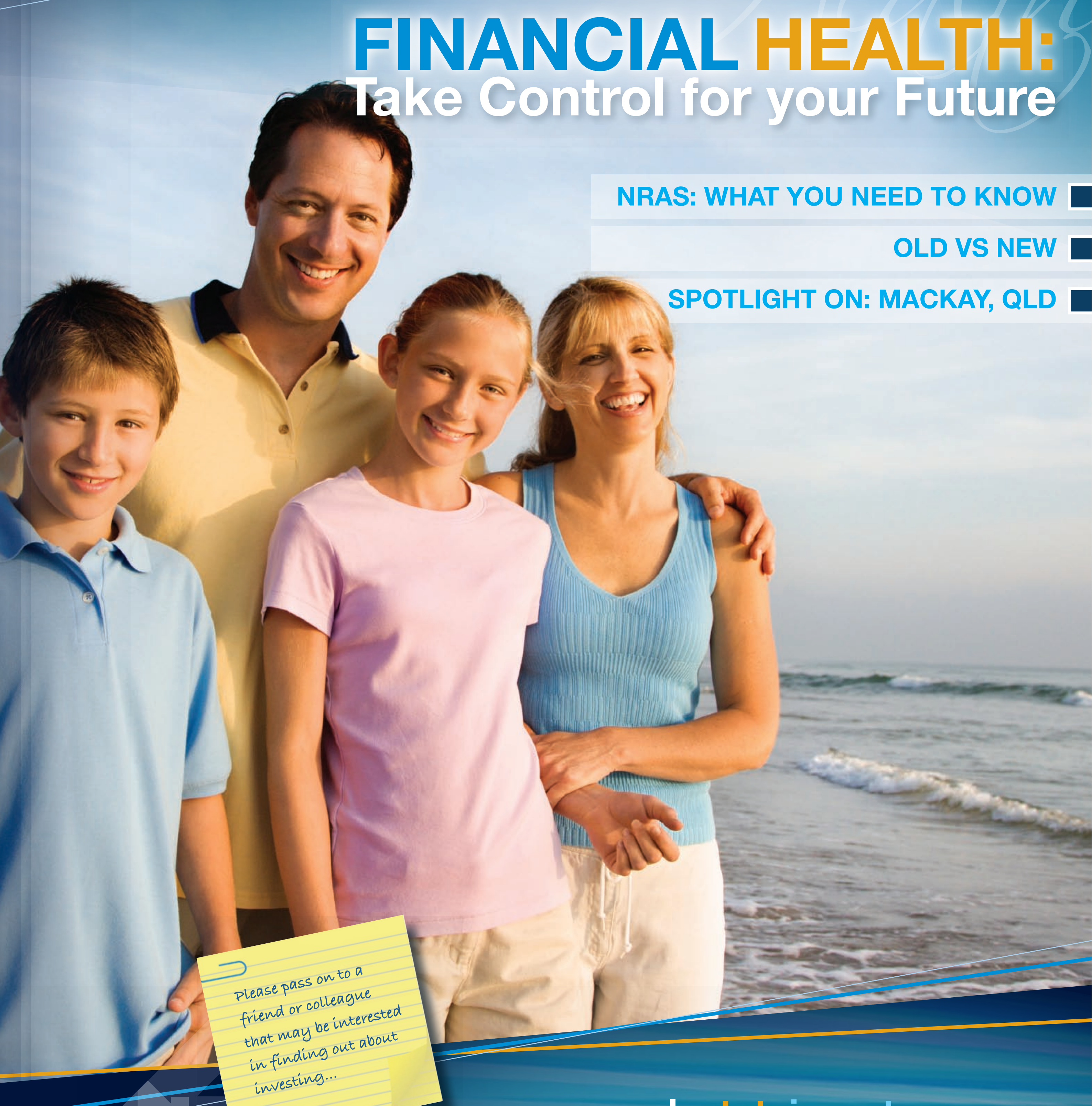
REAL ESTATE investor Magazine

Spring 2012

FINANCIAL HEALTH: Take Control for your Future



NRAS: WHAT YOU NEED TO KNOW

OLD VS NEW

SPOTLIGHT ON: MACKAY, QLD

Please pass on to a friend or colleague that may be interested in finding out about investing...

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welcome

THE investor

Spring is in the air, and there is no better time to re-evaluate, re-fresh, renew and rejuvenate your investment strategy. That's why this edition we've chosen to focus our cover story on taking a financial health check and asking yourself the big questions such as whether or not you have the best mortgage and if it's the right time financially to make your next move.

In fact, we're so sure we can save you money on your loan we've come up with an exclusive offer to readers of 'The Investor'. Just give us a call and see if we can offer you a better mortgage deal – if we can't, we will give you $50 for your troubles, if we can, we can potentially save you thousands. It's a win win for you and all part of what we hope will be a lifelong investment journey. We don't want to simply sell you a home and send you on your way. Our commitment, is to continue building long-term relationships with clients as you achieve your own goals of wealth creation.

Also in this issue, we take the time to talk with fellow member Greg Duguid about his newly-completed property which he purchased largely through his self-managed super fund and look at just some of the advantages of purchasing a newer home vs old.

As these articles show, what we teach our members isn't taught at school. You don't learn it from a textbook or by scouring the internet endlessly. Every member of our team, including myself, walks the walk and continues to actively add to our own property portfolios, employing the exact same systems and stringent property selection criteria that we provide to our members.

We provide personalised property planning, tailored to the needs and current financial situation of each member and offer all the necessary tools and support to ensure our members understand and can successfully navigate the path to real wealth through our 7-step Wealth Program.

At Real Estate Investor, our philosophy is that "time in the market", coupled with a clear and documented investment strategy, are the real drivers of better investing.

We look forward to working with you to secure your financial future. I invite you take advantage of our personalised service and commitment to make tomorrow's dreams come true today.

Warm regards and best wishes for your investment journey,

Brian Boyd

Founder - Real Estate Investor

contents

Focus On... Mackay

Latitude: 21.14303 Longitude: 149.183307

The mining port of Mackay has been one of Queensland's most resilient markets in the wake of the GFC, with low vacancy rates now driving yields and growth again.

Properties in the $500,000-plus range have seen the most action in recent times, thanks to an influx of workers who have been coming to town following the opening of mines in the area.

While the number of sales being made did drop off by 16.5% during the second half of last year, this was far less than the corresponding drop in Brisbane of 28%.

And with the city's vacancy rate sitting at 0.9%, investors are now entering the market, making it one of the fastest growing regions in Australia.

The region's growth is not only fuelled by the boom in the mining industry, but also by a resurgence in agribusiness, growth in tourism and an emerging marine sector. The region hosts much of the engineering, manufacturing and mining services industries supporting the regional economy.

Boasting one of the best climates in Queensland, the region is also home to natural attractions of reef and rainforests and great livability supported through quality cultural and recreational facilities.

The area's peak economic body, Regional Economic Development Corporation (REDC) plays a strategic role in business, focusing on securing investment that will maximise long-term economic growth, sustainability and diversity for the region.

State of the Market

Rate Cuts to Continue

Recently, Westpac revised its forecast for the outlook for monetary policy. In their view, the overnight cash rate will reduce to a low of 2.75% over a period of months.

However, due to the Board's current policy disposition of 'wait and see', Westpac's Chief Economist Bill Evans has added, "it is necessary to push out the timing of the first cut from August until the fourth quarter of 2012 where we expect two cuts in October/November and December. Even lower rates are likely to be needed in the first quarter of 2013 with the final cut of 0.25% coming in February/March".

To Fix or not to Fix?

Despite many loan companies indicating that the popularity of fixed rates is waning, one mortgage specialist says that now is the perfect time for mortgage holders to fix their loan, stating that mortgage rates are as competitive as they're ever going to be.

Historically, when fixed rates fall below 6% they bottom out, making the current rate of 5.59% for three years an ideal level to fix all or part of a home loan.

Some of the fixed rates currently on the market are 0.30% to 0.40% below the average standard rate, which means that even if the cash rate falls again (forcing variable rates still lower), there is still quite a buffer remaining.

However as a spate of recent data shows, enquiries for fixed rate mortgages in the last quarter have fallen dramatically since the Reserve Bank of Australia lowered the official cash rate to 3.5%.

To fix or not to fix is an issue you should discuss at length with your mortgage broker to ensure that at the end of the day, you feel secure and comfortable with your lending commitments each month.

rewards

Member Rewards

Thanks to our many clients throughout Australia over 90% of our business comes from member referrals and repeat business.

As a reward, we've now created a Referral Rewards Program for our members. The program allows members to either accumulate credit towards a future Real Estate Investor property purchase or receive a gift card.

Importantly both you and the person that you have referred can choose from the same rewards.

The Rewards Program

- You and your friend each have a choice between credit or a gift card
- Credit can accumulate and can be redeemed towards the purchase of your next Real Estate Investor property
- There is no limit to the amount of credits you can accumulate
- Credit can be passed on to family members

rewards

Choose your reward... the more friends you refer, the more you receive

$25 Gift Card

Simply by referring a friend who joins as a member and attends an appointment.

Gift card for you and for your friend!

PLUS

Once your referred friend purchases a property through Real Estate Investor, BOTH you and your friend can select from either...

$1000 Credit towards a REI Property

Credit for you and for your friend!

OR

$300 Gift card

Gift card for you and for your friend!

MEMBERSHIP

Membership with Real Estate Investor is Free and comes with many benefits including our quarterly Investor magazine, market trend and forecast reports and full details about a range of properties that will set you on a path to financial freedom!

Curious about Property Investing, but not sure?

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FINANCIAL HEALTH: Take Control for your Future

Whether you're a seasoned property investor or yet to purchase your first home, there is no time like the present to take stock of your finances and re-evaluate your spending, saving and investment strategies.

In order to do any of the above however, it is important to first have a clearly defined list of goals and a plan in place to show exactly how they will be achieved.

That is why we have created our 'My Plan' workbook, (available by calling 1300 088 618) which helps investors clearly define their investment dreams. Perhaps for example, you have always imagined retiring to a house by the beach, or having enough money to travel or simply being able to retire with a certain level of income each year?

By using the 'My Life Plan' workbook, our members are able to set their goals, then put in place a strategy to achieve them.

For those who already have a set direction, it is still a great idea to re-evaluate every so often and refine your strategies, so as to make the most of the latest investment products on the market.

Get a Better Loan or Get $50

At Real Estate Investor we're serious about saving you money so that you can invest more and reach your financial goals sooner.

As such, we work with some of the best in the business to offer our members great rates on products like accounts and mortgages. In fact we're so sure we can save you money on your mortgage we're currently offering you $50 if we can't find you a better loan. **Basically it's win win!**

All you need to do is give us a call, it will only take about 10 minutes of your time and we could potentially save you thousands.

Just ask Peter & Alison who will save $22,870 over the next 3 years. So give us a call today on **1300 088 618** – what's there to lose?

For example, structuring your portfolio debt correctly is crucial to keeping your costs down and maximising profits. While getting your finances right at the beginning can save you a lot of time and money, if you have mortgages in place already, it is certainly never too late to change and save money in the future.

For this reason, employing the services of a professional mortgage broker who specialises in property investment finance is highly advisable, as they can suggest the best packages to suit your requirements.

If you're happy with your mortgage provider, there still may be room to move as with any type of leverage, the more business you intend to give, the more power you have in sitting down and challenging your lender for a better deal. Never assume rates or fees are set in stone. The truth is, the lending industry has become increasingly competitive over the years, with more lenders and loan products available to the consumer than ever before.

So never be afraid to ask for a better deal, particularly if you will be borrowing hundreds of thousands or even millions of dollars over the life of your investment portfolio. After all, you are offering the banks the best security around – residential real estate.

Another factor that can be re-assessed is whether to fix your loan for a period of time or not. As our article on page three shows, now may be the perfect time to fix all or part of a home loan with the current best rate sitting at 5.59% for three years.

So why don't you take another look at your mortgage by taking advantage of our free mortgage health check, (for more on which, please refer to the special offer on this page) – we will either save you potentially thousands, or give you $50 for your troubles!

Controlling your cash flow (incomings and outgoings) is also another element of your investment strategy that will benefit from regular re-evaluation.

Take a look at the household budget, perhaps there is a monthly allowance you no longer fully utilise such as pay tv or a gym membership? Or there may be a new phone bill not fully accounted for. Re-drafting your budget at least yearly lets you see precisely what your spending and saving patterns are which therefore allow you to make more informed decisions on matters such as mortgage repayments and savings strategies.

Other fees associated with investment properties such as insurance and rental agency costs should also be assessed yearly to make sure you have the best offers available.

It is also important to regularly review your actual property portfolio. Surprisingly 86% of investors only ever purchase one residential investment property. For that reason, it is essential to review your portfolio regularly and determine if your properties have produced enough equity for you to add to your collection. And don't worry about where the market is, if you have the ability to leverage into further high growth assets, do it immediately.

Remember, the name of the game is to have properties whose compounding growth is working for you in order to build on your asset base.

Finally, it is paramount that you feel secure when investing in property and for that reason, we recommend that you regularly assess not only your own financial situation, but also your lifestyle at any one point in time.

You may be young, in a stable job and without too many overheads and can therefore take an aggressive approach. Or you may be close to retirement with significant capital in a SMSF but wish to tread more carefully. Which ever your current reality, it is important to be able to refine your investment path to suit your current situation and your lifestyle.

Your Real Estate Investor specialist will help you to calculate your own personal level of risk and therefore advise how you can structure your borrowings to suit your profile type.

Furthermore, we offer a wide range of tools and applications to help with all areas of investing, from budget planners to mortgage checks. These we make available free to our members so that you can be in the best position possible to make informed decisions on your investment future.

real

Real Stories

The prospect of transitioning to retirement in the not-too-distant future provided the catalyst for dentist Greg Duguid, 57, to re-evaluate his self managed super fund and re-focus on his investment strategies.

"I'd previously had a fair amount of my super tied up in international shares but I wasn't happy with how the market was going. I missed the property boom on the Gold Coast last time and so decided that the time was right to focus on real estate and purchase before the next boom comes," says Greg.

And so Greg and his wife Murtaza began looking around for investment opportunities.

At the same time, their daughter and son-in-law – both teachers in the remote North - began contemplating an investment strategy for their future. Greg suggested they get in contact with Brian Boyd (Real Estate Investor CEO), whom Greg had known for many years.

The couple did, and subsequently decided to purchase a house and land package through Real Estate Investor in Pacific Pines, in the Gold Coast Hinterland.

Seeing them go through the process and also identifying the excellent future growth capabilities of the proposed property, Greg and Murtaza decided to follow suit and purchased a similar block just up the road.

"It ticked all the right boxes for us," says Greg. "It's about five or six minutes from a major shopping centre and four minutes from the motorway where you can go North back to Brisbane or South to the beach. It's also situated on a hill with lovely views in an area boasting wide streets, large lots and excellent rental history."

Now the proud owner of a newly completed investment property, Greg is keen to begin the process again.

"The plan is to invest in five-ten properties in the next five-ten years. That of course depends on the market but as my focus is now on my super contributions I think it's achievable."

"Having used a large portion of my super as a deposit, we're only currently out of pocket about $100 a week. So as soon as I have enough equity and funds in the super account, we'll purchase again."

As to his property strategy, Greg will continue working with Real Estate Investor, as he appreciated Brian's expertise and know-how.

"From start to finish Brian and his team helped us with the entire process, not just with the property, but showing us the tax advantages and providing advice on stepping away from an institutional super fund and taking ownership of the future with our own SMSF."

> *"Overall however we're really happy and look forward to building on our investment goals."*

NRAS

National Rental Affordability Scheme

The National Rental Affordability Scheme (NRAS) is not a public housing program, but rather a tax incentive to induce more private investment in the lower price range of the residential construction market. It is a federal government-backed program designed to provide 50,000 affordable rental properties by 2014

The key to the NRAS is a simple incentive. In return for investors offering rental properties to approved NRAS tenants at rents 20% below market rates, the NRAS scheme provides an annual scheme provides over $100,000 incentive in additional tax deductions over a 10 year period.

This incentive is tax free and is structured as a refundable tax offset. That means a taxpayer with a tax bill at the end of the financial year will have the NRAS incentive offset against his tax bill. If an investor has no tax to pay he would receive the incentive as a refund.

About 1.5 million Australians are eligible as tenants under the NRAS, with the scheme designed to provide assistance to workers such as teachers, nurses, police officers and social workers. Eligible tenants can earn up to $125,590 per household.

NRAS market rents are set through an independent rental valuation, which can be reviewed at the end of years one, four and seven. Investors are also allowed to increase the rent each year according to the consumer price index.

With the government incentives, a property in the NRAS can actually produce positive or neutral cash flow – as well as minimal holding costs and the opportunity for capital growth.

Furthermore, investors are still able to claim standard rental tax deductions, such as interest, depreciation, property management costs and some maintenance costs. And investors who buy an NRAS -approved property off the plan can also access the usual benefits this type of property offers, including substantial stamp duty savings.

- The Australian Government has made a 10 year commitment to NRAS. The Scheme is managed and regulated under the legislative framework provided through the National Rental Affordability Scheme Act 2008.
- Operating agreements between the scheme operator and individual investors can vary considerably. Investors should familiarise themselves with the specific provisions of the scheme operator agreement (and seek professional advice regarding) before deciding on a particular investment.
- Some schemes operate on a head-lease structure where the scheme operator leases the property from the investor for a 10-year period and in turn sub-leases it to a qualifying tenant. Under this structure the investor has little or no control over the selection of tenants. Direct residential leases are often preferred.
- The type of properties included in each scheme can vary considerably, with some scheme operators targeting suburban three-four bedroom house & land and medium density properties and others focused on inner-city and urban-infill one-two bedroom apartments.
- The required discount to market rents can vary from a minimum of 20% up to 30%.
- The ability to terminate the agreement with the scheme operator during the 10-year NRAS incentive period can vary considerably.
- NRAS homes can be bundled with non-NRAS properties: they may be only a minority of a new multi-storey development, with other properties sold off-the-plan to homebuyers and individual investors.
- Where dwellings are approved under NRAS, investors should be aware that this does not mean that the Australian Government endorses guarantees or secures the investment in any way.

It is important to not only consider the cash flow-positive potential of NRAS, but the longer term capital growth prospects as well. Ask yourself, without these great initial cash flow incentives would I buy this property? If the answer is ‘probably not’, then don’t purchase.

NEW Vs ESTABLISHED HOMES

The age old debate of whether to purchase a new or established home is one that has troubled property investors for many years. At Real Estate Investor, we nearly always suggest purchasing new as we believe the tax ramifications and other advantages clearly tip the scales in that direction.

Certainly one of the biggest advantages of purchasing a new or newer property is the tax benefit known as "depreciation". Owners of new investment properties are eligible to claim depreciation on the building structure and the fixtures and fittings in their investment property. The effective life of a new building for Australian Taxation Office (ATO) purposes is 40 years (some exceptions) for residential property.

This is also a big part of making an investment property more affordable, especially in the early days when you are able to claim the maximum at today's value compared to the devalued amounts on an established property, especially if the home is say 7-10 years old.

Here's a quick example as a guideline:

A new home with say $30,000 worth of fixtures and fittings will get you a tax deduction of around $80 per week through depreciation, however a home which is 7-10 years old would be lucky to have $5000 in depreciable deductions and would get you back around $15 per week.

Another advantage of purchasing a new investment property is that certain parts of the property would be covered by a builder's warranty, therefore some of the risk of purchasing a poorly constructed property is reduced.

Furthermore, when you buy a brand new home the builder's warranty should help you to more clearly define potential maintenance costs and expenses for hopefully the first 10 years or so. An older house meanwhile will often have repair and maintenance issues that are not only unknown, but also often costly such as the hot water system breaking down or the home needing to be re-wired.

When building new you can also ensure that you are investing into a home that will be purpose built to save money in the long run.

Factors such as heating and cooling play a large part, with many older homes often inadequately insulated resulting in higher energy costs or lower rental returns. Also, building new means the dwelling can be specifically designed for today's lifestyle with suitable entertaining areas, dual bathrooms and a light-filled open plan design that will attract maximum rent.

As an adjunct, the home's design and fittings can also be purposely chosen to suit a rental property with tiles in high-traffic areas, low-maintenance gardens and multiple power points throughout to maximise versatility.

Another good reason to buy properties new is that most prospective tenants prefer a new home, so when it comes to a potential tenant choosing between a new build and an established home which is 7-10 years old at the same rental value the choice is obvious.

So if you are looking for a tax break and a lower holding cost while maximising rental return when buying an investment property, a brand new property is simply the way to go.