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30th Jul 2010

Building a Property Portfolio and Property Opportunities

Investors,

To build a successful property portfolio in the present lending environment, we need to be more adaptable in the type of properties we need to purchase. The old mantra of capital growth properties alone is no longer adequate unless you have a high disposable income.

The reason for that is that the strategy of two years ago and longer of using low doc loans is no longer available to the normal investor.

Each lender has a servicing calculator that governs whether we qualify for a loan and how much, it is essentially based on income and factors in debt levels, being existing loans and credit card limits and family situation.

Capital growth properties in capital cities are generally negatively geared by nature, where the rental return is relatively low against the value of the property. A 3 bedroom freestanding house in middle suburbs may cost $600k, the rent for that may be $400 a week. This equates to a rent yield of 3.5% pa. To purchase the property, you may be paying an additional $22k to $32k costs, mainly stamp duty varying in which state you are buying this property in. Depending on your marginal tax rate, you could be up to $16k per annum after tax cash short to service this property. If you have three or four of these properties, it is difficult to fund $50k per annum from either your own pocket or existing finance facilities.

What is the killer however is that to show you can service a loan just for one such property, you may need an income of $120k plus pa. If you purchased a second such property, your income may need to be closer to $150k pa plus rent and so it goes on upward.

Many of us do not have the ability to rapidly increase salaries, so we need to be smarter in adding properties to our portfolio that the rental income versus debt levels adds to our ability to borrow further funds rather than making it more difficult. Most of us still need capital growth so we can use a revalue and refinance strategy <u>but</u> if we cannot get the new loan, it means we have equity building we cannot access. This can be a large loss of opportunity and set our portfolio back years.

For some a constraint is having the funds to pay the deposit and costs like stamp duty. In the example above, a $600k established property may need a minimum of $105k to settle using a 90% LVR loan. If the property was an off the plan (stamp duty concessions in Victoria or Nil in NSW) then that deposit required could be as low as $75k for a NSW new house or $80k in Victoria.

New Construction

Off the plan construction contains some risk but for some investors, there are significant benefits, these can include:

- Low maintenance costs

- Potentially higher rents due to being a new property
- Higher depreciation costs as a new construction and fittings
- Lower (or no) stamp duty
- Potential capital gains made between purchase date and eventual completion (risk of lower valuation)

I do have marketing and property research companies approach me (together with other brokers, accountants, financial planners) to market these properties to. They are generally a selling company paid by the developer to market and sell and they pay a commission to referrers. As I have said to my clients, I get paid by you to put a strategy together to help you achieve your goals. If I suggest considering an off the plan property because it suits your strategy and if you use a company that I refer you to and I get paid a referral commission, I pass that onto you. This is a benefit I have not heard any other professional offer. If you go direct to these companies, there is no referral fee paid.

Current Opportunities

There are a small number of companies that I would consider, based on the research they do and the type of properties they take on to market.

These include:

- Preview Properties – contact Grace Consolmagno – 0401 444 411, current properties in Altona, Camberwell and Clifton Beach (far north Qld)
- Aviate Group – Neil Smoli – 02 9331 5722, current developments include Essendon, St Kilda, Stafford (Brisbane), Brunswick, South Yarra but they seem to be all allocated, indicating the popularity and success of this company.
- QPEX Research Group – they have properties primarily in Qld and NSW and include NRAS properties. They are a wholesaler and do not deal direct with the public so you will need to see me about their range
- Malcolm Reid - 0433 435 009 (no relation) has listed a development in Oakleigh, see description below.

  > Oakleigh site for 29 townhouses. They will all be two storey and very spacious. Many are north facing and quite a few overlook a Council Park and playing fields (never be built out).
  >
  > They are off the plan on a 10% deposit (Stamp Duty savings of $17,000 or so) and will start building in 2-3 weeks and complete in March/April 2011. These would further reduce your tax payable and achieve over 5% rental yield. Plenty of tenants from young professionals working nearby and students at Monash (3 km by bus and bus stop less than 100m away). Listing price < $400k

  The basics still need to apply, close to transport and facilities, in areas and the type that there is strong tenant demand, where there is limited supply, small developments, low body corporate fees and reputable developers. If you are interested, give me a call.

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