CASE STUDY

Fly-in, fly-out dilemma

Susan Hely meets a rigger with his eye on property

NAME: CJ Jamieson
STATUS: Fly-in, fly-out 36-year-old rigger
QUESTION: I want to buy a property and I'm weighing up Perth and eastern Melbourne. Where are the hot areas to buy an investment property? How much do I need to spend? Should I negatively gear or choose a place where the rent will fund the mortgage?
SOLUTION: Pay off your personal loan pronto, then build up a deposit of $85,000. Buy in an area with good rental yields and capital growth – Perth, Brisbane and Adelaide are the best bets for $350,000 homes. See a financial planner and contrast building an investment portfolio with buying a property.

Working in a remote mining community is a great way to boost your income and, if you are disciplined, save and get ahead financially. After working as a cabinet-maker in Victoria, CJ Jamieson is a rigger at West Australia mines, flying in for four weeks and out for one. Meals, accommodation and travel are all paid by the company when he is on site and he rents a room in a house in Perth for his week off.

For the first time, CJ can see himself being able to buy a property. As he hopes to keep working as a FIFO for years to come, he would not necessarily live in the property, so it would be an investment he could either move into or could sell when he is ready to live somewhere permanently. He has a small personal loan but no other debt.

He understands owning a property would make him disciplined about savings and he wants to get it right. "As a single man I don't have the option of two incomes for a mortgage," says CJ. "I feel stuck on what to do. So many people tell you so many different things it becomes confusing."

CJ needs sensible advice about buying a property with good rental yield and potential for capital growth. He doesn't have access to good financial advice in a mining community – particularly about property.

He would like to buy in Scarborough, a coastal suburb in Perth, but the prices are high for two-bedroom homes and he doesn't want to pay high strata levies. "Everything is so expensive and it makes me feel I have no direction."

CJ has family in Victoria and could buy along the coast to the east of Melbourne. "I would really like to buy a place that I could renovate as I have been a tradesman for over 18 years and it might help turn a profit," he says. Should he take advantage of a first-home owner grant? How much does he need to cover the costs?

FRANCIS ANDRIJICH

Start with solid research

MARGARET LOMAS

Margaret Lomas is founder and director of property firm Destiny Financial Solutions and the best-selling author of nine property investment books. She hosts two weekly investment shows for Sky News.

The first thing you must get straight is whether you are buying a property to live in or one to invest in. If it's to live in, it's more important to know what it is you are looking for to satisfy your lifestyle needs than it is to buy in a hot spot. As your own home is exempt from capital gains tax, there is less reliance on gain and more on being sure it's convenient and near your friends and family. You will probably be more selective about the house itself when buying a home of your own than you will be if it's for investment purposes. An investment property should be sturdy and cater for the general desires of the average renter, while you may choose something with higher-quality fittings for yourself.

The first-home owner grant is virtually non-existent in most states for anything other than a brand-new home and it's only $3000 in WA, so you should not take this into consideration as a factor to offset the high prices.

New homes usually have a builder's premium built in which can wipe out the benefit of the grant. New homes are great if you are planning on staying for a while but, as an investment, it's often better to buy a property a few years old. You can better establish its true value.

If you want to start an investment portfolio, what you "love" is of no consequence. Very often the areas that have the best chance of good growth and great rental yields are the areas you may not love at all. You must be clinical about this and learn how to pick a hot spot according to its growth drivers, not because you think you know it.

Being a tradesman is often a drawback – you will buy in an area that is convenient to you so you can do it up, and that area may not have good future potential. All you'll get is the small amount of growth a renovation may bring, and then no more. It's far better to buy a property that does not necessarily need hands-on attention, situated in a true hot spot.

You should start by reducing that personal loan immediately – you could pay that off in a month. It will have a high rate of interest and its existence will hamper your ability to borrow enough for a property purchase. Then you should get some education behind you.

I am always surprised how many people start investing in property with no knowledge whatsoever, and then wonder why it went wrong! Read some books, get as much free stuff online as you can and enrol in a quality course (there are some good online ones if you cannot attend in person) but be careful not to attend fancy seminars by people who sell property – be sure to only consult a qualified adviser who is not involved in the sale.

Then start looking! At present the affordable end of town in Brisbane, Adelaide and Perth (under $350,000) is showing the most promise. You will need around $45,000 (with a 90% loan) and $85,000 with an 80% loan, so you aren't that far off.

The most important part of this equation is the research you must do before spending a cent – there is plenty of information available on the internet and lots of forums too, so join some of those and let your fingers do the walking!

> It's far better to buy a property situated in a true hot spot

Get good advice

PIPPA ELLIOT

Pippa Elliott is director and financial planner at Momentum Planning with 17 years' experience in financial services.

Before buying a property, CJ should seek professional advice and think very carefully. As a young, single guy, working in a volatile sector such as mining, away from his family base in Melbourne, there are many changes that could occur in his life quite quickly that might see him wanting to take a different direction.

He could lose his job and, in the past 18 years, he has not been able to save much, so any strategy must consider this fact. He could meet a partner and their combined financial position could look very different.

I encourage him to build a strategy around his own personal goals and needs because property may be a great strategy for others and not for him.

CJ should clear his personal loan to stop paying the unnecessary interest cost; avoid mortgage insurance by saving his 20% deposit if proceeding with any property purchase; and obtain income protection before buying that property.

He should compare a more liquid strategy that offers growth opportunity – such as a diversified portfolio of shares, bonds and cash to target a return of around 8%pa. While property can outperform this rate of return (when you combine rent and capital growth), the entry and exit costs of changing direction would eat into a higher return. A shares and other securities portfolio can have significantly more diversification (for example, hundreds of assets – not just one property) and hence less risk.

A diversified portfolio targeting an 8%pa return starting with $40,000 and adding $10,000 a month over five years could grow to $733,000 – without using debt. Picture a $600,000 property purchased in 12 months when CJ has his 20% deposit, borrowing $480,000 and paying $35,000 costs to buy, then renting it out for $450 a week and paying costs of $6000pa for rates, insurance, management etc. If it increases in value by 5%pa it would grow to $729,000 over the same five-year period. He would have paid off the debt during this time frame.

If he wanted to change direction and buy a family home, he would have capital gains tax, sale and repurchase costs. With the portfolio, the selling costs would be much less. He also can withdraw from his portfolio in an emergency during the five years and could draw from the defensive assets in the portfolio (such as cash or bonds) rather than the growth assets, depending on the best outcome at the time. I'm concerned about young people taking on significant levels of debt to buy one asset when they have no experience and have only been earning a high income for a short time. I think they should remain as liquid and diversified as possible. There is much to discuss, hence the value of personal financial advice.