

A photograph of the exterior of the Lynn & Brown Lawyers building, featuring large glass windows and a modern architectural style. The building is partially obscured by a dark blue horizontal band that contains the text 'Property Investment'.

# Property Investment

# What is tonight about?

- Why property is a good form of investment.
- What significance it has to Dave Parry.
- Business structures to purchase property through.
- Asset protection and taxation minimisation.
- Pro's and con's of each model.



**RESIDENTIAL PROPERTY PRICES****Sep Qtr 16 to Dec Qtr 16****Dec Qtr 15 to Dec Qtr 16**

% change

% change

**Weighted average of eight capital cities****4.1****7.7**

Sydney

5.2

10.3

Melbourne

5.3

10.8

Brisbane

2.2

3.8

Adelaide

1.8

4.1

Perth

0.3

-4.1

Hobart

4.5

8.8

Darwin

-1.5

-7.0

Canberra

2.8

5.5

**Total value of the dwelling stock****Dec Qtr 16**

Value of dwelling stock(a) (\$m)

6,438,537.3

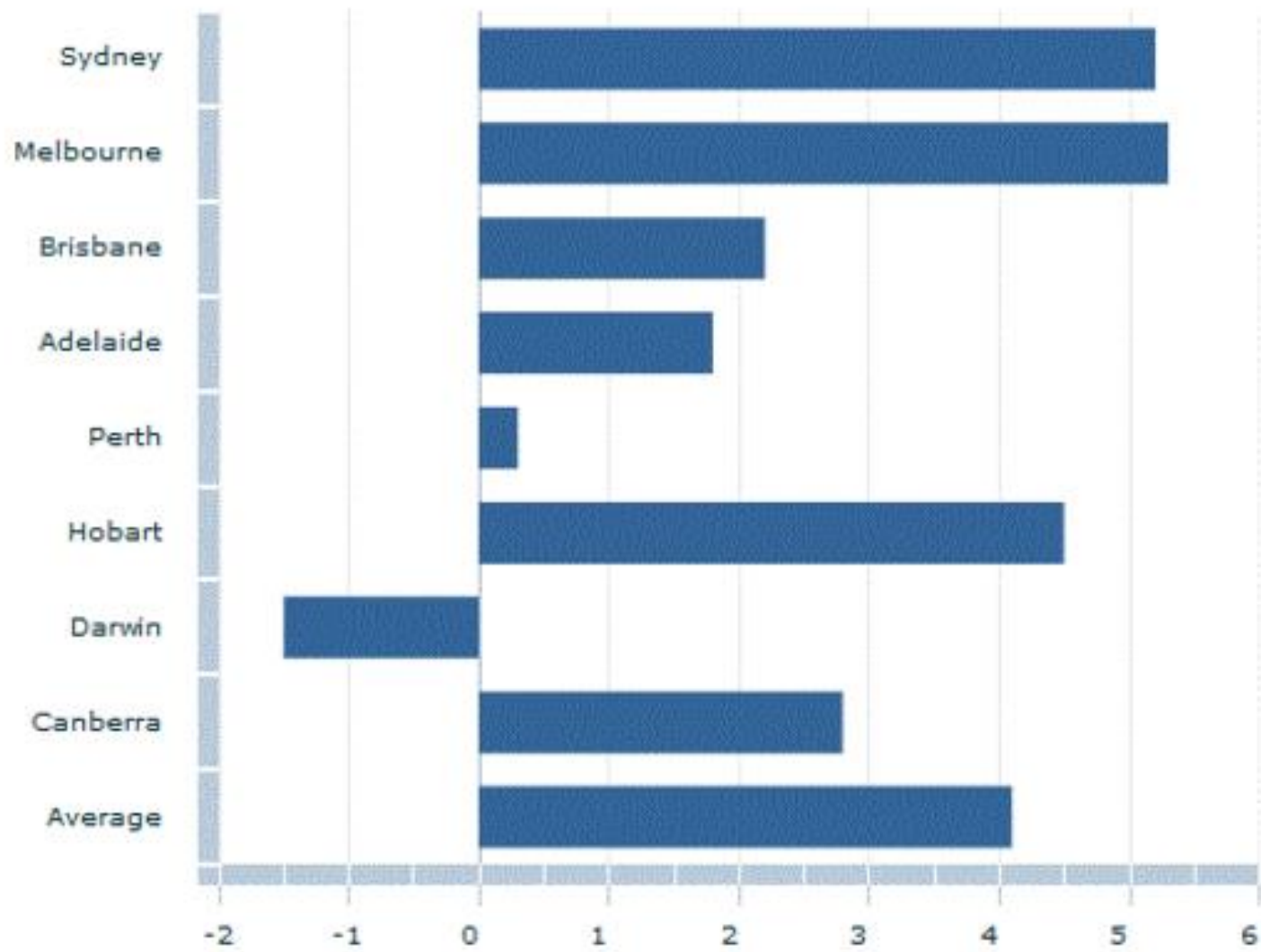
Mean price of residential dwellings (\$'000)

656.8

Number of residential dwellings ('000)

9,802.7

Residential Property Prices, Quarterly Percentage Change, September Quarter 2016



# Change in property affordability

- In 1975...

- The average full time earnings were \$7,618. Today it's almost 10 times more at \$72,000.
- Sydney - average house cost \$28,000. Today it costs \$850,194 (30 times higher)
- Melbourne - average house cost \$19,800, today it's \$615,068 (31 times higher!)
- Brisbane - average house cost \$17,500, today it's \$473,924 (27 times higher)
- Adelaide - average house cost \$16,250, today it's \$459,258 (28 time higher)
- Perth - the average house cost \$18,850, today it's \$604,822 (32 times higher!!)
- Hobart - the average house cost \$15,200, today it's \$322,274 (21 times higher)

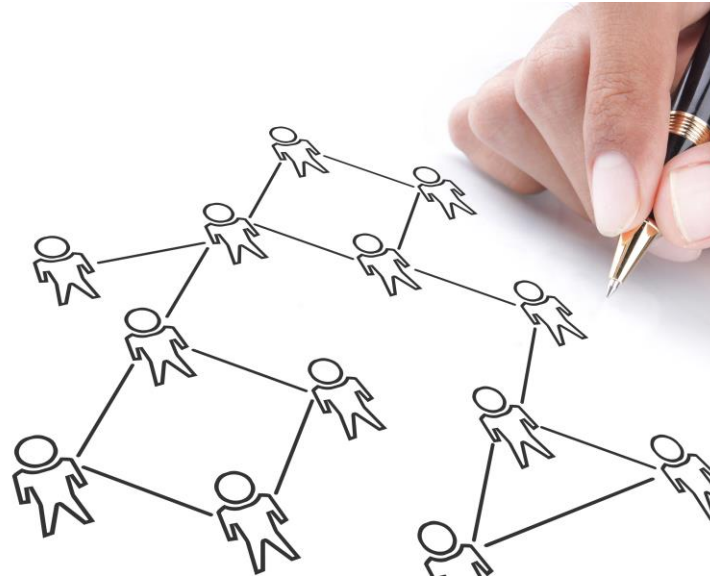
# What to consider

- Risk.
- Purpose (income or capital growth).
- Income of people behind the holding entity.



# Business Structures

- Individual
- Joint (partnership)
- Company
- Trust (discretionary/unit)
- Hybrid
- SMSF





# Individual & Joint Ownership

## Pros

- ✓ Relatively simple and inexpensive to establish and operate.
- ✓ Easy to dissolve.
- ✓ Easy to finance.
- ✓ Losses can flow to the individual owners.
- ✓ Negative gearing.
- ✓ Affordable housing budget changes (CGT ↑ 60% discount)
- ✓ Family home, no CGT on sale.
- ✓ Succession planning



## Cons

- ✗ Liability - joint and several.
- ✗ No flexibility in income distribution.
- ✗ High risk if individual sued (particularly business owners).
- ✗ Travel changes.
- ✗ Foreign residents not CGT exempt for residence.
- ✗ Personal guarantees.



# Company

## Pros

- ✓ Separate legal entity with limited liability (asset protection).
- ✓ May be established quickly and efficiently.
- ✓ Good borrowing vehicle.
- ✓ Corporate tax rate of 27.5% is lower than top individual marginal rate and going down to 25%.
- ✓ Profits can be easily accumulated without further tax.



## Cons

- ✗ Losses are trapped in the company and cannot be distributed to shareholders.
- ✗ Gains made by the company not entitled to the 50% general capital gains tax discount.
- ✗ Division 7A issues.
- ✗ Cost to establish and maintain.
- ✗ Personal guarantees.

# Unit Trust

## Pros

- ✓ Easy to establish.
- ✓ A unit holder's interest in the trust's income or capital is clearly defined.
- ✓ A unit holder can sell its units or have its units redeemed by the trustee.
- ✓ Tax advantages, character of income flows through the trust to the unit holders.
- ✓ Asset protection of corporate trustee.

## Cons

- ✗ Losses are quarantined.
- ✗ Not as easy to wind up as a discretionary trust.
- ✗ Personal guarantees.



# Discretionary Trust

## Pros

- ✓ Easy to set up.
- ✓ Flexibility to stream income.
- ✓ Easy to wind up or vest.
- ✓ Easy to hand over control to members of the family.
- ✓ Asset protection if corporate trustee.
- ✓ Beneficiaries who receive capital gains can claim the 50% capital gains discount if held for ↑ 12 months.

## Cons

- ✗ Difficult to bring external parties into.
- ✗ 80 year rule.
- ✗ Succession planning problems.
- ✗ Personal guarantees.



# Self managed super fund (SMSF)

## Pros

- ✓ Asset protection.
- ✓ Low taxation rate.
  - ✓ 15% income tax.
  - ✓ 10% CGT.
- ✓ CGT discount.
- ✓ Good for business owners.

## Cons

- ✗ Locked up till retirement.
- ✗ Little flexibility.
- ✗ Expensive to create, fund and run.
- ✗ Can not improve property.



# Summary

- Start early.
- Different structures.
  - Discretionary Trust - 700,000
  - SMSF - 500,00
- No perfect structure.



# Questions & Discussion

## Property Investment

