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PropertyInvesting.com 'Insider'

Discover proven tips, strategies and techniques to dramatically increase your property investing profits

Issue 2, Volume 3 – February 2004

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28 February 2004

Hi and welcome to your February 2004 edition of *Insider* – the e-zine outlining how to successfully invest in real estate – especially if you have a positive cashflow focus.

If you're receiving this newsletter for the first time then I'd like to warmly welcome you to the PropertyInvesting.com community! Remember that in addition to this free newsletter we also run a community forum board so you can share your knowledge or leverage off other people's ideas.

Here's what's on offer in this month's Insider:

1. [An Interesting Clarification About the FHOG](#)
2. [Forum Post of the Month](#)
3. [Steve on TV](#)

Let's get straight into it...

An Interesting Clarification about the FHOG

In Australia, first home buyers are usually entitled to a \$7,000 government grant (under the auspices of a scheme called, unsurprisingly, the *First Home Owners Grant*, or FHOG).

Beginning in July 2000, it was introduced as a sweetener to offset the impact of the introduction of GST. Initially it was \$7,000 for new homes that were built from scratch and \$7,000 for existing homes, but to stimulate the house-building market the grant for new homes was increased to \$14,000. This was later scaled back from \$14,000 to \$10,000 (up to 31/12/01) and then back to the flat \$7,000 (from 30/6/02).

The eligibility criteria for the FHOG is outlined at <http://www.firsthome.gov.au/>.

This month I want to examine the idea of claiming the FHOG (while the grant lasts) and then immediately renting out the property. Can it be done, and if so how?

Our discussion starts by looking at Section 12(1) of the *First Home Owners Act* which reads:

An applicant for a first home owner grant must occupy the home to which the application relates as the applicant's principal place of residence within 12 months after completion of the eligible transaction or a longer period approved by the Commissioner.

Applying this restriction we see some flexibility... so long as you plan to live in the property within the first twelve months then it seems you are still eligible for the FHOG notwithstanding that you may initially rent out the property.

This approach is endorsed by the authorities:

You may rent out the property before you move in, provided

that you occupy the home as your principal place of residence within the specified 12 months.

[Source: http://www.osr.qld.gov.au/gas/fhog/faq_residency.htm.]

Following on, a valid question to be asking is 'how long must you live in the property in order for it to qualify as your principal place of residence?'

This is where it gets interesting as there was an important change to the law which seems to have snuck through without a whole lot of discussion.

Prior to 1 January 2004, there was no minimum period specified – just a requirement that, if questioned, you could demonstrate that you lived in the property as your principal place of residence with the onus of proof resting on the applicant.

Practically I'd imagine that you'd need to show records that you lived in the house (addressed mail, utility bills etc.) and perhaps a verification from the neighbours (by way of a sworn statement or statutory declaration).

Of course, this is all a bit wishy-washy and the government knew it, which is why they changed the law on the 9th December 2003 to clear up the ambiguity.

From 1 January 2004, Section 12(1) of the *First Home Owners Act* was changed to:

An applicant for a first home owner grant must occupy the home to which the application relates as the applicant's principal place of residence for a continuous period of at least 6 months (or the lesser period approved by the Commissioner) commencing within the 12 month period immediately after completion of the eligible transaction or within a longer period approved by the Commissioner.

It's now clear-cut... you must occupy the property for a continuous period of at least six months commencing within the first twelve months after you receive the FHOG.

But hang on... there is still some room to move! The six-month period only needs to commence within the first twelve months, not commence and conclude. You could, therefore, begin the six-month occupancy on the 365th day after receiving the FHOG and still potentially qualify!

The message here is that you can certainly rent the property out – but at some point within the first twelve months you must commence occupying the property as your home for a minimum of six continuous months in order for it to qualify as your principal place of residence.

A final point to note is not to confuse the requirements imposed in relation to proving principal place of residency for FHOG purposes with the rules about qualifying for capital gains tax exemption as they are vastly different.

A good site to review what changes were made to the FHOG is:

http://www.sro.vic.gov.au/sro/srowebiste.nsf/rebates_fhog_changes.htm?OpenPage&charset=iso-8859-1#1.

Do you have a comment, question or thought about this topic? Post it under [this thread](#).

Forum Post of the Month

The post of the month follows on perfectly from our discussion of the FHOG. [woodywhanau](#) writes:

We too are first time home buyers and are tossing up whether to firstly buy our own home and utilise the first home owners grant with a view to reviewing situation 12 mths from purchase to decide whether to purchase our first investment or rent out our initial purchase. We are just unsure of what

we should do as well - I guess the lure of the FHOG is great and makes it a bit of toughie decision. We know where we want to end up just not sure how to start. All ideas most welcome - is there anyone else in this situation or was in this situation, would love to hear your stories too...

The first issue here is the FHOG. I don't think an entitlement to the FHOG is necessarily a driving reason to buy a home or investment property. With the recent boom in prices the real benefit of the \$7,000 entitlement has been largely swallowed up by higher prices and also increased stamp duty. My advice is to view the FHOG as more of a bonus than as a true incentive.

In any event, if you do buy then be aware of the recent change to the FHOG eligibility that I outlined earlier, in that you now have to live in the property for a continuous period of six months and this period must commence within the first twelve months of receiving the grant.

The second issue raised in woodywhanau's post is the question of whether to buy a home or acquire an investment property. This is a difficult decision that many investors face.

In my case, I decided to rent rather than own because it was substantially cheaper. The lower cost of living meant that Dave and I could retain our business profits and use them to acquire property. The plan was to delay the gratification of owning a home now for the sake of building a property portfolio that would deliver the means to buy a home for cash later.

One thing I would say is avoid making the mistake of confusing a lifestyle decision (buying a home) with an investing decision (buying an investment property).

Owning a home is a lifestyle decision that's based on emotion. Investing is a calculated decision that is based on risk vs. return and needs to be made with no emotion. The real question is, what do you value more – a home or an investment portfolio?

Establishing these priorities is important, as a critical skill is the ability to delay gratification to achieve your goals by your set deadline.

You can't have reward or change without sacrifice. This is a point that many investors gloss over or assume away, but it's an essential issue that I reinforce with the people I mentor at the MAP meetings.

My advice to you would be to do the thing that will deliver your financial goal in the shortest amount of time. If you can, delay the gratification of buying a home and concentrate on building a portfolio of investment properties (or other assets) and then use your profits to fund your lifestyle. If you do it the other way around then you'll find it harder to locate the money to invest due to the burden of having non-deductible home loan repayments and ownership costs.

In any event... *good luck!*

Do you have a comment, question or thought about this topic? Post it under [this thread](#).

Steve on TV

In July last year I began a mentoring program with 20 aspiring apprentice millionaires (called the 'MAP'). Each participant's goal was to acquire \$1m worth of property (that had to meet strict guidelines) and in doing so create a substantial ongoing cashflow income.

On Thursday last week (26/2) Channel 7's Today Tonight went to air with an update story covering, among many things, the achievements of several of the MAP participants.

For a very short time, perhaps only a day or two, you can download the story from <http://www.TodayTonight.com.au>. Click the link that's approximately halfway down the page on the right under the heading "View Video: MONEY MAN: Steve McKnight has made investors millionaires."

After watching you can post your comments, questions and thoughts in [this thread](#).

Summary

This month we've really focused on the FHOG and in particular on a change that came into effect from 1 January 2004 which now makes it a requirement that you live in the property for a continuous period of six months in order for it to qualify as your principal place of residence.

Practically, there is still some flexibility if you decide to first rent out the property as the six-month requirement must only commence within the first twelve months of owning (as opposed to beginning and ending within the first twelve months).

We also looked at the merits of buying a home versus buying an investment property. My advice is to do whatever will bring you closest to your investing goal in the shortest amount of time. I'm a strong advocate of delaying gratification and using your profits, rather than debt, to fund your lifestyle.

Finally, if you're interested in seeing the Today Tonight story then I encourage you to [visit their website](#) quickly as I expect the link will be gone by Monday afternoon.

OK... that's it for this February 2004 edition of Insider. I sincerely hope that you've been able to profit from the insights outlined in this resource. Until next month remember – *success comes from doing things differently!*

Sincerely,

Steve McKnight

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