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FALLING HOUSE PRICES SEE NEGATIVELY GEARED PROPERTIES FALL FROM GRACE AS MUM AND DAD INVESTORS HIT HARD BY JOB INSECURITY

Panic is setting in for Australian property investors who previously enjoyed the tax benefits of negative gearing, as they now feel the pinch from not only the tightening of their own financial situation, but also the rental squeeze from cash-strapped tenants.

Bearing the brunt of a sudden dip in income, these investors are now finding it harder to service their debts, causing many to completely re-think the make-up of their property portfolios.

The current climate has seen a 37% spike in enquiries about positively geared investment strategies to property education company, Small is the New Big, with concerned investors wanting to know how to stop the 'haemorrhaging'.

"What we are experiencing is a very confronting 'perfect storm' of reduced income and job losses which are causing fear and panic in the marketplace. It's something that Australia has never seen before," explained Ian Ugarte, Co-Founder of Small is the New Big.

Ugarte said that a re-think has never been more important for investors who are experiencing significant financial distress from circumstances beyond their control but stressed that selling in a depressed property market was never a good idea.

He was at pains to advise that they do have other options, including:

- talking to their bank about reducing payments by switching from principal and interest to interest only repayments.
- seeking out a more competitive lender and refinancing their loan. (Perhaps getting a line of credit - for emergency use only.)
- reviewing their insurance needs and seeking premium relief from insurers, where possible.
- negotiating with agents to reduce letting fees in the short term.
- exploring the potential to subdivide the property to sell down or increase equity.
- converting their typical 4-bed, 2-bath home into micro apartments, which will average double digit returns and create positive cashflow.

And Ugarte also offered some words of comfort to those feeling powerless against this invisible threat.

"Unlike others, I'm feeling positive about the property market bouncing back, whether it be in the form of a 'V' shaped recovery in the short term, or a 'W' shaped recovery should we get a second wave of COVID," he says.

“Realistically, the only way to future proof your investment so you can weather a degree of market volatility is to make investments that are positively, or at least neutrally geared,” Ugarte explained.

“We’ve helped our clients convert a negatively geared property into a positively geared one within as little as 48 hours.

“My mission is to make talk of abolishing negative gearing obsolete by creating a marketplace where investors are able to generate a positive return on their investment. Even if it’s a small return. That way they’re relying less on the Government to make up the shortfall by way of tax deduction and they’re not so vulnerable to market forces when another unexpected fall in cashflow hits them,” Ugarte explained.

“Tax deductions suddenly don’t look as enticing when people are faced with losing their homes,” he said.