



Scarcity Value - Not Just in the Land

Statistical evidence shows us that when it comes to property the land portion is the portion that historically appreciates in value. This is a result of the scarcity of the land combined with the demand for that land, as once a lot of land is allocated and built on, the amount of available land decreases and the lot of land can't be re-used once occupied.

It's clear that this is evident right across the world and in most capital cities land is very highly valued for both commercial and domestic use. As you move further away from these city centres, the land value starts to decrease as the scarcity is less with more land being available.

Technically speaking, the other component that makes up value apart from the land, is called the 'improvements' (the building). This is the component that actually depreciates in value. (Depreciation relates to the wear

and tear of the asset and its practical use).

Just like a car or any other valuable and usable item, once they are purchased their value decreases in almost all cases. When the first cars rolled off the assembly line and as they still do today, they initially lost their value, but as many years passed only a few of these remained and the ones that were kept in great order have become so scarce that they now have actually appreciated in value as they got older.

When it comes to property, sometimes over a long period of time the actual asset changes from a depreciating asset to an asset that begins to hold intrinsic value because it starts to become scarce or rare (or using car terminology, 'vintage').

Over the many years they are maintained they too start to attract a level of demand from buyers because they offer unique and

some would claim timeless appeal, and there are less of them available now.

Furthermore, they were built with materials that have stood the test of time and are no longer used, like hardwood timbers for framing to floorboards, to ornate staircases, bluestone, marble, wrought iron, lead lighting windows, metal stamped roofing etc, etc. The craftsmanship is on show and to pay for the replacement of these items today would cost a fortune.

These types of properties carry the 'X' Factor that sees them outperform other styles of properties in the same area over the long term in a capital gains sense and that's why they make for great buying.

Ben Kingsley (QPIA)
Founder Empower Wealth

Tax Time - What to Claim

It's tax time and here is a reminder of some of the items that you are going to need to get ready for your accountant.

- Advertising for tenants
- Bank Charges
- Body Corp / Owners Corp Fees
- Borrowing Expenses
- Interest expenses
- Council Rates
- Depreciation (we highly recom-

- mend you have a depreciation schedule completed by a professional quantity surveyor to get your right deductions)
- Gardening and lawn mowing
- Land Tax
- Capital Works
- Legal Expenses
- Pest Control
- Phone
- Property Management / Agents Fees or Commissions

- Repairs and Maintenance
- Stationery
- Travel taken to inspect the property and/or collect the rent
- Water Charges
- Insurance

For all the information on tax visit the ATO website at www.ato.gov.au

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Market Measures:

City Vacancy Rates

Sydney

7,038

1.3%

Melbourne

8,707

2.4%

Brisbane

4,584

1.8%

Canberra

272

0.6%

Perth

1,777

1.1%

Adelaide

1,977

1.4%

Hobart*

443

1.9%

Darwin

316

1.4%

#: No. of Vacancies

%: Vacancy Rate

Source: SQM Research

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How can one little thing affect a property?

“Oh. What does that mean?” is the response buyers often have when I make mention of a little piece of information that can have significant negative flow-on effects for a property purchase.

So what sorts of pieces of information could adversely affect a property purchase? And even if the buyer *never* plans to sell, how could their purchase eventuate in a headache? I'd like to share some less than happy adventures so that you never make the mistakes I have seen other less fortunate people make.

First and foremost, as I say to anyone who is serious about buying a property—get a licensed legal professional to check out the contract. Most conveyancers or solicitors will charge a small fee to go over the contract for you and their fee is rebated in the total Conveyancing cost if you proceed with the purchase. A solicitor or conveyancer will identify any potential issues for you that appear in the Vendor's Statement (or Section 32). They will also carry out any other searches or enquiries that they feel are important for you to know as a potential buyer, such as planned road widening or other such civil works.

One common mistake I've seen buyers make is assuming that a lender will be satisfied with the property that they wish to purchase. It is vital for every buyer to recognise that the bank will most likely send a valuer to look at the property for starters. In addition, the bank's mortgage team will carry out a search on the property and check for items such as Zoning. Zoning is important because it usually dictates the nature of the area, e.g. Retail precinct, industrial, business, etc. Banks have different lending policy for the various property types and if the lender makes a decision that the property you wish to buy does not fit

their Residential Lending Policy, you may have to consider other loan types such as commercial loans. Commercial loans are completely different to Residential loans because their terms, rates and lending amounts can be vastly different. A typical loan secured by commercial property will most likely have an interest rate at least one percent higher and will be capped at a Loan to Value ratio of 65%-70%. This can be devastating for any first home buyer who has a ten percent deposit saved because all of a sudden, the commercially or industrially zoned property that they love is no longer attainable. The hardest part for the buyer is that the *home* didn't look like a commercial premises but the zoning prohibited it from being covered by a residential loan. A good example of such properties are flats above shops, units in amongst old factory areas, warehouse conversions and loft spaces above offices or industrial businesses.

Not *every* commercial or industrial-zoned property is rejected by a lender under Residential Lending Policy, but it does pay to check *before* you buy unconditionally so that you have this important aspect covered off. In the case of going to auction—doing so on a property that is not zoned Residential is a risk that any buyer without access to extra funds (or equity) takes. Importantly—if a property is *Residentially* zoned but doesn't *appear* to be a residential use property (e.g., Shopfront), it pays to talk it over with your broker, bank and conveyancer before buying also. The lenders are not obliged to accept any security property, even with a preapproval in place.

Another *little thing* that can have a detrimental affect on a flat or apartment's value is the nature of the title. Dating back, many owners held *company shares* as opposed to individual *strata titles*. The difference was that a formal subdivision had not

occurred and instead, owners held shares which entitled them to a certain percentage of ownership based on their unit. Such titles do still exist on older inner-urban buildings and this type of ownership can create problems for obtaining a loan at greater than an 80% LVR. Converting to strata title can be done, but not quickly and not inexpensively.

Any development applications in progress or approved building plans nearby can also have an affect on a property. If the house you love has views or overlooks parkland that you imagine yourself enjoying, always remember that nobody ever 'owns' a view. A search which is carried out by a solicitor or conveyancer will address this question—at least for the time being.

Outgoings can make the difference between a fabulous investment and a bad yielding cash-trap. Again, this information is included in the Vendor's Statement (or Section 32) and identifies all of the various surcharges and Owner's Corporation fees, as well as future works agreed to be carried out on a shared building. Recently I had a client ask me about a property and he hadn't noticed the \$4,000 pa body corporate fees on the 1BR apartment. His projected returns were whittled away by the magnitude of the outgoings, presumably fair market fees for the swimming pool and elevator upkeep costs.

Sometimes if it looks too good to be true it might be.

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