purchased they would probably have more trouble getting a loan, not be able to claim a range of tax deductions, and have to wait longer to get a start on the property ladder.