

RealEstateNews

INFORMATION TO HELP YOU WHEN BUYING OR SELLING | Issue 9 |

Yield - Gross vs Net

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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.

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Yield - Gross vs Net

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LETTER FROM EDITOR



To auction or not to auction. That is often the question that sellers contemplate. Maybe, more accurately, the question should be – to sell or not to sell, or even – to get the highest price or not to get the highest price?

As agents, it is our responsibility to offer our clients, the sellers, the best advice possible, based on the facts available to us and our experience in the industry.

Fact 1: over the past three months, the sale by auction of a prominent local agent has been 4 out of 14 properties offered. Obviously that has left 10 sellers with the result of no sale.

Fact 2: getting the best price requires exceptional negotiation skills and an understanding of both the seller's and the buyer's requirements.

It is no secret in the industry, that at an auction, the buyer is aiming to purchase a property at the lowest possible price. This means at times a buyer may simply out bid others by \$50 or \$1000 and successfully purchase the property.

But is this the highest price? In a private treaty negotiation, the buyer is unaware of the value of other offers and a good negotiator will be able to convince them to present their maximum offer to ensure securing the property. Then it's simply up to the seller as to whether they accept the offer.

We at Dignam Real Estate are happy to advise at any time.

Best Wishes
Matt Dignam

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.**

Dignam Real Estate

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RECENT SALES

3/133a Campbell Street, Woonona	\$249,150	2/42 George Street, Thirroul	\$430,000
4/14 Raymond Road, Thirroul	\$511,500	3/16 Thalassa Avenue, Corrimal East	\$380,000
2/115 Campbell Street, Woonona	\$495,000	19 Cedar Terrace, Woonona	\$569,000
44 Westmacott Parade, Bulli	\$630,000	1/13a Organs Road, Bulli	\$362,250



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Dignam Real Estate sold
our house for a great price
and they spent their money
on advertising not ours
”

Call and ask for our free Smart Marketing Plan
The most active agency in the area. FREE advertising to owners

Real Estate
Careers

Great people.

Satisfying.

Career paths.

Winning agency.



Free Training to the Right People

**Are you bored with your present job?
Consider a career in real estate sales.**

A base salary package of \$77,000 and bonuses (after completion of traineeship) based on sales performance can easily give you an income of \$100,000 annually, with many earning well over \$130,000 per annum.

For more information and FREE career booklet please visit our website at

dignam.com.au



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