

In The Know...



December 2009 Newsletter

Inside this issue:

Property Upkeep Pays	1
Developing Property & GST	1
Holiday Homes	2
Christmas Wish	2

Property Upkeep Pays \$\$\$\$

The recent heavy rains we have been experiencing in Melbourne have resulted in a spike in leaking roofs and water damage. This unseasonal rain is more like what Brisbane gets this time of year with their afternoon storms associated with their humid climate.

The issue here in Melbourne is exacerbated by the fact that our gutters are still usually full of leaves from the winter season just passed, and blocked gutters are usually the main culprit for any leaks and water damage, especially when it rains heavily in a very brief period of time.

Cleaning gutters in Spring will usually get you through until the leaves start to fall again in late Autumn and

Winter.

Inclement weather such as high winds and rain also impact on property structures such as fences, as well as things like trees on your properties.

As landlords if these items damage others property or if an individual is hurt, the you most likely will be legally liable for these events.

Several recent events of balcony collapses should be of interest to property owners. Regular safety inspections of areas such as balconies, should ensure the ongoing safety of your tenants and their visitors.

Regular maintenance items should include:

Plumbing & Gas

Electrical / Power

Roofing / Structural

Preventive maintenance will help in saving against those expensive emergency call outs and potentially extend the life of the items being maintained, which will also provide longer term savings to the landlord

Preventive property maintenance has further benefits in the sense that this action will also benefit your tenants from minimising the inconveniences they face when important things break-down.

Simone Bullen

Tax

Developing Property & GST

In a recent case at the Federal Commissioner of Taxation, Administrative Appeals Tribunal a taxpayer was fined over \$160,000 for failing to disclose the sale of new townhouses in their business activity statement.

If you are building a property with the intension of selling the property for a profit, then you are required to register for and charge GST on its sale.

"...building a property with the intension of selling the property for a profit, then you are required to register for and charge GST on its sale."

The ATO has many ways in which they can track the purchase and sale of land and property, by simply starting at a state's land titles office.

Therefore your decision to

undertake a property activity for the pursuit of profiting from the activity, should first start with a meeting with an experienced accountant. Such a meeting should discuss and document the intension of building I.e. for Sale or for renting investments, as the appropriate tax advice can then be provided to you.

Market

Measures:

Avg. Days on Market & Avg. Private Treaty Discounts Sept 2009:-

Melbourne:

Days on Market:79
Discount 4.8%

Sydney:

Days on Market:94
Discount 6.1%

Brisbane:

Days on Market:91
Discount 6.2%

Perth:

Days on Market:114
Discount 6.9%

Canberra

Days on Market:69
Discount 3.8%

Source: Home Price Guide

Holiday Homes as Investment Properties

It's holiday season and that time of the year we all head to the beach or the bush for our Christmas and New Year breaks.

Its a time we get to read the paper from front to back and also even pick up the local papers for a catch up on what's happening in our favourite Christmas holiday destination.

Its also a time we get to wander up and down the local shopping strip and do a little window shopping and the one thing that's constant in both of these pastimes is the promotion of Real Estate.

We can't help looking at potential dream properties in dream locations and picturing ourselves enjoying the good life from this moment forward.

Once we spot the property we like, we then start to convince ourselves its a good idea.

- The local population is growing so that should keep prices moving up

- If we buy we can rent it out on the weekends that we don't use it, so it won't be too much of a financial drain on us

- The real estate agent tells us it's a great buy and we agree, even though we have little knowledge of recent sales and values

- The complex we are buying in are offering rental guarantees or its going to be managed by a hotel group and run as a holiday letting arrangement as we get two weeks a year free accommodation in the so called 'resort'

Difference in asset wealth in 20 years is \$1,143,126

- If we had something more permanent we would come here more often

Whatever way you decide to justify it to yourselves, please make sure you do not use 'investment' as your primary reasoning, because that facts are very clear, these type of investments are a poor cousin to 'quality' investment properties located in major cities.

Why Not?

Well, historically other than absolute beach / water front properties in these locations, the typical investment underperforms in capital growth and rental yields over the longer term (10-20 years).

The main reason for this is that the income in these locations are lower than their city cousins and without a great majority of higher income earning people on a particular location, prices and rents don't move up.

Sure those bringing in high incomes from the cities do assist in price cyclical price increases over 'fad' times, but fail to deliver the critical mass needed to limit your risk.

Most of you would have heard me talk about the wealth difference created by different capital growth returns over time, but here's a refresher

\$400,000 property returning 10% p/a (quality location) versus \$400,000 in

secondary location returning 7%

Difference in asset wealth in 20 years is \$1,143,126. That's \$1.1 million in additional wealth because you made wiser investment decision.

Assume you have taken the same investment loan out for each property, so the interest has cancelled itself out (I could have argued your rental income would be much higher on the city property as its value grows quicker, but just my capital value numbers make this a no-brainer)

Now ask yourself this question, how often are you going to really spend at your holiday location a year. Let say you can got 26 weekends of the year and two full weeks. If you rented a place by the weekend it might cost \$300 a night so lets say you can stay 66 might a year—that's \$19,800. Over 20 years that's \$396,000.

So in conclusion your opportunity cost or lost wealth from buying a holiday home could be in the vicinity of \$747,000.

What if you bought the better investment property, that sort of wealth creation could allow you to afford to rent that beachfront house out every Christmas and still be in front.

**Ben Kingsley Founder
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Empower
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A WEALTH OF KNOWLEDGE

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**Season
Greetings**

Wishing you all
the very best
during the festive
season and
for 2010

Empower
Wealth Staff

Upcoming Educational Workshops:

**eSearch Superior Property
Wednesday 27th January**

**A B C of Property Investing
Tuesday 2nd February**

**Introduction to Property Investing
Wednesday 10th February**

For more information and to Book—Visit:

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