BRAND NEW BENEFITS

While older properties might offer investors great opportunities to add value, the investment potential of new properties should not be ignored, writes Kate Miller

New jeans. New shoes. Brand new crisp sheets. There's no better feeling than something brand new. And the same, most certainly, has to be said for real estate.

Plush carpet, freshly painted walls, the latest in architectural design – a new house or apartment is to many home buyers quite simply the bees' knees of property.

But new real estate offers more than just that brand new sensation. It offers very alluring investment opportunities.

Certainly, some investors and property gurus will tell you until they're blue in the face that older properties are the best investments, but there are just as many on the other side of the fence barracking for new properties.

In truth, there is no best class of property and any property selection will depend on an investor's own investment strategy, goals and financial position.

But certainly, new property should by no means be disregarded; there are some very real advantages of buying firsthand.

THE QUEST FOR CASH FLOW

The biggest advantage new property boasts is its ability to really fortify investors' cash flow position.

From good rental returns to attractive tax benefits, there are more than a few ways in which new property can really boost an investor's cash position – the most obvious being that new property is generally, by definition, in good nick.

NO MAINTENANCE, NO WORRIES

"New property has traditionally meant that very little maintenance is required, whereas with old properties, you always run the risk of things breaking down or needing repairs," says Helen Collier-Kogtevs, director of Real Wealth Australia.

Low maintenance means not only less headaches but also less pressure on your hip pocket. Leaky pipes, rattling windows or a roof that needs replacing can easily leave an investor's cash position scarily strained.

Moreover, if you're already stretching yourself thin, a sudden maintenance issue can leave you high and dry. And as an investor, being able to forecast your holding costs can make all the difference between success and ruin.

Of course, some new properties can have teething problems, but generally speaking they are much less likely to need as much cash spent on them as those well into their 20s or 30s. Furthermore, a new property will usually offer a better designed residence, says Surat Basin Homes sales director Colin West.

"New houses are built to high regulatory standards as well as environmental considerations," he says.

Contemporary building standards should result in a property that has a warm, welcoming orientation and more cost effective running costs, Mr West adds.

And with new properties usually coming with warranties of several years, investors can feel safe in the knowledge that their first few years into their investment (usually the most challenging) should most likely be free of major expenses.

WHY BUY NEW?

- Low maintenance
- Low running costs
- The latest building standards
- Strong rental demand
- Good rental returns
- Attractive tax depreciation benefits

TENANT MAGNET, RENTAL ROYALTY

Investing in a new property virtually guarantees a tenant for a very simple reason – new properties attract tenants like honey to a bee. Who can resist that brand new feeling?

"There is something special about living in a new home," says Mr West.

"It's hard to put a dollar value on it but if a potential tenant is comparing a brand new property to an older property at a similar price, I would think nine times out of 10, they would choose the new property."

Certainly, that 'brand new feeling' is a large part of what attracts tenants to new property. But there's also the fact that they encompass contemporary design and all the mod cons we associate with modern day life.

Heating and cooling are big factors for many tenants as are dishwashers, open plan living, built-ins and ensuites.

A new property will also almost always deliver better rental income than an older counterpart, according to Gino Romeo of Richardson & Wrench in Sydney's Circular Quay.

"People are willing to pay a little bit more for something newer," he says.

"It might mean a difference of $20 to $30 extra rent a week," adds Lynda Briggs, First National Ellenbrook principal.

But with just $30 a week adding up to a nice little sum of $1,500 a year, that's easy money that can go a long way towards managing investors' costs – or reducing debt and building equity.

And finally, with a new property increasing your chances of attracting a greater pool of tenants and achieving a higher rental price tag as well as the ability to pick and choose tenants, you'll be much less likely to attract problem renters – every investor's nightmare.

"If you buy a new home or near new home, you are more likely to have a good quality tenant renting from you," says Gaylene Koberg, sales consultant and auctioneer with PRDnationwide Yeppoon in Queensland.

SELECTING A REPUTABLE DEVELOPER

When it comes to selecting a new property, take care to ensure you're buying a quality product from a reputable developer or builder. Find out about previous developments they've done and go and check them out. Also, ask to speak to at least a handful of previous clients for firsthand testimonials. Lastly, do some background checks via the internet, with ASIC and building associations such as HIA and Master Builders a good place to start.

TAX BENEFITS

If $1,500 extra rental income a year sounds alright, you ain't seen nothing yet. The taxation benefits of new property is where this investment strategy really comes alive.

Buying new property helps investors significantly with their cash flow because of the greater tax depreciation benefits it offers.

"Tax depreciation benefits are at their greatest when the property is brand new, which maximises your available tax deductions and means a significant boost to your cash flow position," explains Tyron Hyde, director of Washington Brown quantity surveyors.

Mr Hyde says one of his clients, who purchased a brand new unit in Melbourne for $440,000, claimed a very decent $12,000 in depreciation in the first year.

"Investors can claim 2.5 per cent depreciation allowance for the construction costs, plus you'll be entitled to claim the full amount of depreciation allowance on plant and equipment items such as blinds, ovens, carpets, air conditioners and so on, which will all be brand new."

A dollar today is worth more than a dollar tomorrow, so deduct items as quickly as possible, says Mr Hyde. Moreover, furnishing your property can be a great way to maximise your depreciation, he says – but keep the price thresholds in mind when selecting items.

"Individual items under $300 can be written off immediately. A microwave, for example, bought for $330 depreciates at 37.5 per cent, but at $295 it's 100 per cent."

"Items between $300 and $1,000 fall into the 'Low Pool Category' and attract a higher depreciation rate. So for instance, a $1,200 television attracts a 20 per cent deduction while a $950 television deducts at 37.5 per cent per annum."

Investors who want to make the most of the tax depreciation benefits open to them should enlist a quantity surveyor to draw up a depreciation schedule for them.

SELECTING YOUR PROPERTY

When it comes to selecting a new property, investors should keep in mind that the likely tenant should really dictate the type of property they buy and the features they should look for.

"Suit your property to the suburb," advises Ms Collier-Kogtevs. "What do the local tenants want?"

In other words, investors need to do their full due diligence to ensure they understand the local market, who the residents are and what they expect from a property.

As for particular features, Ms Collier-Kogtevs suggests speaking to at least half a dozen property managers in the area.

"Does a rainwater tank make a difference? Will it help me rent the property quicker? Do people want one bedroom or two or three? Do they want off-street parking? These are the sorts of questions you need to ask."

Moreover, investors should be careful not to overcapitalise on features which are attractive but will not add to their rental return. On the other hand investors should generally avoid going for anything too cheap and nasty. A careful balance is the best approach. >>

NEW BUILD BONUSES

By buying new property you may also find you are eligible for certain concessions, such as the new **$10,000 Building Boost** which is operating in Queensland until the end of January 2012. Eligible investors can put the grant towards **properties worth up to $600,000.**

A similar initiative has been in operation in the Northern Territory – **BuildBonus** – since May this year, offering home buyers and investors **$10,000 in grants for properties up to $530,000**. This scheme is due to wind up on 31 December 2011.

SNAPSHOT

GENERAL

- Great tax depreciation benefits
- Low maintenance and running costs
- Good rental returns

KITCHEN

- Appliances with latest technology
- State of the art design
- Highly sought after by tenants

THROUGHOUT

- New carpets and flooring
- Fire and safety compliant
- Freshly painted

"Some investors make the mistake of cutting corners but sometimes spending an extra $5,000 will make a big difference," says Ms Briggs.

"Renters do like mod cons like heating and dishwashers," says PRDnationwide Tamworth property management supervisor Rachael Jenkins.

TREAD WITH CAUTION

As with any investment plan, there are aspects of buying new where investors need to take caution.

First of all, investors should consider what other new properties or developments are going up around them. Oversupply can be treacherous for rentability and a construction zone will certainly not be attractive to prospective tenants.

The body corporate fees and levies of new developments also need to be assessed with a fine tooth comb.

"Body corporate fees, such as an extra $5,000 or $8,000 a year, can really kill your cash flow," says Ms Collier-Kogtevs.

These can be greatest in high-rise developments but extra fees should be on the radar of any investor considering any multi-unit development.

It's also crucial to think about your future resale potential and who will want to buy your property one day down the track.

Ms Collier-Kogtevs warns against properties such as serviced apartments and retirement housing where potential buyers are limited to investors only.

And finally, do not be sucked in by rental guarantees. A rental guarantee is not always a scam, but often developers who offer a 12 month or two year rental guarantee, are making up for the cost in the price of the property, says Ms Collier-Kogtevs.

"If there's a rental guarantee, I'll usually ask if I can have the property without the guarantee at a reduced price."

CAPITAL GROWTH PROSPECTS

It is undoubtedly the short term cash flow advantages which really boost the appeal of a new investment property, but that isn't to say that new properties don't offer capital growth potential.

However, unless you're buying in a really hot market, new properties should be very much viewed as a long term investment.

"When you're buying a brand new property you're always buying it at a premium, so it's going to be a while before you get your money back," says Mr Romeo.

But as most investors already know, property is best viewed as a long term investment, with seven to 10 years the minimum period that they should be committing to a purchase.