



## THE ADVISORY—PROPERTY INVESTING

### ‘Piggybacking’ Property Investment Strategy

There are many property investment strategies available to investors looking to create wealth through investing in residential property.

This month I am going to share with you one of my strategies I call the ‘Piggybacking’ Strategy. Property values are made up of two components, the land value and the ‘improvements’ (more communally referred to as the property/building).

An industry accepted way of establishing value, which Cate Bakos talks about in her article over the page this month, is via ‘comparative sales’.

These comparative sales are one way in which qualified valuers can determine the demand and supply drivers to establish the present valuation as at this moment in time.

Valuers are looking for ‘like’ property recently sold within a 1km radius of the subject property to determine the valuation.

Once you understand this you will get a better understanding about how one goes about buying ‘Piggybacking’ Property.

One way is studying the market to locate areas with older style properties at lower than median values, which have new property development occurring close by. These new subdivisions will have brand new properties that are going to be built. These new developments see their developers trying to squeeze as many properties as they can on the land available to maximize their profits, which results in smaller land size allotments than the older subdivisions of the 60’s and 70’s.

However due to the dwellings they squeeze onto these blocks, they often fit 4 bed, 2 bathroom 2 living areas on these allotments. The marketiers selling this stock have all the fancy tools of their trade to convince buyers that this is the area and property to buy. Most importantly for the Piggybacking strategy to work, they offer these

properties for sale for as much as 50% more than the older property stock in the area.

So through buying the older stock property you will experience a drag up valuation over a 10 - 20 year period. Why is this?, well the new property’s value is made up of a greater value in the improvements (the Property) when sold for the first time, but over a 10-20 year period they too become older stock. So the new stock has helped increase the land value and overall value in the localised area, because historically speaking over this length of time property values have always gone up, so the existing older properties get a greater capital growth ‘piggyback’ return compared to the new property of the day.

**Ben Kingsley (QPPIA)**  
Empower Wealth Founder

### ATO Releases SMSF Update

The Australian Tax Office has released a draft ruling relating to improvements to existing property.

The new draft plan issued by the tax office will allow for SMSF members to use their super funds to carry out improvements on properties within their fund.

Prior to this, SMSF were restricted from this practice. Basi-

cally the ATO is taking a common sense approach to a matter that hadn’t really been thought through by the regulators.

The new rules mean SMSF members can access their funds for improvements provided they do not make any fundamental changes to the nature of the dwelling and they don’t borrow the money to do so.

The draft ruling also clarified the use of borrowing for repairs to properties. It will be possible now to use borrowings as long as again it does not fundamentally change the dwelling.

Visit the ATO Website for more Information.

[www.ato.gov.au/smsf](http://www.ato.gov.au/smsf)

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#### Market Measures: Auction Clearance Rates

##### Sydney

Aug - 56%  
Jul - 54%  
Jun - 53%

##### Melbourne

Aug - 54%  
Jul - 52%  
Jun - 53%

##### Brisbane

Aug - 22%  
Jul - 27%  
Jun - 20%

##### Canberra

Aug - 45%  
Jul - 41%  
Jun - 53%

##### Perth

Jul - 32%  
Jun - 25%  
May - 26%

##### Adelaide

Aug - 23%  
Jul - 38%  
Jun - 33%

Source: APM

# Reducing the ‘Fear Factor’ in property investing

As a Buyer’s Advocate, I get asked all kinds of property related questions. People lean on my expertise and experience for all manner of things. One of the most common questions I get asked is about the value of any given property. People like to know whether they are paying too much, offering too little, considering selling for the right figure, getting taken advantage of by a sales agent, or being too emotionally caught up in a purchase... The list goes on.

In many cases I am engaged at this point to ascertain property value and/or commence negotiations for my buyer or seller. Obviously my job is to get the best result for my client and before I can start any kind of negotiation I need to have a really clear understanding of market value, market sentiment, history of the sales campaign, date/timing, interested parties and rental prospects (if applicable to investors).

This process involves a lot of science but it also requires an intimate knowledge of the current market, an intuitive understanding of how the selling agent is operating and what other players are in the game.

Let’s discuss the science component first—this is the ‘black and white’ part for me. I look at what is commonly known in the industry as ‘recent comparable sales’. Recent comparable sales are important to explain because there are clear parameters around what can be defined under this banner. The ‘subject property’ can be compared to other properties which fulfil the following criteria:

1. Same location. This is paramount and in many cases, a comparable location may be

restricted to the very same street—or even a specific section of the street. It is not prudent to compare properties which are not in a comparable street.

2. Same size land. In most cases, land appreciates and land holds value. If the subject property is on a smaller or larger allotment, the property is not comparable.

3. Same size dwelling. This includes number of bedrooms, number of living areas, size of outdoor living, etc.

4. Similar rental return (or prospects)

5. . Same era/finish/style. Imagine comparing a 1980’s 3BR AV Jennings home to a 3BR restored Edwardian on the same size land in the same street? It just wouldn’t compare. Likewise an original 3BR period home in need of restumping and fitout would not compare.

6. “Recent.” This is a big factor. Bank valuers generally don’t accept sale dates which are greater than 3 months old. In a moving market, this part of the equation is vital.

7. “Sale”. The property *has* to have sold. It can’t be under contract, subject to finance or advertised for sale. Again, in banking circles, if it hasn’t *sold unconditionally*, it isn’t a comparable sale property. In some cases valuers only accept settled properties.

So knowing what we have outlined so far, a comparable sale price *should* be a good indicator for what a property may be worth, however this is never enough information for me and it’s not reliable information on its own.

The next aspects of ascertaining value are the shades of grey and are often the hardest to

understand for many people.

For example, take Grand Final weekend. Many agents have time off for the game. Many buyers are not going out shopping that weekend. A motivated vendor with a crucial need to sell might not be able to just momentarily ‘switch off’ their campaign however, and in the absence of buyer interest, could feel compelled to take a low offer on their property. This low sales result doesn’t necessarily mean that an identical property next door could sell for the same price the following Saturday—it just means that on Saturday 1 October, a motivated vendor accepted a low offer in the absence of anything better.

Take another example—market sentiment. We can categorise market sentiment into many different sub-sections, from global outlook, Australian economic outlook, Melbourne activity, interest rate rise/fall trends, media speculation, the list goes on.

A final example; the way in which the sales campaign is being handled can have a dramatic impact on price. If the property is not advertised properly, then the catchment of buyers is diminished and the buyer competition is reduced.

I could write pages and pages—the bottom line is *understand more than just comparable sales before you bid*. Guess what I did on Grand Final Day?

**Cate Bakos**

**Buyers Advocate & Property Investment Advisor**



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