

RealEstateNews

INFORMATION TO HELP YOU WHEN BUYING OR SELLING | June 2011 |

Yield - Gross vs Net

PETER O'MALLEY

In this Issue:



page 1

Yield - Gross vs Net

page 2

Letter from Editor

Yield - Gross vs Net
(continued)

Finding the Right Partner

page 3

Is There Anything Better Than Auction?

Finding the Right Agent

page 4

Property Management

Testimonial

Real Estate Career



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.

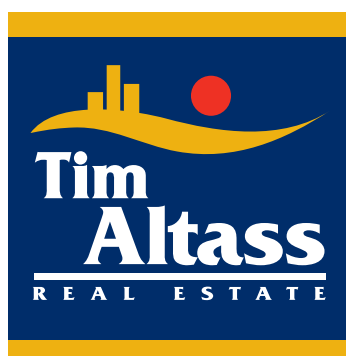
Capital Growth or Income?

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.

(Continues on page 2)



Open 7 Days  24 hours | www.timaltass.com.au

Bulimba	189 Oxford Street	3899 1265
Carina / Carindale	799 Old Cleveland Road	3843 0060
Morningside	664 Wynnum Road	3395 5955
Property Management	664 Wynnum Rd Morningside	3395 5002

LETTER FROM EDITOR

Well here we are, half way through the year already and what an interesting year it has been. Everywhere you look on the Real Estate front doom and gloom abounds. Are there any positives to be found?

The answer to that is a resounding Yes! If you are buying and selling in the same market then the only figure that matters is the change over cost. In fact if you are upgrading in the current market then now is probably the best time to be doing so in recent memory. However now more than ever you need to ensure that when you put your house on the market you will not be liable for any fees/charges whatsoever unless your property sells. Furthermore it should be the Agent you list with who is responsible for all costs associated with marketing your property as surely this is what you are paying the commission for.

We are currently helping lots of delighted Sellers move on with next stage of life. To find how to become one of the Lucky ones, contact the Tim Altass office in your area, you'll be glad you did.

Until next month
Tim Altass

Yield - Gross vs Net

(Continued from page 1)

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 %

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. ■

Finding the Right Partner is Good For Your Health



Is There Anything Better Than Auction?

GARY PITTARD

Is there any better way to sell than by auction? Many agents will say, "No!" but then again, they're trained to say that.

There can be no doubt that auctions often get a high price, but can they guarantee to get the highest price?

Buyers Agents represent purchasers, and not home sellers. A Buyers Agent assists purchasers to buy cheaply. This is what one Buyers Agent ** had to say about auctions:

"I attend many auctions and bid for properties on behalf of my clients. At the majority of the auctions where we were successful, we had 'money left on the table' – that is, we spent less than our authorised limits." **

**** Patrick Bright - Buyers Agent & Author of "The Insider's Guide to Saving Thousands at Auction"**

No negotiation expert favours allowing competing parties in a negotiation to hear what another party has offered, yet this is what auction does.

A better alternative to auction is to negotiate privately using the Buyers' Price Declaration.

Based upon an idea developed by economist the late William Vickery – one of several ideas that earned him the Nobel

Prize for Economics – this negotiation tool is demonstrably better than auction for sellers, buyers, and agents.

With the Buyers' Price Declaration, no competing party is privy to another party's offer.

This means that each buyer must offer his or her highest price without being influenced by what somebody else may have offered.

Ask your agent about negotiation with a Buyers' Price Declaration. If he or she still insists on auction, insist upon a price guarantee.

Hire a Specialist

If you follow this advice you will seek out a professional salesperson – a trained negotiator – who uses the Buyers' Price Declaration as a means to obtain the highest possible price for you.

You should understand, however, that few agents know this tool and understand how to use it.

This means that if you tell an 'auction specialist' (usually recognised by the fact that the salesperson 'pushes' auction to



you), that you do not want to auction and then force that person to handle your sale by Private Treaty, you will have working for you a salesperson that is out of his or her depth.

A Private Treaty specialist seldom does auctions. He or she is a specialist in negotiating high prices, face to face.

But just because your agent claims to be a Private Treaty specialist this does not automatically mean that he or she knows and uses the Buyers' Price Declaration.

Ask questions. Discover whether your preferred choice of agent understands the principles of negotiation and the Buyers' Price Declaration. ■

Finding the Right Agent is Good for Your Wealth

With a constantly changing market place, here are some key points to be cautious of when selecting your agent:

Caution Point 1: Proof of results in all markets (testimonials)

Caution Point 2: Money up front (no sale no charge)

Caution Point 3: Discounting your house (discounting agents)

Caution Point 4: Customer guarantee (in writing)

To find out more detail on the tips and tricks in real estate, contact us and we will provide and discuss a full checklist of the many things to consider, when placing one of your largest assets in an agent's care. **Call us today.**

Tim Altass Real Estate

Morningside: 3395 5955

Bulimba: 3899 1265

Carina/ Carindale: 3843 0060

Are you looking to lease your investment property?



The Property Management team at Tim Altass Real Estate currently have quality tenants waiting for the right property.

To find out if any of these prospective tenants suit your investment property contact ☎ 3395 5002
www.timaltass.com.au

Maximum return with Minimum of stress

- Best Market Rent
- High Quality Tenants
- Experienced property management team
- Regular monitoring of your investment
- Stress free management



Contact Tim Altass Real Estate to discuss what we can offer you in the management of your property.

☎ **3395 5002**



Tim Altass Real Estate is Jenman Approved and gave us “How to get the Highest Price” written by Real Estate Expert Neil Jenman and “Real Estate Mistakes”. These books did give us the knowledge on selling a property, including auction and how advertisement costs do not guarantee the highest price.

We are happy with the outcome and will not hesitate to recommend Tim Altass Real Estate.

Yours Faithfully
M Karuna



REAL ESTATE CAREER

\$110,000 secure salary and bonuses

- Our sales people enjoy the best in support, ethical training and teamwork. One team now sharing three eastern suburbs locations, all the enquiry and 2 days off per week.
- This is the way real estate should be - NO auctions, NO bait pricing, high salaries and bonuses and enough time off to enjoy a life outside of work.
- Having earned “Approved” accreditation from the Jenman Group we’re extremely busy.
- We’re looking for mature minded people with no real estate selling experience, who own their own home and have a proven history of stability.
- Qualifying period starts at \$77,000 and bonuses and 11 day fortnight roster.
- If you believe you can sell and would like an income over \$150,000 (this is the lowest income in our sales team) within 12 months - we’d like to hear from you.

Perhaps you too can join us for many years.

Please email your resume including a letter of introduction to: mary@timaltass.com.au

Tim Altass Real Estate | Morningside, Bulimba & Carina

Open 7 Days ☎ 24 hours | www.timaltass.com.au

Bulimba	189 Oxford Street	3899 1265
Carina / Carindale	799 Old Cleveland Road	3843 0060
Morningside	664 Wynnum Road	3395 5955
Property Management	664 Wynnum Rd Morningside	3395 5002

Disclaimer: It is not intended that the information and opinions in this newsletter be treated as advice professional or otherwise. Tim Altass and Tim Altass Real Estate do not accept any form of liability, be it contractual, tortious or otherwise, for the contents of this newsletter or for any consequences arising from its use or any reliance placed upon it. The information, opinions and advice contained in this newsletter are of a general nature only and may not be applicable or appropriate to your specific circumstances. As there are many pitfalls associated with buying and selling real estate it is important to get professional independent advice.

