

RealEstateNews

INFORMATION TO HELP YOU WHEN BUYING OR SELLING

Yield - Gross vs Net

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Issue 8



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Recent Sales & Rentals

What is the real rate of return?

Many would-be investors are caught out when they purchase an investment property.

The reason being is that the yield is simply miscalculated in many cases, leaving the new investor having to find additional finances in order to cover the mortgage repayments.

The stated return in an agent's advertisement may seem to stack up against current interest rates, but does it really? It all depends on what basis the yield is based on. The gross yield, or the net yield?

A quoted gross return of 6% (for example) can be whittled down to as little as 3% when expenses are factored in. Whilst the investor takes 6% pa, after expenses they are only keeping 3%, leaving an unexpected gap in between income and repayments.

Capital Growth or Income?

Research shows that the majority of residential real estate investors buy an investment property with "potential capital growth" being the main investment criteria. Income is largely overlooked with the main focus being on annual capital growth.

It is close to speculation when an asset is purchased and the income stream is overlooked in favour of a focus (hope) on potential capital growth. But this is what many investors do, without realising it. Speculating on capital growth coupled with a property love affair is one of the reasons that many economists have concerns about the Australian real estate market.

Yield often comes in behind capital growth for

investors. Importantly, the net yield is usually overlooked in favour of the often-quoted gross yield.

But if the net yield is strong, you will have a solid investment, one, which is almost certainly going to give you what all investors are chasing, capital growth.



Over the long term, capital growth is influenced by a strong net yield, not the other way around.

Capital growth is an investor's reward for owning the property over the longer term. The very best investments produce an income that covers all expenses, including mortgage repayments.

Real estate agents will almost always quote the gross yield as it pumps up the yield. As an investor, you need to focus on the net income that you will receive. The tenant is not going to pay those exorbitant strata fees and neither will the agent who sold you the property.

Gross Yield

Annual Income divided by Purchase Price x 100 =
Gross Yield %

Net Yield

Annual Income minus All Expenses divided by
Purchase Price x 100 = Net Yield %

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Letter from the Editor



Wow its June already! We are nearly half way through 2011.

This year so far has been challenging for the real estate sector. I would like to thank the many readers who continue to support us with very positive feedback on the articles we have provided in previous editions of Real Estate News. We will endeavour to continue providing you with interesting and informative articles in future editions.

A hot tip for winter. If you are thinking of selling, insist that your agent shows only qualified buyers through your home. When we mean qualified, we mean buyers who are ready to buy now, have the capacity to purchase at the asking price and who's requirements match the attributes of your home! You do not need herds of unqualified 'lookers' treading through with muddy feet at open inspections.

Until next time. Stay warm.

Best wishes,
Kevin Walter

Yield - Gross vs Net

(Continued)



What drives down the Gross Yield?

When investing in a property, it is imperative that you are aware of the costs that will erode your return. Some of these costs are obvious and some are easily overlooked.

Costs that need to be factored in up front include vacancy (allow for 2 vacant weeks p.a), agent's management and leasing fees, strata, water and council rates, property maintenance, land tax if applicable and landlord insurance. These are all expenses that you would not have if you did not own the property. Therefore, the income that you hold after these expenses have been paid is the real rate of return.

Taxation and negative gearing is another huge consideration for investors. Expenses can be offset against income, lessening the blow. However, the accountant Austin Donnelly summed it up best when he said, "You are better off sharing a profit with the tax department than keeping a loss to yourself."

The expenses that a landlord must cover can almost halve the income the property generates.

How does the investment look now? You can also apply this zero based thinking to your existing investment properties. Are you getting a good return on your equity?

Many people would get a superior return by selling the property and depositing the proceeds into an interest bearing bank account.

Investors moving out of property and into cash is also one of the reasons rental prices are likely to continue rising. Even though some investors are coming into the market, more investors are selling out, shrinking the overall rental pool. This comes at a time when demand is rising due to a housing shortage and population pressure.

In time, the rising rental market is what could dramatically improve the net yield of residential real estate, inspiring a new wave of investors in to the market. ■

Melrose Park

Suburb Snapshot

	2000	2005	2010
Median House Price	\$149,000	\$293,500	\$441,000
Median Unit Price	\$91,300	\$213,000	\$350,000
Highest House Price	\$215,000	\$408,000	\$590,000
Highest Unit Price	\$121,500	\$237,500	\$365,000
Number of House Sales	38	33	48
Number of Unit Sales	11	5	6

Source: RP Data

Preparing for Tax Time



With the end of financial year upon us, we thought it was timely to provide you with general information about how you could maximise your tax return. It is important that you take the time to carefully review your accounts and seek independent professional advice to assist you with preparing for tax time to avoid mistakes and costly fines.

- Lodgement of your individual tax return is open until 31st of October 2011. When using a professional accountant lodgement can occur later than this date, but seek confirmation from your professional accountant.
- If you compile your own tax return and want a faster way other than by mail/paper return, The Australian Taxation Office (ATO) has implemented a free electronic version called "E-tax". This software can reduce the time it takes to compile your return and enables most refunds to be issued in 14 days. The 2011 software download is available now and can be accessed at www.ato.gov.au
- The ATO have highlighted specific

deductions that people can claim for certain occupations. If you are unsure of what you can or cannot claim visit www.ato.gov.au for more information.

Property Investors:

The following is an overview of what can be claimed*. Remember, you need to have documentation to support all of your claims.

- **Advertising for a Tenant** - This is a claimable expense if you have incurred advertising costs.
- **Body Corporate Fees** - These are most commonly paid quarterly and covers the running costs of the building. It covers repairs, insurance, gardening, communal lighting, pest control, etc. This is a deductible expense.
- **Capital Works** - You may be able to claim a deduction for the construction costs of selected improvements. See: www.ato.com.au for more details.
- **Cleaning/Gardening** - This is deductible and includes internal and external cleaning. Owners who do the cleaning themselves can only claim the cost of materials, and not

their own labour.

- **Commissions and Management Fees** - Commissions and management fees are deductible and are usually charged as a percentage of the rent.
- **Depreciation** - This is essentially a deduction for the cost of furniture, fixtures and fittings based on the asset's effective life stipulation in the Depreciation Schedule. You can obtain a Depreciation Schedule from a suitably qualified person such as a quantity surveyor.
- **Insurance** - Insurance on building, contents, public liability and landlord insurance are deductible.
- **Interest** - Interest on a loan to purchase, build, improve or repair a property is deductible. The purpose of the loan must be income-producing purposes.
- **Legal Expenses** - These are generally incurred when a tenant defaults on rent and includes filing fees for the Small Claims Tribunal.

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The 18 Worst Mistakes made by homesellers

FREE

This booklet reveals 18 Worst Mistakes made by property sellers, any of which could cost thousands of dollars.

Selling your home can be a nightmare of frustration and disappointment. It can cost you thousands of dollars, either in selling too cheaply or in needless expenses. It need not be this way ... Selling your home should be a pleasant and rewarding experience. You should receive the highest possible price at the lowest possible cost. This booklet will help you avoid eighteen costly mistakes.

Available free of charge by calling (08) 8272 9277 or email sales@walterirvine.com.au

Preparing for Tax Time

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- **Office Supplies** - This includes stationery, rent books, postage and a percentage of computer costs can be deductible.
- **Pest Control** - This is a deductible expense.
- **Rates** - Rates, including council, water and sewerage are all deductible.
- **Repairs** - Repairs are deductible subject

to the following definition "Repairing" is work to make good or remedy defects in, damaged to or deterioration of the property. Any other repair, which improves the function or extends its life, may be considered an improvement rather than repair and is not an immediate deductible expense.

- **Travel** - Travel is deductible is used for the

collection of rent, repairs, inspections and preparing the property for new tenants.

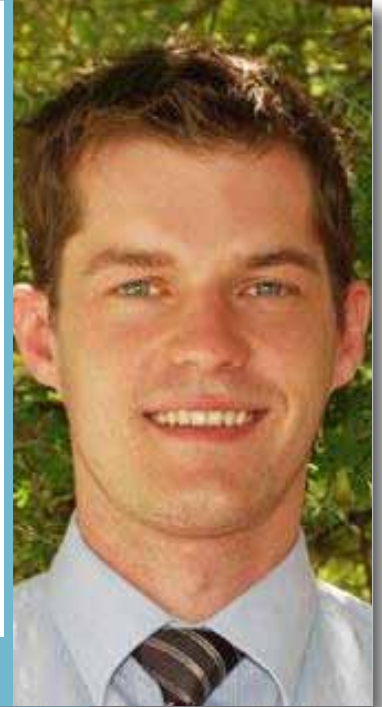
**This is a summary of important items that can be claimed and is not a full comprehensive list. All of this information has been provided as a guide only and you should seek professional advice about your personal circumstance/position before lodging any tax returns to the Australian Taxation Office.*

"I wanted to acknowledge how impressed both my wife and I are with the level of service we have received from Daniel. His professionalism and thorough approach are without doubt the best I have come across in the property management sector. We have a property in London and Sydney and would replace our existing agents if there was a clone of Daniel in those two cities"

Guy Sewell

Daniel impressed our clients so much they want him cloned!

We're so confident in his abilities, if you transfer your property to Walter & Irvine Property Management by 29th July, 2011 we will **GUARANTEE** your money back if after the end of the first three month period you are dissatisfied with his service.



 (08) 8172 1977 | rentals@walterirvine.com.au

SOME OF OUR RECENT SALES

Avenue Road, Clarence Gardens	\$452,500	Winston Avenue, Melrose Park	\$412,500
Angas Road, Hawthorn	\$730,000	Robsart Street, Parkside	\$466,232
Park Street, Kingswood	\$654,000	Quinlan Avenue, Pasadena	\$537,250

RENTAL UNITS

Clovelly Park, 3br	\$360 p.w.
Fullarton, 2br	\$330 p.w.
Plympton, 1br	\$230 p.w.

RENTAL HOUSES

Ascot Park, 3br	\$375 p.w.
Clapham, 4br	\$500 p.w.
Unley, 2br	\$360 p.w.

If you would like further free information on recent sales and rentals in your area please call us on (08) 8272 9277



Open 7 Days |  (08) 8272 9277 | www.walterirvine.com.au
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Registered Agent - RLA 64385