ANSA capital

THE 10 KEYS OF PROPERTY

A property investment *white paper*

Everyone dreams of building wealth, securing their future and having a comfortable retirement. It’s something we can all aspire to and achieve. There are several **“too good to be true”** stories of people quickly amassing huge fortunes and risky schemes promising to make you a millionaire in no time. However financial security can be achieved without taking big risks or falling for risky schemes.

The safest way to secure your future is to:

- do your research;
- make well-informed decisions;
- avoid unnecessary risk;
- have a clear medium to long term timeframe.

That is why property investment is so attractive. It can deliver the kind of income streams and stable growth thatform the foundations for building wealth.

THE 10 KEYS OF PROPERTY:

the reasons that make it such an effective form of investment.

1 YOU DON’T NEED TO BE RICH

It doesn’t take large sums of money to get involved in real estate. Almost anyone with a steady job can afford to buy an investment property. Banks are always willing to lend money at competitive rates to help people buy assets like houses. That makes it so much easier to get into property.

2 YOUR MONEY GOES FURTHER

Because investing in property usually involves a loan, it means your deposit can lead to far greater returns. Consider this simple comparison.

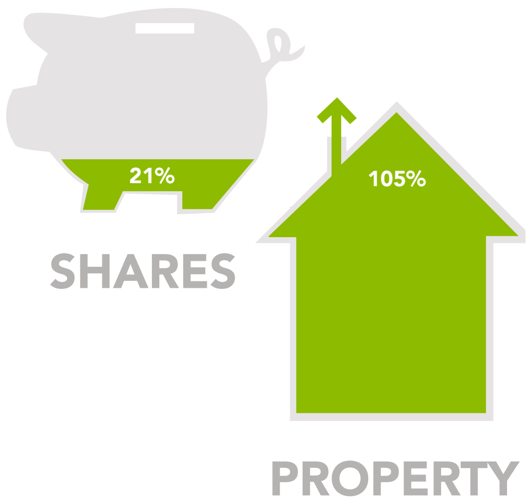
Peter and Mary both have $60,000 to invest. Peter decides to invest his $60,000 in shares. Mary uses her money as a deposit on a $300,000 property. Over the next two years both property and shares achieve an average return of 10% pa.

Peter has achieved a gross earnings of **$12,600** (with compounded returns): **21%** of his original $60,000 investment.

Mary has achieved a gross earning of **$63,000** (with compounded returns): **105%** of her original $60,000 investment.

Mary’s return is calculated on the “Total” value (including what the bank gives her). Her return on her actual “cash” is much greater.

It’s an oversimplified example, but it shows the big difference in potential returns.



Historically both achieve around 11% p.a since depression (1929)

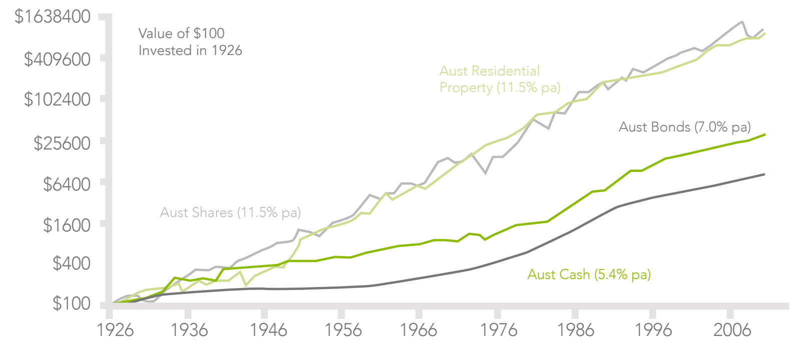
3 MORE STABLE RETURNS

The property vs shares debate is one that has raged long and hard. Over many decades they have delivered similar returns, as this chart shows.

However most of us aren't investing over an 80 year timeframe. A closer look at it shows much greater volatility in the price of shares: they've gone up and down much more than property. This was particularly the case during the recent GFC, as the following chart shows.

During the shorter 5 year timeframe before during and after the GFC, property delivered much more stable, less volatile returns.

TOTAL RETURN FROM HOUSING VERSUS OTHER ASSETS

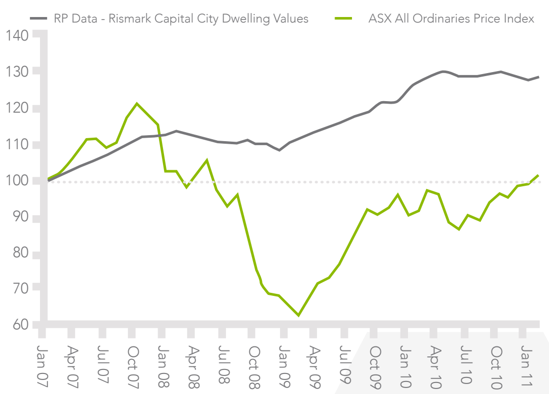


Source: ABS, REIA, Global Financial Data, AMP Capital Investors

With any investment there is always a risk that the value can go down, but compared to shares in recent years, that risk has been much lower for property.

It's why banks are much more willing to lend money to buy property than to buy shares (reflected in the lower interest rates for mortgages than other loans). They see it as a much lower risk, and they're the experts.

AUSTRALIAN HOUSING VS AUSTRALIAN SHARES BEFORE, DURING & AFTER GFC



4 INCOME THAT GROWS

Rental income on an investment property pays the majority of your mortgage for you. While interests rates may go up and down, the amount you owe on your property doesn't increase. Fortunately the same doesn't apply to rent. Typically increases in rental income have outpaced inflation. Statistics also show that home ownership in Australia is slowly decreasing: more and more people are seeking to rent homes. Investing in an area where demand for housing is high will ensure a strong balance of capital growth and rental yield for years to come.

5 GREATER CONTROL

Property gives you greater control over an investment. Unless you are a major shareholder in a company you don't get a say in how the company is run. With property you can increase rent, renovate and add value and make over time. You can't renovate a share to add value!

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6 MORE FORGIVING

Forgiveness is a great quality, especially in an investment! Property can be very forgiving. You can buy the worst property at the worst time, but if you're prepared to hold it over a number a years it will rise in value

7 A TANGIBLE ASSET

By investing in bricks and mortar you're investing in something real, not simply numbers on a computer. You're also helping people meet a fundamental need: housing. This is more than a feel good factor. If you invest in your local area you can check on your property regularly.

8 TAX BENEFITS

There are significant tax benefits to property investment. Interest costs, management fees and maintenance costs are all tax deductible. Property is one of the few assets that you can spend money on to increase your returns (like repainting, new carpets, renovating) and offset those costs against tax.

9 DEPRECIATION

This is unique to property as an investment. Although the value of your asset (your house and land) generally increases, because it's a physical asset you can claim depreciation in your tax return. This is especially the case for new property. A depreciation schedule from a reputable quantity surveyor will show you just how much.

10 ACCESS YOUR CASH

The advantage that shares traditionally held over property was their liquidity: if you need to access your money you can quickly sell shares. However with modern flexible mortgages (offset accounts, redraw facilities etc) you can quickly access the cash in your property without having to sell it. You can even extend loans to fund further property purchases and expand your portfolio.

THE 'WHAT, WHEN, HOW' OF BUILDING

Building an investment property, rather than buying one, is a lot simpler than most people think. However it's important to keep the following tips in mind when you are building an investment property.

WHERE TO BUILD

Look to build a property in an area with good projected population growth. This means demand will increase, and when demand increases so do property values.

HOT TIP #1 **Look at how much public and private money is being spent in an area: are road, transport, shopping centres and home improvement warehouses being developed?**

WHAT TO BUILD

It's important to maximise the value of your block of land. Building the right sort of property could increase your rental returns by 15-20%.

HOT TIP #2 **Get informed about housing trends: for example, more and more families are seeking multi-generation living so properties with two homes under one roof or with garden apartments can really improve your returns and future salability.**

HOW TO BUILD

Quality construction and the right fixtures and fittings will make all the difference to how much rent you'll earn. You don't want to over-capitalise with lavish features but cutting corners can cost you in the long run

HOT TIP #3 **Ensure that your fixtures and fittings all are good quality and low-maintenance. They'll withstand the 'rough and tumble' of the rental market and reduce your ongoing maintenance costs.**

SHOULD YOU BUILD

You need to know exactly how much your build will cost before you go ahead so you can make a fully informed decision about your potential returns.

HOT TIP #4 **Get a guaranteed fixed price up front from your builder that includes the cost of all fixtures and fittings (not just an "allowance" for fixtures) and includes all onsite and offsite costs.**

WHO TO BUILD WITH

This could be the most important decision of all, making the difference between a predictable and easy process or a nightmare of unforeseen time and expense.

HOT TIP #5 **Deal directly with the people designing and building your property. Are they a reputable firm? Are they committed to taking care of the whole process for you? Is absolutely every cost included in your tender document? Will your property be turn-key and ready for tenants to move in?**

WHEN TO EXIT

Although property is more forgiving than shares and you don't generally have a reliance on timing the market in the "short term", it's good to have a clear idea of how long you'll hold your investment property.

HOT TIP #6 **Get professional advice on the best time frame for holding your property to achieve the best tax benefits and capital growth.**

FIND OUT MORE ABOUT BUILDING AN INVESTMENT PROPERTY

To learn more about building an investment property contact ANSA Capital. We have over 20 years experience in designing and building investment homes.

We're here to answer any questions you have

WE BUILD HOMES, YOU BUILD YOUR FUTURE

Discover just how easy it is to secure your future by building an investment property.

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