TRILOGY news

"the property investor's mortgage broker"

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NAB'S NASTY SECRET IS A REMINDER - BE CAREFUL FROM WHOM YOU TAKE INVESTMENT ADVICE

National Australia Bank's spin-doctors went into overdrive in a bid to rectify significant damage done to the bank's pubic profile last week.

Making headlines for all the wrong reasons, top NAB executives have come under scrutiny as serious misconduct allegations were leveled at the organisation's on-staff financial planners, 37 of whom have been sacked.

NAB chief executive Andrew Thorburn will face tough questions before a Senate Economics Reference Committee (SERC) inquiry, following media reports that the bank tried to buy back favour with hundreds of disgruntled clients over the past five years.

It's alleged between $10 to $15million in compensation was paid to around 750 customers who received 'inappropriate advice' from some of the NAB's 1700 financial planners.

NAB employees have been provided with a list of questions and answers to be used when fielding the anticipated backlash from thousands of customers who've sought financial advice from the bank in recent times.

The internal email accompanying the Q & A document stated, "It's important to stress that one of the key findings of our report is that we don't have the systemic issues others in the advice industry have experienced, and more importantly, when we do find a problem we will fix it for our customers."

Is it all a bit too little too late?

As SERC Chairman and Labor Senator Sam Dastyari pointed out, a major issue has been the bank's apparent reluctance to address ongoing questions around its internal financial planning dealings.

"The NAB have had a slogan of more give and less take – well we want to see them give a little more transparency around these issues," he said.

"There are too many unanswered questions from NAB and the Senate inquiry will be an opportunity for them to come clean and put their case out there.

Some of the misconduct accusations include instances of forgery and the doctoring of customer files.

A timely warning

This isn't the first time we've heard of shady dealings within Australia's poorly regulated financial planning landscape, and it most definitely won't be the last.

Of course this latest scandal encouraged further rhetoric from government officials around the need for tighter checks and balances throughout the sector. But many experts fear this is one runaway horse that can't be reined in.

As far as I'm concerned, when you seek investment advice from someone claiming to be an expert, you must first qualify them and understand how, why and what they suggest to be the right type of strategy, structure and asset class for your needs.

This is particularly true when it comes to property investment, with a notable growth in the number of 'advisors' selling product and raking in large profits, in the guise of providing independent and considered guidance.

All you need to do is look at the exponential growth in 'SMSF experts', aligned with frenzied off the plan apartment construction across our major cities, to see that real estate is big business right now and everyone wants a piece of the pie.

Here at Trilogy, we've heard of commissions being offered to financial advisors by large construction consortiums in the region of $30,000 to refer unsuspecting clients.

These glorified real estate agents are generally the only ones who profit from the 'advice' given however, with little or no thought to the actual financial needs of the people sitting on the other side of the desk.

How to recognise real advice

Remember, not all financial advisers are rogues and at some stage, it's likely you'll need the wise counsel of a professional who has a more intimate understanding of different investment vehicles than you possess.

But it's advisable that you approach with care and do your homework before handing over any money or making a contractual commitment that might be more beneficial for them than you.

To help you out, here are six questions you should ask to qualify a financial planning expert:

1. Do you get paid a commission and if so, from whom?
2. What are your qualifications and how long have you been in the industry?
3. Can you please provide me with referrals from past clients?
4. Do you sell any products and if so, why and what are they?
5. Are you aligned with any companies or organisations that profit from the investments you suggest?
6. Do you have your own successful investment portfolio?

Finally, only put your trust in the advisor who bases the information they give you on a careful analysis of your personal circumstances, objectives and needs.

If they're trying to sell you something without even understanding what it is you require, run in the opposite direction! I'm sure a few NAB customers are wishingthey'd done so right about now.

OFF THE PLAN INVESTMENTS – WHY YOU MIGHT END UP PAYING MORE FOR LESS

Despite warnings from numerous off the plan naysayers, it seems beginners looking for a cheaper entry point into tightly held inner city precincts, are succumbing to clever marketing campaigns and seriously questionable investment 'advice'.

The number of so called financial and SMSF 'experts' pedaling new apartment stock to clients, who are none the wiser that a hefty commission is being paid for their referred business, has grown exponentially alongside the current high rise apartment boom.

These 'advisers' push 'benefits' like stamp duty savings, depreciation and low deposit requirements, making these developments seem too good to refuse.

A recently released report from Oliver Hume Real Estate Group, exploring greater Melbourne's off the plan apartment market, shows approvals for multi unit dwellings are currently at record high levels.

In fact almost half (46 per cent) of all new building approvals across 2014 were for apartments in high rise complexes, with more than 20,000 units released last year (8,800 in the CBD specifically).

Honey, I shrunk the apartment!

Even more concerning, are findings that indicate these already compact, one and two bedroom apartments are apparently getting smaller.

The report revealed that the average size of a one-bedroom apartment fell from 47 square metres to 44 square metres in the final quarter of 2014. While two bed dwellings in these vertical monoliths have been reduced to an average 59 square metres, from a slightly more generous 62 square metres.

This 'Honey I shrunk the apartment' phenomena has been getting worse for a while, as money hungry developers look at ways to increase their bottom line and cash in on current heated levels of local and foreign investment activity.

Just over two years ago, the average size of a one-bedroom unit in Melbourne peaked at 55 square metres, while the average two-bed apartment was over 70 square metres.

What's most alarming about this glut of downsizing stock crammed into generic mega-towers is that even as the square footage decreases, the prices increase. Someone has to pay for those costly commissions after all!

According to Oliver Hume's report, entry prices for Melbourne's one and two bedroom apartments are $365,000 and $489,000 respectively, representing a 1 per cent increase across 2014.

And if that isn't enough to have you running for the hills when someone suggests you should purchase a teeny off the plan dwelling, then perhaps leaked draft guidelines prepared by the Office of the Victorian Government Architect, mandating that no apartment be less than 37 square metres will give you cause for pause.

Is that even big enough to swing a cat? (Please be assured that I do not condone cruelty to animals on any level, it's just a saying!)

Essentially, unsuspecting investment newbies are being sold assets that will cause them massive headaches, even before they have to compete with the thousands of other landlords in neighbouring buildings, desperately seeking a tenant for their money pit – sorry apartment.

But wait, it gets worse!

As if shrinking floorplans and rising prices weren't bad enough, reports from last September indicate that apartment values across Melbourne and Sydney are falling by up to 20 per cent from the time of purchase to settlement.

In other words, misinformed purchasers are paying up to 20 per cent too much to own an investment that's losing equity straight off the bat.

It's estimated that almost 44 per cent of all apartments currently coming on line across our most populous cities, are below sale price at completion.

This is hardly surprising when, like I said earlier, you consider that these properties come with sizeable developer margins to compensate for those generous commissions and glossy marketing brochures.

Experts (those not in the pocket of off the plan developers) warn it can take between six to ten years for your apartment to realise the same value as what you paid initially. Not the greatest addition to a portfolio is it?

No favours with the banks

The way things are going, you have to wonder whether there'll come a time when lenders will simply refuse to finance the acquisition of these new breed of off the plan apartments.

Risk adverse banks already find them problematic and they're only going to become a less attractive form of mortgage security, as they get smaller.

Banks already see high-rise complexes as unappealing prospects, so much so that they'll outright refuse finance to a purchaser if they already have a high level of exposure in the one building.

In other words, if you happen to bank with a particular institution and approach them for an off the plan loan, they could easily say no, based on already having funded too many other apartments within the same complex.

Then of course there's the question of what happens if the lender's valuation comes in under the purchase price? Not an unlikely scenario and one that would leave you up the proverbial creek with nary a paddle in sight!

And now as the size of the asset shrinks, I'm afraid so too will the inclination of Australia's top tier lenders to hand out any money at all for these properties.

Builder blues

A further risk with OTP investments is that the builder might simply fail to complete construction and you'll potentially have no legal recourse to get your deposit back, let alone receive any compensation for your troubles.

If the banks start to get cold feet and more of these transactions simply fail to be completed, this is a very real possibility. Large national construction companies rely on funding from off the plan sales to construct the building, but if the banks won't pay you and you can't pay them, what are the ramifications?

It will be interesting to see where this latest off the plan apartment boom leads some of our major city property markets across the next few years.

Perhaps after falling out of love with the wide-open spaces of suburbia, we'll start to embrace the idea of downsizing more readily as a nation?

Somehow though, I don't know that we're quite ready to be crammed into high-rise residential towers like sardines. Food for thought, yes?

IS A GRANNY FLAT INVESTMENT FOR YOU? (THE MUCH ANTICIPATED SEQUEL!)

In the last Trilogy Report, we considered the rising popularity of granny flats as an affordable accommodation alternative, across the tightly constrained New South Wales housing market.

It's not just mums and dads looking to give their kids a foot in the proverbial property door, or house their own ageing parents, that these self-contained units are finding favour with either.

As manager of Sydney based company Ian Cubitt's Granny Flats and Studios, Mark Moumdjian explains, a growing tide of investors are being lured onto the granny flat bandwagon by significant returns in the region of 15 per cent plus.

In this follow up article, we talk to Mark about the process of acquiring your own granny flat investment and get some insider tips on how to profit from what can be a veritable goldmine, right in your own backyard!

The new black

Once considered a building for Nan and Pop to grow old gracefully in, granny flats have gained a lot of partiality with Sydney property investors in recent times.

Punters considering ways to shore up cashflow and profit from the current heated market conditions, without breaking the bank, are finding it hard to ignore how cost effective these rental cash cows can be in growing and supporting their asset base.

Representing the largest granny flat construction company in NSW, Mark says demand for their product has grown by at least 200 per cent over the last three years alone.

"Before legislation changed in August 2009, we were only able to build in certain areas," explains Mark. "In Parramatta, Fairfield and Liverpool."

"But now we can build everywhere, and more people are becoming aware of the potential returns you can make from granny flats."

Mark knows of the financial benefits investors can achieve with granny flats firsthand, after recently acquiring one in the Sutherland Shire.

For an outlay of $110,000, his investment is earning $435 per week in rental income; an impressive gross yield of 20.5 per cent per annum.

Given that these dwellings are well and truly cashflow positive, granny flats could be seen as a viable alternative to ensuring the long-term sustainability of your asset base.

Not only can you use the profit it generates to pay down the mortgage on your new granny flat within five to seven years, but on other investments within your portfolio as well.

"We hold seminars every eight weeks and invite the general public to come and listen to a free 25 minute presentation on the process and costs involved in buying a granny flat," says Mark.

"At the start I always ask, 'who is here as an investor?' In the last seminar I ran two weeks ago, 90 per cent of attendees were investors, out of a room of fifty people."

What's the approval process?

According to Mark, there are two ways of obtaining approval for a granny flat in NSW.

Complying development was introduced with revised 2009 legislation, and allows for a private certifier or council to grant approval within 20 days, whereas standard development approval involves the traditional approach to council and can take between 3 to 6 months.

The first, and obviously more appealing route, generally applies to normal residential allotments that comply with legislative requirements.

Mark says while most suburban blocks in Sydney meet the minimum 450 square metre size constraint and all other legal parameters within that 20-day approval timeframe, there are a few instances where the rules change.

"You might be in a high fire or high flood risk zone for example and will have to go through local council for standard development approval," notes Mark. "Which means waiting that bit longer."

For this reason, he advises anyone considering a granny flat investment to arrange a feasibility study before purchasing a potential property, or signing any contracts.

The report should highlight applicable council fees and any foreseeable issues, like sewer mains that could impact site location or mean extra costs to encase the infrastructure in protective concrete, if the only option is to build on top.

Then what?

Once you're confident that a granny flat investment is right for you, Mark says it's a case of signing contracts, drawing up plans and obtaining approval – a process they allow 35 days to complete, before commencing construction.

"We allow 16 weeks for the build all up to account for things like weather interruptions," says Mark. "But generally our turn around time is eight weeks."

This short timespan between approval and delivery of a cost effective turnkey product, ready for paying tenants, is another reason a growing number of investors find granny flats so appealing.

"For around $115,000 on average, you'll get a two or three bedroom, 60 metre square granny flat," says Mark.

"The return on your investment across say Western Sydney, in areas like Blacktown, Liverpool and Penrith, will be about $350 per week. As you go into more exclusive neighbourhoods though, those yields can rise substantially.

"One of our clients who built a two bed granny flat in Parramatta with us, currently rents it out for $550 per week."

In other words, granny flats are one of the few residential property investments where you'll pay the same amount to own it regardless of location, but have the potential to rake in stronger yields in more tightly held postcodes.

Mark warns however, lenders won't finance pre-fabricated granny flats that are craned onto site as completed units, as this isn't considered a fixed asset.

He says the most popular structures are fabricated using internal gyprock walls, with external frame and vinyl cladding. Pricing includes fittings and fixtures such as floating timber floors, tiles to all wet areas and aluminium window and doorframes.

The simplicity of construction means holding and maintenance costs for your granny flat will be minimal, while you enjoy maximum cashflow benefit from the rent it generates.

"This is a very feasible option for those who want an investment that will easily pay for itself within seven years, before providing a fantastic gross income every week," says Mark.

He adds, "Don't try to build the opera house in your garden, because it won't make much difference to the rent you can ask. Just do your research, spend a reasonable amount and you'll achieve very reasonable returns."

Case studies (supplied by Ian Cubitt's Granny Flats & Studios)

1. Tania's house in Blackett was valued at $285,000. After paying $124,740 to have a granny flat constructed on the block, a second valuation on the improved asset six months later came in at $525,000. The total rental value she now realises for the house and flat is $630 per week.
2. Noal's Mt Pritchard property was valued at $540,000. He paid $101,909 for the addition of a granny flat in the backyard and the improved capital value came in at $730,000 six months later. Noal's house and granny flat generate a combined $820 in weekly rental income.
3. Sam's dwelling in Marayong was worth $390,000 before he spent $95,298 having a granny flat erected on the block. Six months later the improved asset value was $650,000 and he was earning $700 per week in rent from both investments.

Of course the most important consideration when determining if any specific type of property will see you realise financial success, is whether it aligns with your overall goals and investment strategy.

As with everything, you need to weigh up the potential of a granny flat addition to your property portfolio based on some serious number crunching and soul searching. But it is hard to argue with those double-digit yields!

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13 WAYS TO TEACH YOUR CHILD ABOUT MANAGING MONEY IN THE 'REAL WORLD'

Education around effective money management is sadly lacking in Australian school curriculums. So it's up to us as parents to pass on our own personal life lessons learnt from both good and bad experience and the mistakes we make along the way.

By doing so, you stand to make those major life transitions for your child a lot smoother; from tiny people to responsible teens and finally, successful and self sufficient adults in their own right.

Culturally, we seem to have some strange ideas around keeping our financial affairs a secret from the rest of the world, including our kids.

But 'sharing is caring', as they say, and when it comes to teaching fiscal aptitude, the best approach is one of honest participation in the daily mechanics of the household budget.

Too many of us think our children shouldn't be exposed to the potential stress of 'balancing the books'. But sheltering them from reality gives them a false perception of how the world works.

Here are 13 ways to teach your child about better money management in the 'real world', and set them on a path of affective planning and goal setting to realise their own wealth success and develop a healthy relationship with their wallet.

1. Be a role model

Show your child how you budget, calculate the weekly grocery bill and importantly, save a little out of each pay packet. Take them to the bank and explain what you're doing and why, when depositing a portion of your wage into a savings account.

2. Encourage participation

Ask them to help add up how much you're spending at the supermarket and discuss what it means to save money by purchasing bulk items or discounted products.

Make the experience fun for older kids by giving them a calculator to check whether you're trolley tally falls within the weekly budget.

This exercise demonstrates the importance of planning and will also give them a greater appreciation for the value of the food you put on the table each day.

Revise the household's income and expenses in your children's presence, discussing how turning off the lights and saving electricity is not just good for your bottom line, but the planet too!

3. Give them pocket money

As adults, you work out that money doesn't just fall into your lap. The concept of trading a skill, product or physical labour for payment is one that all children would do well to understand from a young age.

Pay your child an allowance so they can start working to their own personal budgets, rewarding their efforts in completing allocated household chores. They'll soon learn that money can buy things we desire, but first you have to earn it.

4. Give them something to save money in

A piggy bank is ideal for younger children, while glass jars that allow them to easily measure progress and portion their money according to their own budget plan are very effective visual aids.

When they get their first visit from the tooth fairy, or $20 note in a birthday card from Aunt Gladys, take them to open up their very own savings account, just like mum and dad.

5. Make it fun and rewarding

The last thing you want to do is relay a feeling of dread every time the subject of money comes up for your child. So it's important to keep this learning process as light as you possibly can.

Think games like Monopoly that impart the wisdom of using money wisely, without stern lectures. Accentuate the positives and encourage exploration of the technology they're so at home with, like the Internet and mobile apps, to learn more about financial literacy.

6. Teach them how to set goals and budget

Goal setting is a critical life skill that most people seem to fail dismally at. Set your child on the best possible path by showing them how to establish clearly defined objectives and then work towards achieving them, measuring success along the way.

Demonstrate how to apportion money they earn toward relevant, pre-determined purchases.

For instance, they might choose to give 10 per cent to charity, invest 20 per cent in a savings account, put 30 per cent aside for that 'dream toy' they desperately want and spend the other 40 per cent on clothes.

7. Don't be tempted to come to the rescue

We've all been there. You're standing at the checkout and your child spies those tempting treats and starts begging, 'Can I have one? Pleeeeaaasssse!'

Sometimes we feel it's easier to give in to their demands just to keep the peace. But you're actually creating a rod for your own back and lots of entitlement issues in the long run.

Would your boss give you a pay rise if you whined a lot?

Successful money management is about making choices and learning the consequences of those choices, so you make more good ones, more frequently.

8. Help them keep a financial journal.

Make it a habit to write down the details of how much they earn, how much they save and how much they spend in a financial journal of their own.

Too many people fall into bad spending habits by completely losing track of where their money goes on a daily basis. This spells disaster and encourages frivolous purchases.

9. Enforce consistent savings habits.

I cannot stress this enough – open a bank account in your child's name and take them into the branch every time they earn money, apportioning some to their savings account!

10. Give them more responsibility.

Obviously this one applies more to older children. But it's important for them to realise at a certain stage that life's practicalities – like food, shelter and clothing, won't always be paid for by mum and dad.

Allowing them to make some of these decisions for themselves will give them the opportunity to work out what they value too. With clothes for example, they'll soon learn that designer brands can be a costly fad to buy into (literally).

11. Promote good financial decisions.

Encourage them to have the drive and ambition to earn money and take responsibility for their income. Rather than having to drag them to the bank each week, you want them to feel compelled to save before spending, not the other way around.

12. Help them review and adjust their budget.

As your child gets older, make them a lot more accountable for their own personal budget and be there to help them review their money management every few months. This will demonstrate how to remain on a financially stable path through life, by staying on top of their finances at all times.

13. Wean them off the bank of mum and dad!

Let's face it; we all worry constantly about whether our child's needs are being adequately met. As such, we tend to over indulge when it comes to the stuff they want (because clever marketing campaigns convince them they must have it!).

Too many people place too much emphasis on material things, when what we could probably all do with more of is a big bear hug from the ones we love! Wean your child off your wallet and shower them with affection rather than stuff. I'm pretty sure they won't begrudge you for it!