

# Uncertain market

## Doubts stoke the great rent or buy debate



**Noel Whittaker**

LOWER than expected inflation figures just released give borrowers reason to hope the Reserve Bank won't put up interest rates at its monthly meeting on Tuesday.

However, the trend for rates is up and the outlook for property in general is still gloomy.

There is no doubt that non-residential property is in a dreadful state, thanks to the lending restrictions being imposed by all banks, but there are mixed views on where the residential market is going.

Pessimists, such as US investor Jeremy Grantham, claim Australia is suffering from a massive housing bubble and prices of homes will tumble as interest rates go up.

Pragmatists, like myself, doubt that this will happen, but do believe prices will stay flat, at least in the short to medium term.

Given the general state of uncertainty, it's not hard to see why so many young couples are debating whether they should rent and invest elsewhere, or simply get into the housing market now and try to make some headway with the mortgage.

It's not an easy decision. In most cases it's cheaper to rent than to buy, but most

### QUESTIONS AND ANSWERS

**Q** I READ your articles with great interest. However, I am often left wondering what assumptions underpin your projections. In particular, do you envisage spending down all capital over retirement or leaving it intact?

**A** HOW much anybody needs for retirement is extremely difficult to work out because it depends on such factors as the state of their health, how much is spent on dining out and travelling, how long they live, and how often the kids put their hand out for help. To make it more complicated, the age pension increases as the assets run down. I recommend a targeted capital sum of 12 times your expected expenditure, but this is a very rough guide. This is why you should be guided by your adviser and at least every year have a meeting to see if you need to revise your strategies.

**Q** I OWN \$45,000 worth of shares. I wish to transfer them into joint names with my wife. I wish to do it as all our other accounts are joint. Will there be any CGT implications for such a move? If yes, will it mean my wife will have a capital gain and I will have an equivalent capital loss? What happens if my

shares are trading at a loss? Will the capital loss transfer to her? Is it true that capital loss from shares can only be compensated against capital gains from shares? Is it a good idea to consolidate our accounts? My salary is \$90,000 per annum and hers is \$20,000 per annum.

**A** IF you transfer shares held in your own name to joint names the transaction will be treated as a disposal by the tax office and you will be liable for capital gains tax on 50 per cent of any profit made. If the shares are worth less than you paid for them a capital loss will be triggered, which can be offset by capital gains made by you. The cost base to your wife will be the market value at date of the transaction. You will retain your original cost base for your 50 per cent portion of the shares. Capital gains and losses apply to both property and shares, so there is no requirement that a capital loss be offset against a capital profit from shares only. Your accountant will be able to do the numbers for you, but you will need to ensure that the gains exceed the costs. But if you believe your wife will continue to be in a low-income bracket, it may be better to transfer them all to her.

renters don't invest the money they save by postponing the buying decision.

Furthermore, the numbers increasingly favour renting as the property gets more expensive.

For the past eight months there had been a house for sale in our suburb for about \$2 million. Eventually, the vendors gave up and decided to rent it out. The most they could get was \$1000 a week.

Do the sums — if you wanted to live in that house and had a \$1 million deposit, would you go out on a limb and borrow \$1 million to buy it, knowing the interest alone would be \$75,000 a

year and the cost of upkeep would be at least \$10,000 a year.

Or would you invest your \$1 million in a blue-chip share portfolio returning \$40,000 a year and pay \$52,000 a year in rent?

It's a different matter in the cheaper market.

Think about a property that costs \$400,000 and which can be rented for \$400 a week. If you rent it, the total cost is \$20,800 a year. If you buy it, you will be up for at least \$32,000 a year when you take interest rates and maintenance into account.

That's \$11,200 a year in favour of the renter.

And there are often many other costs when you own your home. There's nothing truer than the Scottish proverb "a wee house has a wide mouth" because there's always something popping up that needs repair or replacement.

As the example above shows, a couple who rented for two years would have an extra \$23,000 to use as a deposit when they eventually did buy and this would create savings in two areas.

It may eliminate the need for costly mortgage insurance as well as saving a large amount of interest.

Obviously, there is a prima facie case for renting,

provided property values don't jump while you're busily saving your deposit.

However, if a boom ever occurs again, you'd better buy in a hurry, lest you be caught in the situation where house prices are rising quicker than you can save.

Keep in mind there is no such animal as a single property market. There are many different markets, so I have no idea which way property prices in your area are going to move.

However, I can tell you that savvy property buyers spend every waking hour researching the property market in their area so they know where the trend is heading and they will recognise a bargain when they finally come across one.

This does take time and work and it includes befriending local agents, keeping track of sales in the area, going to open houses and generally knowing everything about the local property market.

The result of investing time in this manner is that you will know more about the market than most buyers and sellers.

The reward will be that one day you will strike a situation where a desperate vendor has a property for sale in a great location. You will be the one who will be able to steal the bargain.

**■ Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. noel.whittaker@whittakermacnaught.com.au**

## Bright forecast rings up

A LOCAL business that boasts it can forecast weather 12 months in advance is about to get exposure to the world's largest mobile-phone market.

Subiaco-based Innovative Mobile Applications (IMApps) has struck a two-year deal to deliver its weather-forecasting service to 500 million users of telecommunications company China Mobile.

The deal, which is yet to be finalised, was done through public company Sm@rtTrans Holdings, which earlier this year saw its share price skyrocket about 800 per cent after it stitched up its initial deal with China Mobile.

IMApps will exclusively provide the content under the name of Event Weather, which uses a complex algorithm that reviews climate data from around the world to determine what the weather will be like for any day up to 12 months in advance.

IMApps co-founder Amir Farhand, who has 10 years experience in satellite imagery and is completing a PhD in earth science, developed the algorithm in 2003 and spent five years perfecting it before launching the Event Weather service as a subscription website in 2008. Mr Farhand said the accuracy of Event Weather was about 80 per cent.

— REBECCA LAWSON

# WIN UP TO \$81,000 CASH

## with TimesPool



For your chance to win the **\$16,000** Jackpot, choose six letters from the grid below. Mark a cross in ink over the letters and then print them, in alphabetical order, in the boxes below.

A	B	C	D	E	F	G	H	I
J	K	L	M	N	O	P	Q	R
S	T	U	V	W	X	Y	Z	

If enclosing in envelope, write this **FIRST** letter on the back

Mark a cross over a seventh letter in the grid above and fill it in the box, below.

**\$50,000 SUPER SEVEN BONUS**

**\$5,000 PERTHNOW BONUS WORD (OPTIONAL)**

Get The Sunday Times home delivered and win more! An extra \$2,000 if you win the Jackpot or \$10,000 if you scoop the Jackpot and Super Seven. Plus \$5,000 if you include the PerthNow bonus word.

FIRST NAME \_\_\_\_\_ SURNAME \_\_\_\_\_

ADDRESS \_\_\_\_\_

P/CODE \_\_\_\_\_ PHONE (H) \_\_\_\_\_ (W) \_\_\_\_\_

SIGNED \_\_\_\_\_

Game #1415 closes at 10am, Thursday, August 5, 2010.

SEND YOUR ENTRY TO: TimesPool, GPO BOX 2970, PERTH WA 6800.

All entries must reach The Sunday Times by 10am Thursday. Entries placed in the Timespool boxes at newsagencies must be received by 4pm on Wednesdays. Conditions apply to multiple winning entries. Full conditions of entry are published in the public notices on the first Sunday of every month, by calling 9326 8268, or are available from The Sunday Times, 34 Stirling Street, Perth. By entering, readers accept and agree to abide by these conditions. \*See Public Notices for our privacy statement.

### HOW TO PLAY TIMESPOOL

- 1) Select six letters from the alphabet grid. Mark a cross, in ink, over your letters. These are your Jackpot letters.
- 2) Print your letters in alphabetical order (very important) in the Jackpot boxes provided.
- 3) Select your lucky seventh letter. Mark a cross, in ink, over this letter in the alphabet grid. This is your Super Seven Bonus letter.
- 4) Print your seventh letter in the Super Seven Bonus box.
- 5) Print your PerthNow Bonus word in the allocated space. Visit perthnow.com.au to get the code word. You can still win without the PerthNow Bonus word.
- 6) Then simply enter your name, address and contact number, sign your entry form and send your entry in.

To win the Jackpot, you must have correctly chosen all six Jackpot letters. To scoop the prize pool you must have correctly chosen all six Jackpot letters, the Super Seven Bonus letter and included the correct PerthNow Bonus word on the coupon.

### SENDING YOUR ENTRY

- Write the first (alphabetical order) letter only from your Jackpot letters on the back of your envelope.
- If you are including more than one coupon (only original coupons are valid) in an envelope, do not write the first letter on the back, instead simply write "MULTIPLE ENTRIES".
- Entries that do not fulfil the conditions of entry are invalid.

### HOME DELIVERY BONUS!

Get The Sunday Times home delivered and win more! An extra \$2,000 could be yours if you win the Jackpot or \$10,000 if you scoop the Jackpot and the Super Seven Bonus. If you already have The Sunday Times home delivered, you are automatically registered. If you would like The Sunday Times home delivered call 1800 198 051.

RESULTS TimesPool GAME #1414: **A D L Q Y Z** SUPER SEVEN: **B** Sunday Times

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