Finding a 'good buy'

Pam Walkley looks at some useful buying tests

IS IT A GOOD TIME TO GET SET IN investment property, given the flat state of the market where prices have fallen and sales have slowed? It's a question a number of *Money* readers have been asking over the past few months.

There is no denying there are properties available for sale at less than what they would have brought a few years ago. But are these good buys now or could their prices fall further?

Tyron Hyde, director of quantity surveyor Washington Brown (www.washingtonbrown.com.au), says that thanks to the GFC he is seeing clients buy stacks of properties at close to their actual building cost.

In a recent presentation, titled "Never lose money", Hyde proposed two ways of applying this rule to property investment. The first involves buying newish property (less than 10 years old) at construction value, getting the land thrown in.

One example he gives, at Orange in the NSW central tablelands, sold this year for $46,000, less than half the $95,000 price it achieved when it last sold in 2003. This price was also below the construction cost of $52,445, as estimated by Washington Brown. "Year one depreciation allowance for the property was $4000 or about 10% of the purchase price," says Hyde. "If you are on the top tax rate, that is a yield of almost 5% without even having a tenant."

Another, a home at Broulee on the NSW South Coast, sold for $660,000. It cost $641,988 to build in 2003, so the new owner has an 803sq m block of land at virtually no cost.

Finding properties like these takes time and effort. Calculating the construction cost is something a quantity surveyor can do easily, but how can you estimate this?

" A good rule of thumb is to find the original purchase price from somewhere like RP Data [www.rpdata.net.au], and multiply that by 0.5- 0.6 to get a rough of idea of the construction cost," Hyde says.

The second way not to lose money is to buy older property, say more than 40 years old, at close to land value and get the house thrown in, Hyde says.

An example is a home in the prestigious eastern Sydney suburb of Bronte, which was built in 1925 and underwent a $305,000 renovation in 2006.

With a land value of $1.04m it sold this year for $1.37 million, meaning the home was bought for virtually nothing.

Again, finding such properties requires a lot of effort. But once you have identified some that might fit the bill, obtaining land valuations for them is not too hard.

In NSW, for example you can do it online at shop.lands.nsw.gov.au for $11.60 for any property you are not the owner of.

"All I am suggesting is when you are weighing up an investment property, consider the land value, consider the value of improvements and consider the construction costs," Hyde says. "And of course you still need to consider the location, future infrastructure plans, the vacancy rate of the area and the quality of tenant you can attract and the yield."

"Consider the construction costs"

PROPERTY FOCUS

With Lisa Montgomery*

With any cut in interest rates, borrowers should be thinking beyond just what a drop in repayments will deliver them. Consider things like how to capitalise further on this current rate cycle to pay more off the mortgage, saving interest and paying the loan out earlier.

A simple strategy – tried and tested – is keeping repayments at their current level. With a variable loan this will allow you to pay more principal off, giving you financial breathing space for whatever lies ahead, on the economic front and personally. A compounding effect can be achieved by combining the strategy of keeping your repayments the same, with changing the repayment schedule to fortnightly instead of monthly.

You will make an extra payment over the year, which will save you more interest and reduce the term of your loan even further.

This "financial facelift" can be performed within the features of most variable loans; it's just a matter of speaking to your lender about whether these options are available.

The relationship with your lender is very important. As part of the service with a loan package, you should be able to ask questions to enable you to confidently move forward.

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