

Investment Property Investment Finance Education

The Advisory—Property Investing

July 2010 Newsletter

Inside this issue:

What to Buy?	1
PAYG Withholding Variation	1
Market Measures	1
What to Buy?continued	2

Property

What to Buy: House or Apartment?

In the May edition of 'In The Know', I wrote about the advantages of High Density and Low Density apartments and which you might want to consider. In this month's edition, I will discuss some of the differences you should consider when looking at houses and apartments as an investment.

What most people think of first is money – what can I afford, house or apartment? Well this is a logical thought process you would think.....

Yet to complicate matters, there appears to be distinct tax and stamp duty advantages when purchasing anything "new" or "off the plan". As I've learnt first hand, these savings mean little if the property doesn't grow in value or income returns. Furthermore you don't want to be paying tomorrow's anticipated value today only to have it de-valued by the valuer or bank on completion. So given these types of new properties underperform over

the long term, I am going to assume we are comparing existing apartments with existing houses.

This way we can look at factors that involve capital growth, rental yields and consistency of tenants.

Affordability & Location

Houses are slowly getting further and further out of reach for many investors who want to look in the inner-city, high growth areas, and they are having to resort to apartments that are far more affordable.

Remember this isn't necessarily a bad thing. It's a fact that small block low density apartments in the inner 10km ring of Melbourne have historically appreciated more than comparably priced houses in the outer 20-30km ring from Melbourne. Affordability links in with location and these two items are of utmost importance.

Potential Capital Growth

Land is the component of your property that appreciates the most, and the more you have of it, the better the appreciation. That has been the long held view. Houses of course hold a higher land content, and you should see your investment appreciate at a higher rate than what you would for an apartment at a similar value or size, as it only owns a small portion of the land it occupies (as it will share this with the other apartments). Looking at historical prices in the areas for either the apartment or house you are considering will give you an insight to the strength of capital growth that you might expect in your new purchase. If you're looking for capital growth, the bigger the land content you hold, either with a house or apartment in the more affluent areas the better future capital growth.

(continues over page.....)

Tax **PAYG Withholding Variation Option**

Did you know that if you have a negatively geared property you could be in a position to claim the estimated loss upfront in your pay?

In simplistic terms this means the ATO is happy to help you from a cash flow point of view in meeting your money needs throughout the course of the new financial year.

Michael Pope—Empower Wealth's Money & Wealth Planner thinks it's a real positive for investors.

"Most people opt to get a nice little bonus come tax return time, but effectively, getting this money in your hand earlier rather than waiting for a refund, means we have options in how this money is used to

assist with effective money management, like paying down non-deductable debt sooner. Its just a smarter use of your money, than waiting for a lump sum at the end of each financial year".

For more information about this option contact your Tax advisor or visit the ATO—

Market Measures:

APM— April '10

Rental Yields

Sydney

Houses: 4.1%%

Units: 5.1%

Melbourne

Houses: 3.6%

Units: 4.1%

Brisbane

Houses: 4.2%

Units: 5.0%

ACT

Houses: 4.7%

Units: 5.2%

Perth

Houses: 3.9%

Units: 4.2%

Adelaide

Houses: 3.9%

Units: 4.5%

Darwin

Houses: 5.4%

Units: 5.6%

Hobart

Houses: 4.9%

Units: 5.4%

What to Buy: House or Apartment? (continued...)

Income

Rental yields are also driven by demand for the type of property. Typically apartments being more centrally located and offering lower upkeep attract a slightly higher rental yield (anywhere between 3.5% -6%). Also houses are usually higher in value to start with so the rental yield is lower (anywhere from 2-4.5% as a current guide).

Traditionally after a 'price run' on the value of properties, the rental yield plays catch up over the period the property's value stabilises. Interesting in the long run however, the better appreciating properties will get you more rental income as even though lower yields the income will be higher, because the property's value is far greater. (Come to one of our wealth building workshops one day to better understand this message).

Selection of Property with Tenants in mind:

Houses are usually the domain for families, couples with pets or friends who enjoy socialising together (although I try not to select the latter to rent my properties—I don't want my property as a party house.)

Therefore if you are chasing families, things like parks, safe areas to play on the property, schools, entertainment/alfresco areas, access to shopping centres and supermarkets are all important in building demand for renters of your property.

There is also individual appeal and character that houses have, and many renters stay as they form an affinity to the house and location, and they opt to rent in this area because they may not be able to afford to buy in this location.

Apartments with their central location appeal to young couples or single people and even older folk, who are downsizing but want to live in a familiar location. They are all about the lifestyle the location provides them, close to the action!, beach, work, café's, their mates. Units offer them simple, compact, easy to manage space with low maintenance and upkeep. Again some apartments may command higher income or capital growth because of location, uniqueness of the property (E.g. Art Deco design, oversized living area, private courtyard, ocean or city views from their balconies etc.)

In many High Density apartments, CBD surrounds speak for themselves, while you will also be limited to parking spots (some with only one or no car parks), so tenants will be those who fit that bill nicely such as students and the CBD workforce. These locations are well served by public transport also. Tertiary locations are therefore important to some developments.

Inner city Low Density apartments need to be serviced by decent road routes and public transport, so careful consideration needs to be made to certain areas that may not have the best access via roads or public transport. Beware of locations that are only served by a single bus or tram line as tenant annoyances at transport delays can find you losing tenants quickly.

Finally the most important thing about attracting tenants, whether houses or apartments, is 'Employment Opportunities' - People who work shift work, will usually live closer to their place of work—I.e. Nurses will usually rent closer to their place of employment and have reliable incomes as an example.

Families relocating from interstate will usually rent property first before choosing to buy and this will usually be closer to the

major breadwinners place of employment, hence why closer inner city neighborhoods attract higher capital growth returns, as more opportunities for employment and better incomes.

Employment growth opportunities in rural, regional and mining areas are growth driver for higher rental incomes/yields also. These people have no real desire to live in this location indefinitely, hence they opt to rent and with low vacancy levels through high demand, landlords are able to increase rents to very high levels.

Costs & Maintenance

Ongoing costs will be an issue. Apartments will need maintenance of your own items, but for many others, the body corporate will cover. You will however have annual body corporate fees.

Houses will no doubt cost you more to maintain as the problems will be individual and there are many more things that can go wrong that you will have only yourself to pay. You also have to cover greater areas such as the garden and outdoor areas (don't be surprised if a tenant complains about weeds in the garden!).

So what would I choose next?

Given I have had previous experience with houses and apartments and their particular advantages, my decision would be based what best suits my portfolio next.

In my situation, a capital growth property is best for my wife and I given our cash flows can cover any immediate shortfalls, and in the long term the yield will grow with the properties value. Therefore it could be a well located apartment or a small single fronted property, but a bit further out from the CBD.

Lincoln Haugh—Mortgage Strategist

NEXT PRIVATE CIRCLE WEALTH FORUM

Thursday 5th August

Full Details &
to Book visit:

www.empowerwealth.com.au/privatecircle

*"More income
for less of my
time is what
passive in-
vesting is all
about"*

Ben Kingsley



- Mortgage Broking
- Investment Education
- Financial Planning
- Private Client Wealth