

Do you have property investor questions? Ask Paul!



Q **Helping the Kids**
Mum and Dad want to help me buy my first property. They said that the bank can link their home plus put Mum and Dad on the loan so I get approved. Is this a good idea.

A One Person, one loan, one property. Stick to this and you can't go wrong.
It's a different lending world these days. Generation x and y's are able to access loans far easier than their parents. I can still remember my parents getting dressed up to beg for a loan when they were younger.
It's very old age thinking to link properties and to have numerous applicants guaranteeing the loan. Lenders love linking or crossing properties together. They call this 'Cross-Collateralisation'. Apart from this, Lenders will try to put as many applicants (guarantors) onto the loan application as well. This puts the Lender in the power position as they have secured Mum and Dads house with your property, plus three people are on the loan ?
This is crazy !.
What I would do is get Mum and Dad to organize a Line of Credit with their current provider. While this is getting set up, go to a different lender to get pre approved for yourself. Once both loans are ready to go, you are right to go shopping. When you buy your first property, it will be in your name only. This is a better structure where you have the power not the lenders.

Q **To Trust or Not to Trust**
I'm buying a 2nd property. Should I buy through a trust set up to protect this property.

A My personal view on this is to not worry about buying via trusts until you either have 4 or more properties or have reached the land tax threshold (NSW is \$352,000.00).
If you buy via asset protection discretionary trusts the trust gets no tax benefits but it does protect the asset.
Property investors that are in the early stages of building a property portfolio need all the tax benefits possible they can get to advance them faster.

Q **Units Vs Houses**
I'm ready to buy my first property, but I'm confused. Should I buy a unit or a house ?

A Unless the unit, villa, townhouse, apartment (strata) is incredibly unique like it has harbour views, I prefer to buy houses (Torrens). Why....
Lets do a comparison:
John Smith buys a unit (strata)
Steve Brown buys a house (Torrens)
John Smith buys a unit in a block of 10 units. There's nothing unique about the block of units. If the block of 10 units equates to 10% of land per unit (10 units x 10% land = 100% of land)
Verdict – John Smith controls only 10% of the land.
Steve Brown buys land with a house on it. There's nothing unique about this property either but he owns 100% of the land.
When a unit, villa, townhouse, apartment or House is built, it depreciates (goes down in value) – just like when you buy a car and drive it off the lot.
Land appreciates (goes up in value) in growth areas. So if building depreciate and land appreciate – why would you choose 10% of the land when you can have 100% of the land.
Also, I buy property to empower myself, not to make me powerless or restricted.
Strata (unit, villa, townhouse, apartments) can be the most frustrating title to have within property investing. What the Strata 'Body Corporate' want – they normally get. You are powerless in this situation because you only control 10% of the land/property.
Restricted:
For both scenarios, when the buildings get old, Steve Brown can knock over his house and build a bigger/better one, but John Smith cannot because the whole block would have to be knocked down. John would have an uphill battle trying to convince the other owners + strata that it would be a good idea.
Paul's Tip – Power goes to the person who controls the land. Will it be you or strata ?



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