

VIEWPOINT

property

Pam Walkley

Be alert & alarmed

Generally guarantees are a good thing – but not always



INVESTMENT PROPERTY OFFERED with rental guarantees should set the alarm bells ringing. "If you see a rental guarantee, run in the other direction," is what buyer's agent Patrick Bright tells his clients. Why? Because property developers and marketers routinely use rental guarantees to jack up the asking price, says Bright, a principal of EPS Property Search.

It works like this. You are interested in investing in a property in a certain area where a 5% gross rental return is the norm, meaning that a unit that rents for \$500 a week is worth about \$500,000.

But a marketer offering a rental guarantee on that same property of \$550 a week for a year can artificially raise the value to about \$550,000. You pay the \$550,000, in reality paying \$50,000 above the true market level.

It costs the marketer only \$2500 to hon-

who has published two books on real estate. "I would seriously question the validity of the price and rental of any that are offered with guarantees."

Indeed you may not even get the guaranteed rental because the company backing it is a "\$2 company" and when you try to claim on it you get nothing, warns Bright.

Trust in homes

The first Australian residential real estate investment trust (REIT) is being put together by Westpac. REITs, which invest in houses and apartments, are big business in the US but have not got off the ground in Australia. This is despite the fact that much of our commercial property is held by property trusts and funds.

To kick-start its REIT, Westpac has bought a \$100 million parcel of homes from the federal government's Defence Housing

"A well-positioned property does not need a rental guarantee"

our the guarantee for a year and so he or she is \$47,500 ahead. Even if it's a two-year deal they are still \$45,000 in front.

At the end of the guarantee period you are on your own. If the rental market has improved, you may still be able to get the \$550 a week. But even then your property will still be worth only what you paid for it. You will not have benefited from the market uplift because you overpaid.

If the market has stagnated or weakened, you may not even achieve rental of \$500 a week and the value of your investment will be going backwards.

"A well-positioned property does not need a rental guarantee," says Bright,

Authority. It comprises 178 houses, about half in Sydney and the rest in south-east Queensland and the ACT. The houses will be leased back to DHA for nine to 12 years.

Westpac is negotiating to buy about \$300 million of additional properties from the DHA and plans to take its new trust to the market within three months. It is aiming for a total return of 9% to 10% a year over the long term. It has not yet decided whether it will be a listed property trust.

"Residential REITs are a well-developed asset class in the US and we believe such an offer will be well received by Australian investors," said Sean McElduff, Westpac Specialised Capital Group general manager.

Property focus



Where: Surry Hills, NSW

Price Range: Houses \$450,000 to \$1.65 million, units \$139,950 to \$1.4 million¹.

Rental value: Houses \$330 to \$1200pw, units \$130 to \$1500pw¹.
¹Source: www.realestate.com.au

Surry Hills is on the fringe of the Sydney CBD – many residents walk to their city jobs. It is a colourful and diverse suburb of art galleries, antique dealers, cafes, pubs and fashion outlets. Homes range from tiny 1800s terraces to some ultra-modern apartments in converted warehouses.

Well-known architects Francis-Jones Morehen Thorp have been appointed to upgrade the suburb's community centre in Crown Street. The transformation will include a new library, neighbourhood centre and child-care facilities. Home Price Guide says the median price has climbed 7%, in the six months to the end of January, to sit at \$675,000.