

Mortgageport in the News

Property: First Steps

**By Pam Walkley,
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The purchase of a first home in expensive Australian cities is very difficult for many young families. Money reader Thomas is in this position. He and partner Sally have two preschool children, he has a well-paying job but Sally can only do some casual work because she has to look after the kids. They have no close-by family support.

"We are stuck on the rental treadmill," says Thomas. "Because we are paying so much in rent to live close to work to spend time with the kids, we have not been able to save a deposit. I don't want to live my life at the mercy of a landlord. What can I do?"

Thomas and Sally want to buy close to the Sydney CBD, one of the most expensive addresses in the country. Sally's parents may be able to help out by selling a country investment property and going halves with Thomas and Sally on a Sydney property. But they are worried it will deplete their retirement income as the family will not be able to pay them rent for their share of the property as well as pay the mortgage.

Thomas and Sally could compensate Sally's parents by giving them a greater share in the property than they are paying for and therefore more of the capital gain in the case of a sale or refinancing.

For example, if the home costs \$700,000 (including stamp duty) and they each contribute \$350,000, this would give them a 50:50 split. Let's say the rental for half the house is \$200 a week and Thomas and Sally plan to either sell or refinance in five years. The rental income forgone by Sally's parents in that time is \$52,000. Add this to the \$350,000 initial outlay and it comes to \$402,000, about 57.4% of \$700,000. When the

property is sold the profits could be split 57.4:42.6 in favour of Sally's parents. If the home sold for \$1 million, the parents would get \$574,000 and Thomas and Sally \$426,000. Of course, this presumes the parents are able to live without the weekly rental in the meantime.

If relatives or friends can't or won't help Thomas and Sally buy their first home, the couple could consider an equity finance mortgage, through brokers such as Mortgageport (www.mortgageport.com.au) and sourced from Adelaide Bank-Rismark International (www.efm.info). An EFM enables buyers to borrow up to 20% of the value of a property with no requirement to make any interest or principal repayments on the loan for up to 25 years. In return the lender takes equity in the property on a sliding scale depending on the percentage that is financed with the EFM. The balance is financed with a traditional mortgage. In Thomas's case, this would mean the value of the property he could buy would be restricted to around \$500,000, made up of a \$350,000 mortgage, an EFM of \$100,000 and a \$50,000 deposit, which he would need to qualify for the loans. If at resale in five years the property made \$850,000, Thomas and Sally would reap \$610,000 after paying back the \$100,000 EFM plus 40% of the profit, equalling \$240,000. Mind you there is no need to sell for up to 25 years.

To follow this course Thomas and Sally would have to be prepared to settle for a cheaper property, possibly in a less convenient suburb. They have to get a deposit together somehow. And they would also have to be prepared to share their capital growth. Still worth exploring as an alternative to being at the mercy of the landlord! For more on your property, see Money in July. Out now.