

ASK THE EXPERTS



Cherie Barber, director, Renovating for Profit

Q *My husband and I have an investment property on the NSW South Coast in serious need of a kitchen renovation. We have allocated a \$5000 budget. Is it best to do the work ourselves or commission a professional?*

A. When renovating a kitchen, a normal formula for what you spend is two per cent of the current property value. A \$5,000 kitchen budget should technically reflect a property value of \$250,000. If your property is worth more than this, you should technically bump your budget up. Saying that, you may only have \$5,000 to work with so you'll need to negotiate extra hard on everything. Your \$5,000 budget should be broken down as follows – 50 per cent cabinetry, 20 per cent labour, 20 per cent appliances and 10 per cent for miscellaneous items such as flooring and lighting.

Naturally it is best to hire professionals for such tasks if you're not experienced but you're on a budget, so you may need to project manage the kitchen reno yourself. First step, ask yourself if the existing kitchen can be salvaged and simply refreshed by painting the cupboard doors, installing new door handles, changing the bench top and the like.

If your kitchen is beyond repair, plan what you want in the new kitchen then go straight to a cabinetmaker (not a retail kitchen showroom) where you'll get more bang for your buck. On a \$5,000 budget, you'll be opting for budget materials which still look good - laminate cupboards & bench top, large polished tiles for your splashback which you can easily pick up for around \$20m2 and laminate flooring or tiles around a similar price. Buy budget stainless steel appliances at a seconds store for around \$1,000. It is a tight budget but not unachievable. It just means you'll need to consider every dollar you spend.

Q *A property I own sits on a decent amount of land. How can I make use of this space to increase my rental?*

A. If you are in NSW, new rules allow you to build a granny flat for extra income. It will be approved within 10 days and can be a good way to add yield, although the amount of value it will add will be most likely less than what you pay to build it.

If you live in other states, a granny flat may also be possible, and this can be a quick and cheaper option, or you could either subdivide, or simply build a second dwelling to create a dual occupancy, single block.

Be careful though, because few investors really research and budget this option well, and find that the exercise has been daunting and difficult, with not a lot of upside.

Typically the costs blowout, and after the capital gains tax and GST, the headaches don't pay off with a suitable profit.

In some cases, simply subdividing and gaining a DA approval can result in good profits for the land, without it bearing the high costs of the actual development.

It's a good idea to retain the services of a professional who can accurately cost out all options, and then consult a valuer to confirm potential end value.

You may pay a fee for both of these services, but it could save you in the longer term, and more importantly ensure you don't take a pathway which was never going to be profitable.



Margaret Lomas, founder, Destiny Financial

GOT A QUESTION FOR ONE OF OUR EXPERTS?

Then send it to - editor@spionline.com.au (50 words max)

Q *I have been investing for a number of years and currently hold four negatively geared properties. I am starting to think that negative gearing is negatively impacting my lifestyle and leaving me short of cash each month. What should I do?*

A. Many people fall into the trap of believing that negative gearing (that is, where the expenses of owning a property are greater than the income it produces) is a way of making money, when in fact it is simply a way to reduce tax. Importantly, negatively geared property investors are prepared to lose money in the short to medium term in the hope their losses will be more than recouped in the longer term when the property is eventually sold and (hopefully) produces a capital gain.

There comes a point when an investor can become so highly geared that multiple property ownership becomes a burden and not a worthwhile investment strategy.

I would start by working out how much cash you want to save and do a budget to see if there's any obvious savings. Then I would objectively review your property portfolio and identify any under-performing assets with a view to disposal. Your review should consider how much cash each property is costing you per month as well the potential for capital gain. You should also conduct a what-if analysis to see how your portfolio would perform under different scenarios. This would be a good discussion to have with your accountant or financial adviser.

If you can sell and make a capital gain I would use the gain to pay down your existing mortgages. Once you have your cash situation under control and are in a position to start investing again, I would consider diversifying away from property to avoid being over-exposed to one class of asset.



Peter Boehm, columnist, Yahoo!7 Finance and author of *The Great Australian Dream*

Q *I'm a 24 year old Sydneysider earning \$45,000 a year with \$20,000 saved. Should I buy now for \$200,000 or wait until I can afford properties in the \$400,000 range?*

A. Let's clear something up right now. On a \$45,000 income and with just \$20,000 deposit saved it will be a long time before you can afford a \$400,000+ property. I question both the strategy and logic of purchasing a negatively geared investment property where the tax benefits are negligible for a person on a \$45,000 income.

For a person with limited deposit and income, the best way to achieve their first investment property is to utilise the first home buyer's scheme, while it still exists. Without breaking the rules! Purchase a property you can afford as soon as you can, and rent that out for the first 12 months [which is allowed] then move in for at least six continuous months. Or move in for six months then rent it out later when it's 'appropriate to your circumstances' to move.

In any case my advice is to purchase now, where the rental income will cover your mortgage and all associated holding costs. Yes they do exist - it just takes a lot more effort to find them.

Your 'goal' of having a \$400,000 investment property is based on the misconception that most people have: that you need to purchase supposed 'better quality, or better located' investment properties in order to make a capital gain. The number one concern for lenders is whether you can afford the loan - in their eyes, not yours.

Buying an asset for capital gain is not investing - it's gambling that the 'value' of the asset will increase in time, allowing you to sell it for a profit. In 2012 and beyond that's a big gamble.



Kevin Lee, director, Smart Property Adviser