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Global recovery

Woodside Petroleum, Australia's largest oil and gas producer, has just seen its share price drop substantially on the back of a block sale of part of Shell's stake in the company. Shell bought this stake for a takeover which was blocked by regulators. Shell now has capital commitments in other projects in Australia. The sale has zero impact on the operations or performance of Woodside.

Why buy this company? The oil price is likely to remain strong; there is strong earnings growth from new projects; Woodside has a strong growth pipeline and has had exploration success; and it might just be possible that a company such as BHP would seek to add Woodside to its massive energy operations.

Banking down but not out

Australian banks remain very healthy and sit comfortably against many of their global peers. Recent stress testing suggests that our big banks could withstand a significant deterioration in economic conditions in Australia.

ANZ stands out as being less reliant on local funding arrangements. Until we know how successful ANZ has been in Asia, the market will judge the company on its progress, rather than its results. Meanwhile Westpac enjoys the benefits of huge scale and a low cost structure. A tough year for a company of this kind is generally a pretty good year for others.

Finally, a diversified conglomerate: Wesfarmers has started to make significant inroads with its Coles business and is winning market share from Woolworths. The company has demonstrated over a long period of time that it can maximise returns from a diverse range of businesses.

IAN McLEAN

Ian McLean has had over 12 years' experience in the financial services sector, in mergers and acquisitions and group corporate strategy initiatives. Ian has been providing investment advice and Australian equities expertise to institutions and private investors since 1998. He has been with Commonwealth Bank since 2002.

A new nest

The empty nesters This couple has more spare cash now the kids have left home. They want to get into property investing and increase their net wealth by $50,000 in five years. Should they buy a rundown property and renovate it, look for a positively geared property or build a portfolio?

THE EMPTY NESTER COUPLE who want to get into property investment have various ways to increase their net worth by $50,000 over the five-year period. However, the strategy we like best is to buy, renovate and hold a property because it is not dependent on potentially volatile market conditions. Under this strategy it is even possible to increase your net worth by more than $50,000 in as little as two months. First, let's look at all their options.

1. Buy and hold:

The empty nester couple could focus their recent spare funds on developing a successful real estate portfolio. The couple need to select properties that are attractive to their targeted rental clientele. Key considerations are proximity to a large employment hub, entertainment areas and restaurants, as well as easy access to public transport, schools and hospitals.

The danger of this strategy is that it relies on market growth in order to achieve the $50,000 net worth increase, which is certainly possible in a bullish market such as Sydney was in 2009-10, but difficult to achieve within five years if the price growth is flatter, as it is expected to be in Sydney this year.

2. Buy, renovate and sell:

A buy, renovate and sell approach is one where the empty nesters would be looking to generate increased capital value in a property without having to rely on bullish market conditions. Here the couple need to look for a property that needs some improvements. These include adding off-street parking, updating bathrooms or the kitchen, or opening up the floor plan and using the available space better by removing walls.

Generally updating a bathroom gives you the best return for your money, with new kitchens and attractive outdoor areas also showing good returns. However, inexperienced renovators should be careful not to overcapitalise and to check the intended works will be approved by council or the body corporate if in a strata building.

HOW TO DO IT

Make $55,000 in less than eight weeks

I recently purchased for a client a one-bed apartment with Sydney harbour views for $515,000 which rented for $350pw. Our client invested about $50,000 in renovations, including project management fees, which took less than eight weeks.

The property valuation post-renovation was $620,000 and the rent was increased to $500pw. The interest on the $50,000 renovation spend at 7.5% was $3750pa.

- Total equity manufactured (after renovation costs): $55,000.
- Increased rental return: $150pw or $7800pa.
- Increased cash flow (increased rental return less interest costs): $77pw or $4050pa.

Note: The holding costs will depend on the purchase price of the property, rental return and current financial position of the couple. The level of tax deductions will also vary depending on their income level.

As a rule of thumb, to have maximum control over the increased property value it is best to undertake the renovations shortly after purchasing the property. By doing this, the property will be revalued and sold in similar market conditions to the one in which it was bought, and removes the chance that the added value would be affected by a market decline.

The empty nesters will then be able to reinvest with a larger or similar budget if so inclined and repeat the process to achieve the $50,000 target if it wasn't fully achieved from the first renovation project.

However, be careful with this strategy as if you sell within 12 months your capital gains tax bill will be twice as much as if you hold the property for more than 12 months.

3. Buy, renovate and hold:

A buy renovate and hold strategy is designed to increase the capital value of a property and give the option of borrowing against the increased equity created. In this case the property would be revalued after the renovation to determine the increased equity and then held as an investment property. Here, the empty nesters would also generate an improved rental return post-renovation.

As in scenario two, this approach is based on manufacturing capital value through renovation, rather than being solely reliant on market conditions. Another benefit of this strategy is that the empty nesters wouldn't pay the "out costs" such as capital gains tax, agent's fees and legal expenses which would be required when selling the property in scenario two.

Instead the couple could draw on the property's increased value and use that towards buying a second property. The couple then have the choice to sell the property and realise its capital growth at the height of a property cycle, or keep the rental income.

These strategies can be used in any market, however my advice is for property investors to stick to metropolitan areas. Capital cities have a large and varied employment base which means that they are not reliant on a handful of industries to be sustainable. The result is an ongoing supply of suitable tenants for a well-selected investment property.

If you are undertaking a renovation strategy, decide whether to manage the works yourself or appoint a project manager.

Out of the choices available, I recommend the buy, renovate and hold strategy for the empty nester couple as it gives them the ability to generate increased wealth without relying solely on market conditions.

In addition, they are able to use the increased equity in the renovated property to make additional investments without paying the costs associated with selling while also increasing their rental return.

If the empty nesters wanted to get really serious about increasing their wealth for retirement they could downsize now and use the leftover funds to invest in additional properties.

PATRICK BRIGHT

Patrick Bright is a real estate author and Sydney-based buyer's agent who has purchased over $500 million worth of real estate for clients. His best-selling titles include *The Insider's Guide to Buying Real Estate, The Insider's Guide to Saving Thousands at Auction* and *The Insider's Guide to Profitable Property Investing*. For more information visit www.epspropertysearch.com.au.

Retire on a high

The pre-retirees The aim of the couple who are near retirement is to increase their super by $50,000 in five years. What are the strategies to get them there? They have $350,000 in super (his $200,000, hers $150,000). She earns $50,000 a year and he earns $80,000.

IT IS ACTUALLY VERY EASY TO increase your super by $50,000 in five years, given the tax benefits afforded to pre-retirees. Actually you can achieve this within two years. But if you want to continue your strategy for the full five years, you could more than double the amount, without having to live like a hermit. In fact, if we establish a transition to retirement income stream, or TRIS, for each member of the couple, over five years their super would be $156,222 better off.

Unfortunately, the vast majority of those people for whom the TRIS is appropriate have not employed it, possibly because they don't understand it or know how to set it up. But I have seen very few people for whom this strategy does not have an immediate benefit.

Put simply, the TRIS is like salary sacrificing but with the added benefits of accessing funds inside superannuation. So how does it work?

Salary sacrifice is where you can put up to $50,000 of your salary (for over 50s, or $25,000 for under 50s) into superannuation and pay just 15% tax instead of your normal marginal rates.

The tax savings go towards your retirement benefit. You can't access your tax savings until you reach a condition of release which includes: retirement over age 55, age 65, transition to retirement, financial hardship, disablement etc. Effectively, your funds are locked up until you fully retire.

A transition to retirement income stream (TRIS) is a condition of release that allows a person aged 55 to 64 to draw between 4% and 10% of their superannuation account balance each year to subsidise their living costs while attempting to maximise their concessional contributions (15% tax) to super, thus reducing their normal income tax and increasing their