

30<sup>th</sup> May 2010

## New Property Options

Investors,

As a broker who specialises in helping people finance and build a residential property portfolio, I get approached by a number of marketing companies wanting me to offer their properties to clients. Most of these are off-the-plan type developments, some boutique but more often than not, large developments.

### Large Developments

As you all have gleaned from my past e-mails, I am not a big fan of large developments for a number of reasons:

- Lenders tend not to like them so reduce the amount you can borrow, sometimes to 70% loan to value ratio (LVR) or lower meaning you need to put more of your own funds in and reduce the return on your own assets.
- As developments are normally 100% debt financed, lenders require a large number of pre-sales before they will advance the developer money to commence. If they don't get the pre-sale volumes, the projects can often stay in limbo for long periods or run the risk of falling over completely.
- Developers often want bank guarantees or hard cash as a deposit up to 10%, your money is tied up for up to 2 years depending on the development.
- The risk of off-the-plan properties is that if the lender valuation at time of completion is lower than your purchase price, you need to make up the difference in value as the lender will only lend on the valuation figure. Many investors got burnt on the early Docklands developments.
- With large developments there is always the risk that you are going to get a distressed seller at some point and if it is when you are looking to revalue and refinance that property, suddenly your strategy stops working. There is less risk with boutique developments of this happening.

### Benefits

That said, there are benefits in Victoria and potentially interstate.

- Victoria allows an off-the-plan stamp duty concession which can reduce the stamp duty that you would otherwise pay anywhere from 50% to 90% or more depending on the size, the comparative land component etc. Victoria is unique in this.
- The other real benefit is, in theory you are buying at today's prices for a property that may be worth more on completion in 12 months or 2 years. Some lenders will value the property at the higher of valuation or contract price, so if the market moves favourably, you could end up with a more valuable property with instant equity and possibly be able to borrow more to fund it. A client of mine purchased a unit 18 months ago for \$360k,

he put down a 10% deposit of \$36k. It was completed last month and the completed valuation came back at \$410k. He was able to borrow at 80% LVR with no mortgage insurance based on the \$410k value and complete the purchase not needing any further funds of his own. Not all lenders do this, one of the benefits of a good mortgage broker is to know who does.

- Depreciation and Building Allowance benefits. These can be up to \$12k plus for the first 5 years, so depending on your marginal tax rate, this could be worth \$4.5k after tax per year to you. For those unaware, you can claim depreciation of some fittings and fixtures of an investment property and if the property was built after 1987, claim 2.5% building allowance based on the construction cost, over 40 years. For those on a higher marginal tax rate, this could be a significant benefit.

## Offers

Some of these marketing companies are better than others, much better. There is one company offering an educational bus tour around Melbourne next month, I have attached their brochure. If you are interested in attending, please let me know and fill in the form and send it in. You will need to be quick as it will fill fast. I have put my name to be on it as well.

A small company called Preview Property has approached me, via a property professional I and other clients use, who specialises in small developments. They currently have a 10 unit development in Millers Rd Altona North, about 10km from Melbourne CBD. Prices from \$399k to \$509k, due for completion June 2011.

They also have a slightly larger development of 36 units at Clifton Beach, just down from Palm Cove in North Queensland. Prices range from \$385k to \$680k a mix of one and two bed apartments. This is right across from the beach. Rent yields look to be 4.5% to 5%. If you are ever thinking of a possible longer term retirement option or looking at heading north once a year to inspect your property and claim a tax deduction (see your accountant) for the travel, it could just work for you. Stamp duty is lower in Qld than Vic. This is due for completion early 2012. I have attached a flyer if you are interested. For a \$600k property, you may be out of pocket after tax cash flow around \$115 a week.

The way I work is that if you use me for finance and you decide to purchase one of these properties going through me, I will rebate any commission the marketing company pays me, back to you. This may save you thousands. My role is not to sell property, I am not here to make money from it, I am here to assist you achieve your goals. If one of these types of properties makes sense for you and your goals, then why not gain an additional benefit?

If you are interested in finding out more of either the Altona North or Clifton Beach property, please let me know and I will get someone to contact you about these.

## Our Service to You

We provide a specialised service for investors wanting to create long term wealth for themselves and their families. We are finance strategists, credit advisers and mortgage brokers, helping you achieve your goals. Give us a call when you think it's time to consider your options.

As well as providing a service to investors, we will assist you in purchasing as an owner-occupier, or upgrading to a new property, or simply looking at better pricing or structuring options for your current loans and banking or assisting seniors looking at possible reverse mortgage options.

Our business is built on referrals provided by clients, so please don't keep us a secret, feel free to forward this e-mail to family and friends interested in their own financial future. Give us a call and book an appointment to see if it makes sense for you. If you have any questions about any of these topics, give me a call.

***Helping People through Finance***