

CROSSING BORDERS

Investing interstate isn't without its challenges – but investors who know how to identify and tap into opportunities beyond their own backyard will have a more secure portfolio

By Jo Vadillo

Back in 2009, with three investment properties within a 20 kilometre radius of our home in Sydney, we received our first land tax bill. This put a sizable dent into our forecasted end of financial year victories and was a bit of a wake-up call for our future portfolio plans.

For any investor with multiple properties in any one state, the accumulated land tax can fast become a prohibitive annual sum to pay. Land tax is calculated based on the value of unimproved land that you own in each state, other than your principal place of residence.

Each state has different land tax thresholds and every state and territory government in Australia (with the exception of Northern Territory) imposes a land tax.

Investors have three options to help minimise this cost:

- Structure your property purchases using different buying entities such as a family trust or company set-up (but this does mean you incur set-up and ongoing management costs)
- Buy apartments only, as your land tax contributions will then be calculated as a percentage of the actual value of the land that it sits on
- Cast your net beyond the borders and buy interstate

Buying interstate presents investors with greater opportunities to diversify their property portfolio, spread the risk, limit exposure to changes outside of their control, stay under state land tax thresholds and seize on capital growth areas nationally.

Investment hotspots are usually created by supply and demand ratios with market competitiveness reducing affordability. Looking interstate allows you the opportunity to secure property in a market that has yet to enjoy cyclical growth and effectively beat the investor masses. In essence, it exposes you to more up-and-coming hotspots and enables you to bypass those in your own state which have already boomed.

Where and how to buy

Whether you are buying locally or otherwise, investors should always conduct their own research and not rely on the words of one agent or a tip-off from a well-meaning friend.

In some cases, investors may make more mistakes buying in their own city as they confidently assume knowledge of the area and the market. If anything, they take a more passive approach to conducting research in their home town.

Interstate purchasing does not necessarily