



A Special Report by Investment and Strategy

# THE NEGATIVE GEARING MYTH

The Flawed Investment Strategy  
That Costs Property Owners A Fortune



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# Executive Summary

For decades, Australian property investors have been told that negative gearing is the path to wealth creation. The premise seems logical: buy properties that cost more to hold than they generate in income, claim the shortfall as a tax deduction, and wait for capital growth to deliver your eventual profit.

But what if this widely accepted "wisdom" is fundamentally flawed?

This report challenges the conventional narrative around negative gearing and reveals how this approach is often the very thing preventing investors from building substantial wealth. We examine the mathematics, market conditions, and hidden costs that make positive gearing a superior strategy for today's property investor.

## The Negative Gearing Myth

### What Exactly is Negative Gearing?

Negative gearing occurs when the cost of owning an investment property (mortgage interest, maintenance, depreciation, management fees, insurance, etc.) exceeds the rental income it generates. This annual loss can be claimed as a tax deduction (as of May 2025) against other income, providing a tax benefit.

The strategy relies on two critical assumptions:

- 1 That the tax benefits will significantly offset your ongoing losses
- 2 That eventual capital growth will more than compensate for years of negative cash flow

These assumptions might have held true in previous decades, under different tax rates, but today's market realities tell a different story.

## ➤ The False Promise of Tax Benefits

Perhaps the most misunderstood aspect of negative gearing is the actual value of the tax benefits:

### The Mathematical Reality:

For an investor in the 37% tax bracket with a property running at a \$10,000 annual loss:

- Annual cash outflow: \$10,000
- Tax saving: \$3,700 (37% of the loss)
- Net cost to investor: \$6,300

Let's be absolutely clear: You are still losing \$6,300 per year.

This fundamental truth is often obscured in discussions about negative gearing. Any strategy that begins with "lose money to save on taxes" deserves serious scrutiny.

## ➤ The Capital Growth Gamble

Negative gearing advocates will quickly point out that these annual losses are justified by capital growth. Let's examine this claim:

### Historical Reality:

While Australian property has indeed grown in value over the long term, this growth is:

- Inconsistent across markets and time periods
- Often concentrated in specific regions while others stagnate
- Increasingly unpredictable in volatile economic conditions
- Subject to interest rate impacts that affect affordability

For negative gearing to work, your property must achieve enough capital growth to offset years of accumulated losses, plus the opportunity cost of capital tied up in those losses.

In today's market, this is far from guaranteed.

# The Hidden Costs of Negative Gearing

Beyond the obvious ongoing cash flow drain, negative gearing imposes several less-discussed costs on investors:

## Opportunity Cost

Every dollar that goes toward subsidising a negatively geared property is a dollar that isn't:

- Earning interest in secure investments
- Being invested in positively geared properties
- Available for further property purchases
- Working toward debt reduction
- Contributing to your lifestyle

Over a 10-year period, these opportunity costs often amount to tens of thousands of dollars.

## Reduced Borrowing Capacity

Banks assess your ability to service debt based on your income and expenses. Negatively geared properties:

- Reduce your net income position
- Are viewed as liabilities by lenders
- Limit your ability to expand your portfolio
- Can prevent you from capitalising on new opportunities

**Case Study:** An investor with two negatively geared properties earning \$150,000 annually could increase their borrowing capacity by approximately \$300,000 by converting to positively geared properties, without changing their income.

## ➤ Financial Stress and Risk Exposure

Negative cash flow creates:

- Vulnerability to interest rate increases
- Reduced capacity to handle unexpected expenses
- Dependency on your employment income
- Pressure to sell in unfavourable market conditions
- Constraints on lifestyle and financial flexibility

## ➤ The Portfolio Expansion Problem

Perhaps the most significant hidden cost is the limitation on portfolio growth:

### Scenario A: Negative Gearing Approach

- Starting with \$200,000 capital
- Purchase \$800,000 property with 25% deposit
- Property costs \$15,000/year to hold after rental income
- After 5 years: Still one property, \$75,000 in holding costs paid

### Scenario B: Positive Gearing Approach

- Starting with \$200,000 capital
- Purchase \$800,000 property with 25% deposit
- Property generates \$10,000/year positive cash flow
- After 3 years: \$30,000 in positive returns, enough for deposit on second property
- After 5 years: Two properties, \$50,000 in positive returns

The compounding effect of positive cash flow creates dramatically different outcomes over time.

# Why Positive Gearing is the Superior Strategy

Positive gearing, where rental income exceeds all property expenses, offers compelling advantages that directly address the flaws in negative gearing:

## ➤ Immediate Financial Benefits

- Cash flow from day one, no waiting years for "eventual" profits
- Reduced financial stress and greater security
- No dependency on tax deductions or capital growth
- Property pays for itself while you retain ownership
- Accelerated equity building through principal reduction

## ➤ Enhanced Portfolio Growth

- Positive cash flow funds deposits for additional properties
- Stronger borrowing position with lenders
- Ability to capitalise on market opportunities quickly
- Reduced dependency on employment income
- Self-funding expansion strategy

## ➤ Risk Mitigation

- Buffer against interest rate increases
- Capacity to handle unexpected expenses
- Reduced pressure to sell during market downturns
- Flexibility to hold properties through complete market cycles
- Independence from tax policy changes

## ➤ Psychological Advantages

- Reduced financial stress and improved quality of life
- Confidence in investment decisions backed by immediate results
- Freedom from constant subsidy requirements
- Clear metrics for investment performance
- Greater financial independence

# How to Identify Positively Geared Opportunities

The most common objection to positive gearing is the belief that such properties must be inferior or located in undesirable areas. This is demonstrably false.

## KEY CHARACTERISTICS OF HIGH- QUALITY, POSITIVELY GEARED PROPERTIES

### 1 Strategic Location Selection

- Areas with strong infrastructure investment
- Regions with diverse employment opportunities
- Locations with limited development potential but high demand
- Areas with strong rental markets relative to purchase prices

### 2 Property Characteristics

- Configurations that maximize rental return (dual occupancy, multiple bedrooms)
- Low-maintenance designs that reduce ongoing costs
- Features that appeal to long-term, quality tenants
- Energy-efficient elements that reduce operating expenses

### 3 Financial Structuring

- Optimal loan structures that minimize interest costs
- Depreciation benefits that enhance cash flow
- Strategic use of equity to improve returns
- Careful balance of debt and asset value

### 4 Specialised Knowledge

- Understanding of supply-demand dynamics in specific markets
- Recognition of emerging trends before mainstream awareness
- Ability to identify properties with below-market acquisition costs
- Expertise in value-adding opportunities

# Case Study: Negative Vs. Positive Gearing Over 10 Years

## ➤ THE NUMBERS TELL THE STORY

### Property A:

#### Negatively Geared "Growth" Property

- Purchase price: \$750,000
- Rental income: \$500/week (\$26,000/year)
- Expenses (including mortgage): \$45,000/year
- Annual cash flow: -\$19,000
- Tax benefit (at 37% bracket): \$7,030
- Net annual cost: \$11,970
- 10-year total cash outflow: \$119,700
- Required capital growth to break even: 16% over 10 years

### Property B:

#### Positively Geared "Income" Property

- Purchase price: \$750,000
- Rental income: \$750/week (\$39,000/year)
- Expenses (including mortgage): \$35,000/year
- Annual cash flow: +\$4,000
- Tax paid (at 37% bracket): \$1,480
- Net annual return: \$2,520
- 10-year total cash inflow: \$25,200
- Capital growth: Any appreciation is pure profit

## ➤ The 10 Year Outcome Difference:

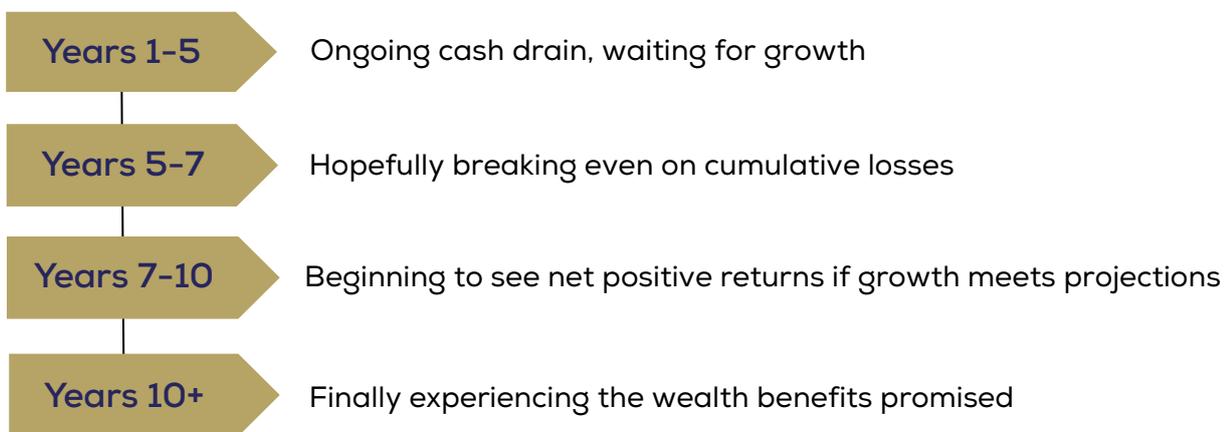
- Cash flow difference: \$144,900
- If Property B achieves just 3% annual growth: \$219,900 advantage
- If both achieve 5% annual growth: \$144,900 advantage
- If market falls 10%: \$144,900 advantage plus significantly reduced risk

## ➤ The Reinvestment Factor:

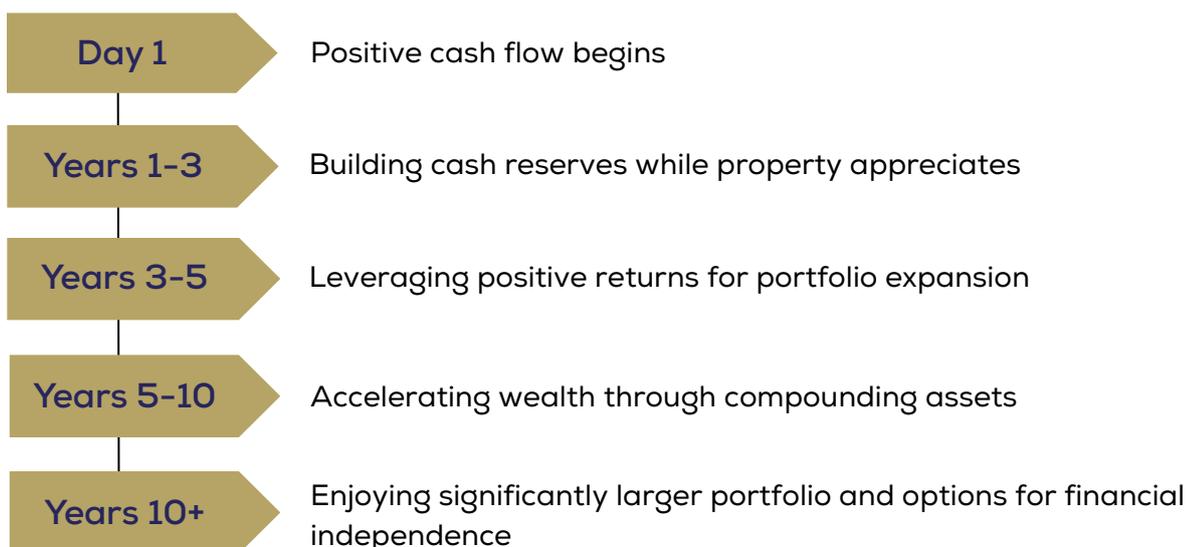
With Property B's positive cash flow, the investor could purchase a second property in year 4, creating a compounding effect that dramatically accelerates wealth creation.

# The Wealth Building Timeline

## ↗ Negative Gearing Timeline



## ↗ Positive Gearing Timeline



The difference is not just financial – it's the opportunity cost of time.

# Breaking Free From The Negative Gearing Mindset

If negative gearing has been holding back your wealth creation, consider these steps:

## 1 Evaluate your current portfolio honestly

- Calculate your true annual cost for each property
- Project realistic growth rates based on current market conditions
- Determine how long until each property becomes cash flow positive

## 2 Consider strategic repositioning

- Could refinancing improve your cash flow position?
- Would renovations or improvements increase rental returns?
- Is selling and reinvesting in positive cash flow opportunities warranted?

## 3 Adjust your investment criteria

- Prioritize cash flow in property selection
- Set minimum yield requirements for new acquisitions
- Balance growth potential with immediate returns

## 4 Educate yourself beyond conventional wisdom

- Question "common knowledge" about property investment
- Study successful investors who focus on positive cash flow
- Understand market fundamentals rather than following trends

# Conclusion: The Choice is Yours

The property investment industry has perpetuated the negative gearing myth for decades. This approach has benefited those selling properties far more than those buying them.

Today's savvy investors recognize that:

- Waiting years for profits is unnecessary
- Tax benefits never fully compensate for cash losses
- Capital growth projections are increasingly uncertain
- Portfolio expansion is severely limited by negative cash flow
- Financial freedom is delayed by dependence on employment income

Positive gearing offers a more direct path to wealth creation—one where your investments work for you, not against you, from day one.

# About Investment and Strategy

At Investment and Strategy, we specialise in identifying and developing premium investment properties designed to deliver positive cash flow while maintaining strong capital growth potential.

Our strategic approach encompasses:

- Traditional Residential Properties carefully selected for optimal yield and growth
- Innovative NDIS Specialist Disability Accommodation with government-backed returns
- DUO - Dual Universal Occupancy Properties that provide multiple income streams

Each investment opportunity is evaluated against strict criteria to ensure it delivers both immediate returns and long-term wealth creation potential.

To learn more about our positively geared investment opportunities, contact us today:



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