InTouch

The Property Investors Newsletter

Issue 3

In this issue

Welcome...

...To the latest issue of The All Residential Real Estate newsletter InTouch. Our clients have told us that they find it difficult to learn about property investing.

While there are a few property magazines available, they often focus on massive renovations and "get rich quick" schemes. Accountants may be able to talk about tax returns and financial planners talk about balancing portfolios. However, no one provides comprehensive information about how to maximise rental returns, keep a property well maintained and potential ways to expand your portfolio, all in one place.

"So to keep our clients informed about everything relating to property investment, we created this newsletter."

In this issue we'll share a way you could dramatically boost the rent for your house, and talk about buying investment property in a Self Managed Super Fund (SMSF). We'll also look at why many property investors stop at one property and ways to overcome this.

If you would like further information on any of the topics discussed in this newsletter, I'd be very happy to help you. I can be reached on 0419 174 168 and *perry.beebe@arre.com.au*

Perry Beebe
Managing Director
All Residential Real Estate

A great way to dramatically boost the rent for your house...

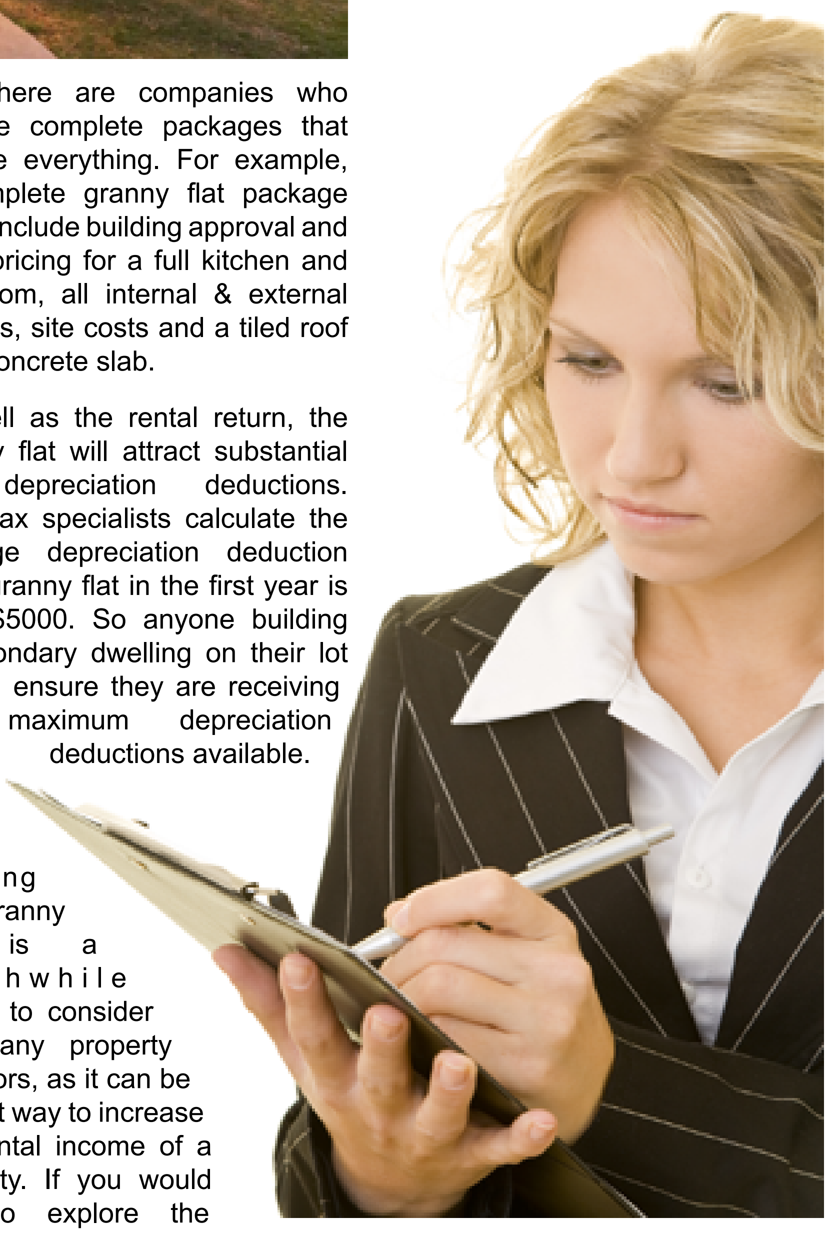
Granny flats are no longer just for grannies! Many Australians are increasingly interested in them as an affordable rental option, and smart property investors are capitalising on this increased demand and enjoying high rental yields from their granny flats.

"An outlay of approximately $100,000 on a granny flat can generate a rental return of around $300 a week, depending on the suburb – this equates to an annual rental yield of around 15%."

Many properties with houses already on the lot have the potential for a granny flat, and often adding a granny flat to a property will not impact the rental value of the main house. Our experienced Property Managers can provide advice on what rent a granny flat would be likely to achieve, and whether it would affect the rent generated from the main house.

In general, the majority of demand from a rental perspective is for granny flats with 2 bedrooms and 1 bathroom. The requirements of a property are not difficult and there are companies who provide complete packages that include everything. For example, a complete granny flat package could include building approval and build pricing for a full kitchen and bathroom, all internal & external finishes, site costs and a tiled roof on a concrete slab.

As well as the rental return, the granny flat will attract substantial tax depreciation deductions. BMT tax specialists calculate the average depreciation deduction for a granny flat in the first year is over $5000. So anyone building a secondary dwelling on their lot should ensure they are receiving the maximum depreciation deductions available.



Building a granny flat is a worthwhile option to consider for many property investors, as it can be a great way to increase the rental income of a property. If you would like to explore the possibility of building a granny flat, our Managing Director Perry Beebe will be very happy to help you – please call 02 4228 2555 or email perry.beebe@arre.com.au

Whilst All Residential Real Estate does not recommend any specific granny flat companies, more information about this subject can be found on the websites below:

www.grannyflatapprovals.com.au

www.i-build.com.au

Are you considering buying property in a Self Managed Super Fund (SMSF)?

Australians love property and real estate has certainly been a great way to grow wealth over the last few decades. However, in the past, the high capital investment that was required upfront made it difficult to invest in property using a super fund.

This situation changed with the introduction of new superannuation laws that mean SMSFs can borrow money to purchase real estate.

Check your SMSF strategy

Seek independent financial advice to ensure your SMSF investment strategy allows you to invest in direct property as an asset class before you purchase anything. You should also confirm the SMSF deed allows the borrowing arrangement you have chosen, and that it permits SMSF assets to be held in a related entity, that is, a bare trust.

“Investors can now borrow up to 80% for residential property and 70% for commercial property via a SMSF.”

As a result many Australian property investors are choosing to take control of their superannuation and are using it to build a property portfolio.

<u>Tips for buying property in a SMSF</u>

Is the property suitable?

As the trustee, you are responsible for ensuring the necessary due diligence is conducted on any property you are considering purchasing, to make sure it is a viable direct investment.

<u>Know the risks</u>

1. Before you decide to purchase a property through your SMSF, make sure you are fully aware of all the costs associated with buying and holding an investment property in your SMSF. You will need to budget for the set-up costs of your SMSF, record-keeping, tax returns, audits and borrowing costs.
2. Although in the long term property prices have gone up, this is not always the case. The property market goes through cycles and property prices can fall. Be aware that property is classified as a high growth/high-risk asset class and any decrease in property price will magnify your loss.
3. There are restrictions associated with buying property in your SMSF. For example, you can’t borrow money through your SMSF to carry out renovations or build, nor can you buy a property you already own with your SMSF. Furthermore, if you have an unencumbered property in your SMSF, you can’t leverage off that equity to buy another investment property the way you could outside your SMSF.

Achieving good returns from your investment property will take time, so do your research, make a plan, buy at the right price and then be willing to wait!

And please seek independent expert advice, to ensure that direct property is suitable for your circumstances, to help you identify the key risks associated with such a purchase, and to develop a financially sound strategy for your situation.

Once you're ready to take the next step and start looking for a suitable investment property, speak to us about our FREE Investor Information and Support Service (see the blue box on page 4 for more details).

Are you stuck at one?

"Did you know around 80% of Australian property investors never invest in their second property?"

Before we examine why, let's have a look first at the most often cited reasons for investing in property:

- Wanting to be set up financially for the future
- Seeing more benefit in property than the share market
- Utilising the tax benefits associated with property (depreciation and negative gearing)
- Retirement planning
- Capital gains

Does this sound like you? Well let's look at why so many Australian property investors get stuck at one property when there are such great benefits on offer.

Of all loss-making investment properties in Australia, 80% are owned by people with annual incomes of less than $80,000. This means that the average investor doesn't have a huge disposable income to assist them in getting to property number 2. If the first property they choose isn't selected well and doesn't generate an appropriate return, investors can often find it hard to build up the capacity for property number 2.

Equally important, if property number 1 isn't managed by quality property managers, poor tenants may be put into the property and it may be maintained and managed poorly, so that the desire to purchase property number 2 may be low.

We spoke to Kirsty Dunphey of Up Loans (*www.uploans.com.au*) who specialises in assisting investors with their financing needs and she cited another reason.

"Many investors remember all too well building up their cash reserves to buy their first property and might be thinking they're not ready to buy their next property as they don't have large cash supplies sitting in the bank." Kirsty said. "The great thing about what I do with investors is that I look at their situation holistically, I'll often organise valuations (at no upfront cost to the client) to see what sort of equity they're holding in their current properties so that they don't necessarily need cash to be able to buy that next property – we can simply use the equity they've already built up."

So – the steps to get to property number 2 might not be that difficult:

1. Have your income, debt and current mortgages assessed to see what your borrowing capacity is.
2. Buy any investment properties in conjunction with a great property manager who can give you dependable rental estimates prior to buying, to ensure the property will generate appropriate returns for your needs.
3. Engage a specialist property manager who will keep expenses and vacancy rates to a minimum.

FREE Investor Information & Support Service

We offer a FREE service to buyers looking for investment properties in the Wollongong area. Regardless of the agency you are looking to purchase from, we're happy to provide you with:

- ✓ Comprehensive rental appraisals
- ✓ Comparable market analysis on each property
- ✓ A list of similar sales in the suburb of the property
- ✓ Details of vacancy rates, rental statistics and current rental market trends

We have helped hundreds of investors with their investment property purchase, so contact us today to see how we can help you. To learn more visit
www.arre.com.au/investor-support
Or contact Perry Beebe on:
T 02 4228 2555
E *perry.beebe@arre.com.au*

For a no obligation 15 minute Finance Health Check with Kirsty Dunphey from Uploans, call 0414 947 959 or email *Kirsty@uploans.com.au*