

Over-capitalising
on renos

**Buyers beware
the bargains**

kids'
holiday
jobs

win
\$1,000
CASH



Avoid over-capitalising – at all costs!

It seems Australians' love affair with renovating continues to blossom. We forked out more than \$28 billion on refurbishments last financial year, with that figure set to jump further over the next three, according to the Housing Industry Association.

But when it comes to remodelling, money spent does not necessarily translate to money made. Unfortunately, many renovators get caught up with lifestyle choices and lose sight of the need to add value.

Whether you plan to live in, rent out or sell a property, you need to consider it an investment, which means avoiding over-capitalising.

The key is to do your homework on local property values, understand your finance and capability limits and stick to them. Sometimes the latter can be easier said than done, so follow our tips to help avoid turning your property into a money pit.

Consider being an owner-builder

The label is a bit of a misnomer as it implies you will be the one with hammer in hand throughout the job. In reality an owner-builder is essentially a project manager. So the first question you should ask before taking on the task is whether you have time, energy and organisation skills. If the answer to any of these is "no" then steer clear and hire a licensed builder to take on the project from start to finish. But if you feel you are up to the challenge, there can be significant savings in being an owner-builder, mainly because you choose the tradespeople and materials and have complete control over the entire project.

You can, of course, still work on the project yourself, adding to your savings. Even if you're not an expert, you might offer to labour for your chosen bricklayer or plasterer, saving time and money.

The key to being a successful owner-builder is having time to manage the project properly. You will need time to find the right tradies and materials at the right price, co-ordinate who is on site and when, and answer any questions along

the way, all of which can be incredibly taxing.

You also need to ensure you have approval from your council and State building authority and relevant insurances in place. A visit to your council is your best starting point for any renovation as they will advise on approval and licensing requirements.

DIY vs expert tradies

You know we are a nation of would-be DIYers when renovation-based reality TV out-rates most other programs. While it's tempting to take to the tools to save a few bucks, there are lots of things that can go wrong, which is probably why the TV shows rate so well. Take a look at our Haven Win winning entry in this edition for some impressive real life examples of things going horribly wrong.

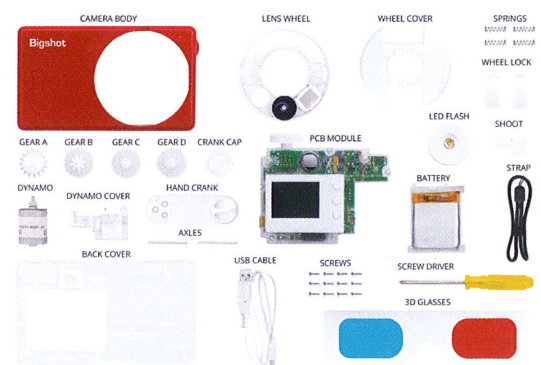
Unless you are extremely skilled and have plenty of time, renovating is an area where only qualified experts should dare to tread. Sure, there are some tasks novices can tackle with care – pulling up flooring materials, stripping old paintwork, dismantling cabinets and painting – but most trades require experience, expertise and, above all, safety. In 2011, a National Injury Surveillance Unit reported more than 25,000 hospital visits due to DIY-related mishaps. At Sydney Hospital's hand unit alone, they claim to see at least one injury from a power tool every week. Apart from the risk to life and limb, serious injuries can drain your funds, especially if you need to take extended time off work and have no income protection insurance. You may well find what you aimed to save in the first place is soon lost on household bills, sinking you into unforeseen debt.



BATHED IN GOLD

Take your bathroom decor to a whole new level with this stunning gold hand basin. Drawing inspiration from traditional Turkish craftsmanship, a state-of-the-art process is used to vapourise and deposit metal powder onto the ceramic surface, giving your bathroom the ultimate luxe factor.

VISIT www.rogerseller.com.au



HIT ME WITH YOUR BIG SHOT

This could be the coolest kids' Christmas present ever. The Bigshot camera kit lets you build your own point and shoot digital camera piece by piece. Inquisitive kids will love the step-by-step process while learning concepts in optics, mechanics, electromagnetism, electronics and image processing and ending up with their own fully operational digi camera.

VISIT www.thirddrawerdown.com



HOUSTON - WE HAVE LIFT OFF!

What little person wouldn't love drifting off to the Land of Nod beneath an astronaut quilt cover? Inspire your child's imagination with playful bed linen that also includes a pirate, princess, fireman and ballerina. It's the stuff dreams are made of.

VISIT www.top3.com.au

Designing with your head not your heart

One of the main reasons we renovate is to improve our lifestyle, which is where many remodels go awry. It might make sense to add an ensuite, which is very likely to add value, but do you need the European bidet and Carrara marble vanity? The answer lies in the demography of your suburb – who lives there now and who is likely to be living there in the future. These are the factors that influence property prices and ultimately determine how much you should spend on your renovation.

Do your homework on recent sales of similar homes in your area, taking into account the number of bedrooms and bathrooms, which are the key influencers of price. You should also consider water or city views, which tend to push property prices up. You will find property types in your suburb have a price ceiling. Your aim is to ensure your renovation doesn't push the cost of your property through that ceiling, or else you have over-capitalised. You also need to remember that property cost does not equal property value, which is determined by how much someone is prepared to pay.

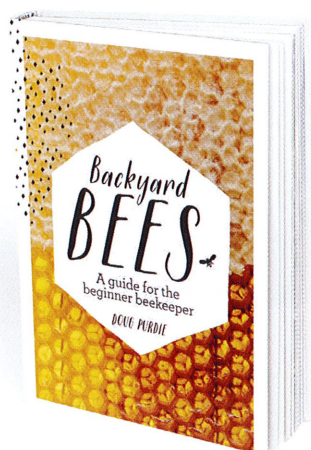
Consider how long you plan to stay

This is a key consideration because time can have a big impact on property prices. If you plan on staying in your renovated home for more than five years you may be able to spend closer to your local property price ceiling than if you were looking for a quick turn-around. That's because capital gain over those years could eclipse your renovation costs. However, you will also be paying interest on your home loan over that time and when combined with renovating expenses, you may not be as far in front as you had hoped.

If you have bought a fixer-upper and are looking for a fast turnaround, you will need to be quite clever and restrained with your project. Focus on elements that will add immediate value (see information below) and avoid unnecessary frills, such as expensive curtains, which may only end up getting replaced by new owners.

Which renovations add real value?

- A tidy, easy-to-maintain garden – front and back – with little lawn to mow.
- A deck or outdoor entertainment area – enhances lifestyle and creates living space.
- An extra bathroom or ensuite.
- An extra bedroom can push you into the next price category.
- Fresh paint.
- Storage – it declutters and creates extra space.
- Undercover parking – if you don't have a garage consider erecting a carport over your driveway.
- A separate area for kids, such as a rumpus area, especially if you live in a suburb sought out by families.



With bees pollinating a third of the food we eat, their importance to our food system is immense. With worldwide bee populations diminishing at an alarming rate, self-proclaimed Australian 'beevangelist' Doug Purdie shows how you can do your bit to help pollinate the vegie patches of your hood. This beautiful volume (complete with honey-celebrating recipes) is the ultimate guide to beginners' backyard beekeeping. A little bit of space in your backyard or rooftop and a love for bees is all you need to get started.

Murdoch Books RRP \$35



WIN \$1,000 CASH

With everyone from hipsters to AFL footballers sporting Ned Kelly-inspired beards of late, it's fair to say hirsute blokes haven't been this on-trend since the 1970s. Beards are back and we're on the hunt for Australia's most impressive beard! If you're a pogonophile and sport an excellent beard as proof, send in a photo of it to be in the running to win \$1,000.

How: email your beard photo to havencompetitions@afigonline.com.au placing 'Beard' in the subject line.

Include: your name, address, email, phone number and the name of your mortgage broker.

Dates: opens on November 17 and closes on January 14.

Winner: will be decided on January 15 and notified by telephone after this time.

Terms and conditions: email havencompetitions@afigonline.com.au to request terms and conditions.

Earn and learn – Why part-time work is good for kids

School's almost out for summer, with most teenagers probably planning to do as little as possible except sleep in, hang out and spend mum's and dad's money. But the Christmas holidays are an ideal time for kids to pick up a part-time job and hopefully learn a little about life along the way.

In our stable economy, there are plenty of opportunities for young people to get a part-time job. Kids need to be 14 before they can get a proper paying job and they need a tax file number (TFN). High-schoolers can avoid the usual paperwork by applying for a TFN through the secondary schools program, which allows schools to verify a student's identity through their records. If your school doesn't participate in the program or you attend university, apply for a TFN online at www.ato.gov.au

One of the hardest parts about looking for a first job is pulling together a resume when you don't have any actual work experience. Most kids won't know where to start, so get them to think about their skills, hobbies, school and sport achievements to help promote qualities such as organisation, determination and teamwork.

There are plenty of employers with part-time jobs for students - fast food chains, cafes, supermarkets and retailers among them. Start by looking close to home, especially if your student is yet to get a driver's licence. Surprisingly, even in our digital age, going door-to-door is still often the best way to source casual or part-time opportunities.

Apart from giving young people some spending money, a part-time job will help them become more organised, disciplined and independent, qualities that will hold them in good stead when it comes to working fulltime. Unfortunately, casual work can sometimes prove demanding and unreliable, with employers cancelling or adding shifts, or asking kids to work hours that don't suit study or family schedules. If your student has a fair and flexible employer, encourage them to show their appreciation by working hard and maintaining a positive attitude.



Most importantly, kids learn the value of money and how to manage it. Help them prioritise their spending by giving them some financial responsibility, such as paying their mobile phone bill or covering their petrol. That way they learn to be disciplined with their pay and appreciate early the value of disposable income. If they run out of money before their next pay, they will soon learn the importance of sticking to a budget.

You should also encourage your student to save a portion of their earnings for some of life's bigger expenses, such as a car, travel or even a deposit on their first property. It's never too early to start building a nest egg, especially while kids have the benefit of living at home. If they manage to get a couple of thousand dollars under their belt, it's worth considering a high-interest savings account to help propel their funds further.

A part-time job while still at school also means getting a jump on superannuation. While most young people barely contemplate tomorrow, let alone retirement, the forced savings of Australia's super scheme means many of today's teens may not have to rely on the pension in their senior years.

Parents are often pleasantly surprised to find part-time work helps their kids mature, making them more respectful and responsible on the home front. If you are looking to give your young person a leg up in life, encourage them to climb out from under the covers these holidays to look for a part-time job.



Security doesn't take a holiday

Are you heading off on holiday during the festive break? While you're easing yourself into relax mode, opportunistic burglars will be ramping things up – summer holidays are a prime time for crooks. Unfortunately, homeowners commonly make the thief's selection process easy - by failing to take some simple precautions. By taking a back-to-basics approach, here are some ways to help burglar-proof your house.

- ✓ Know your neighbours. In close communities people look out for each other. Ask them to collect your mail daily, park one of their cars on your driveway and put your garbage bin out for collection. They can also report any suspicious activity, and when they're away you can return the favour.
- ✓ Statistically many burglaries still occur through unlocked windows and doors. Breaking a window or door creates noise, so it's a last resort. Keep doors and windows locked, and better still install deadlocks – these will make it difficult for an intruder to enter and exit the house.
- ✓ Install sensor lights on the exterior of your home – outside lighting is a cheap and effective break-in deterrent.
- ✓ Help your home look lived in by installing interior lamp timers.
- ✓ Don't leave tell-tale empty boxes visible (in bins, sheds etc) – expensive new gear with original boxes can be returned or resold.
- ✓ Leave a pair of shoes outside the front door and a few clothes on the washing line - it looks like someone is home.
- ✓ Store your valuables in a home safe.
- ✓ Install a house alarm.
- ✓ Don't provide a hiding place – keep a clean line of sight from the street to your house by keeping trees and shrubs trimmed.



In the last edition of Haven we asked for your home DIY disasters. And boy, did we receive some beauties! We were surprised how many of you have managed to fling the entire contents of a paint tin across every surface of a room in the process of painting it!

It was a tough decision, but we're sure you'll agree that thanks to one disaster after another, we have a very worthy winner in Roslyn.

THE WINNING ANSWER

My husband and I made our first home purchase together with all the positive signs you could hope for; it was in a good area, at the right price and just in need of tender loving care and renovation. With hubby being a maintenance supervisor I thought this will be great, I'll have his expertise on hand, with the ability to undertake the renovations and improvements ourselves - ultimately we would have a lovely home. And so we move in and commence.

Activity one: knock a hole in the wall so that the three-bedroom granny flat at the back of the house has direct access into the main front house. Simple? No. This results in the roofing pulling away from the front house so that water leaks through into the roof cavity, dripping along the supporting beam internally and out of the light fittings - including those above the bed.

Activity two: replace existing bathroom mirror with a larger, nicer one. Simple? No. This results in the drill going through the water pipe and we have an indoor water fountain coming out of the bathroom wall. Maintenance supervisor husband gets his mate around and they assess the situation, with many beers to assist. In they go with the sledge hammer to make a big enough hole to enable them to weld up the pipe. Then place new mirror over the big hole.

Activity three: hang a picture. Simple? No. This results in the screw driver going straight into the electrics behind the wall, which in turn shorts out the entire house. Electrician (another mate) is called in to assess the situation, more beers consumed. It then transpires that white ants have eaten out all of the electrical cables.

I then organise for a structural engineer and pest man to come and assess the house. The three-bedroom granny flat is condemned. The pest man has to drill holes all

through the concrete pad to treat for the white ants. This then culminates in me initiating legal proceedings against the previous owner and the real estate agent which last many months, finally being awarded in our favour.

Have now lost interest inside the house and decide that I will commence outside. And that I will undertake this activity on my own with some assistance from a mate who is a landscape gardener - excellent idea I think, what could possibly go wrong?

Activity one: get the landscape gardener mate to collect a small tip truck full of limestone. Mate arrives with truck, reverses down side of house, lifts tipper and the whole truck almost disappears down a whopping great big hole at the side of the house. Gardener mates eyes are out on stalks, what is left of the truck above ground (being the tipper with a couple of tonnes of limestone) is leaning against the granny flat section. Don't panic! Unload limestone by hand and get tipper back down. Ring hubby at work to see if he has any useful ideas as to how we get the truck out of the hole. Hubby takes this opportunity to gloat at my inadequacies - not handy and no help from that quarter. Gardener mate is freaking out as he has to get the truck back to his place of employment. Being solution orientated I walk down to the brickyard on the corner and after bribing them with a carton of beer they bring their truck around to tow the other one out. All good, time for me to have a well-earned wine.

We are now left with a gaping 10 metre deep hole in the backyard alongside the house - hardly ideal with small children and a dog.

Once he's finished gloating, hubby goes to buy sand to fill in hole. Takes trusty ute, returns with sand and backs down the side of the house. Ute disappears down another whopping hole in front of the first one. He's not happy, and again curses my stupidity with my planned garden renovations. Having at this stage made a good contact who is easily greased by a carton of beer, I go back to the brickyard to again get assistance with removal of the ute.

Next, mate with boat arrives on the weekend and wishes to store it in our garden - no worries. Backs boat down side of the house and yes, you guessed it, boat completely disappears down a third whopping great big hole at the side of the house.

We now have a condemned house, a yard full of whopping great holes and a tenuous marriage.

Morals of the story:

- 1 Never buy a house without a structural engineering check being done.
- 2 Get professionals in to do the work, not your own in-house ones!
- 3 Beer does indeed enable rectification of failed renovation activity!

Buyer beware THE BARGAINS

Limited cash flow and equity mean many first-time property investors feel the need to chase down a bargain to enter the market. But, like most things in life, you usually get what you pay for, which – in the case of property – can mean unrealised returns or even losses. While there's nothing wrong with paying less in the hope of making more, investors need to understand when a cheap property is truly a bargain and when they could be selling (or rather buying) themselves short.

Here's our guide to help investors actually get what they bargain for.

Always ask "why"

There's always a reason a property is selling cheap. Your job is to find out why.

Some reasons are obvious – the property is on a main road or backs onto a railway line – but others may be less overt. There could be termite damage, rising damp or shifting foundations, which perhaps only a property inspection will reveal. While not irreparable, these can be big-ticket fixes and probably beyond your reach if you have limited funds.

Other factors may be even more concealed. For example, a very small property with poorly placed sewer pipes that prevent extensions, a new flight path planned for overhead or a property in a high-risk flood zone. These are variables you can't control and should probably be avoided.

The best way to avoid being sold a lemon is to do your research, not just on the property for sale but on others in the vicinity. What's the average price for similar properties in the same suburb? And what do they have that yours doesn't, or vice versa (as in the case of aircraft noise).

That's not to say all cheap properties have sinister secrets. Some are under-priced because the owners need a quick sale or the property is part of a deceased estate. Keep in mind, though, these sorts of genuine bargains tend to get snapped up quick, so have your suburb research on hand to be in a position to pounce.

What can and can't be fixed

Even in the property market there are lemons that can be turned into lemonade. It's a matter of knowing which lemons are worth squeezing, which means accepting what can and can't be fixed.

What you can fix

- ✓ Minor noise (with insulation and double glazing).
- ✓ Interior design.
- ✓ Configuration of rooms (turning a study into a bedroom or vice versa).
- ✓ Storage.
- ✓ Natural lighting in a house (add a skylight, windows or glass doors).
- ✓ Under-cover parking for a house (add a car port).
- ✓ Landscaping.

What you can't fix

- ✗ Location.
- ✗ Land zoning and covenants (restrictions on height, building type etc).
- ✗ Land size.
- ✗ Traffic.
- ✗ Infrastructure that imposes on your property (e.g. power poles).
- ✗ Flight paths.
- ✗ Aspect (which way the property faces).
- ✗ Natural lighting in a unit (you won't be allowed to add windows).
- ✗ Unit block exterior (although you can try and influence the body corporate).

Just because a negative, such as traffic, is beyond your control, the property may still be worth pursuing at the right price. You just need to accept it may be harder to rent and harder to sell, and will probably take longer than desired to increase in value. One of the biggest mistakes investors make when they purchase cheap properties with "unfixables" is to over-capitalise on renovations (see our story in this edition on this very subject). There can be a temptation to compensate on what can't be fixed by over-investing in what can. If you decide to invest in a bargain that has some obvious drawbacks, do your homework on which renovations will give you the best return on investment.

Short-term pain, long-term gain

As with all investments, you need to weigh up your personal finance goals and individual circumstances before settling on a property. For many investors, a bargain buy (even with some of the unfixables) is going to be their best opportunity to gain a foothold in the market. It's worth considering, though, whether settling for something cheaper is the best strategy in the longer term. A slightly more expensive property in a quality suburb with higher growth potential could be worth the extra stretch up front if the capital gain over time far outstrips a bargain buy elsewhere.

Buyers should also be wary of towns or suburbs billed as the "next big thing". Where there's a boom, there can also be a bust. Towns built on the back of mining are key examples of property markets that can lure investors with promises of high rental returns. But if the mine dries up or goes belly up due to external factors, you could be left with a property that is worth much less than what you paid with few prospects of tenants.

The key to taking a longer term view is patience, and ensuring you are in a financial position to stick to your plan, especially if it means holding onto a property for 10 or more years to realise its growth potential.

Get expert advice

Your broker can help you assess your individual circumstances to determine what you can afford. Everyone's circumstances are unique so it's important your first investment takes into account your earnings now and into the future, plus any significant lifestyle changes that might affect your ability to service a loan. Are you planning to start a family or travel? Do you have kids in private education? It's important to weigh up all of these factors when considering your financial future.

What you need to know: any advice contained in this newsletter is of a general nature only and does not take into account the objectives, financial situation or needs of any particular person. Therefore, before making any decision, you should consider the appropriateness of the advice with regard to those matters.



Hello

It's summer time and as the weather warms I hope you can take a few moments in the sun to cast your eye over the latest edition of Haven.

As 2014 comes to a close and we look toward the new year, something I wanted to draw your attention to was the level of competition in the Australian lending sector. Mortgage brokers in Australia have access to about 30 lenders and about 1,350 products across residential and commercial lending. We represent the lenders who account for the majority of loans written, and it's important for Australia as a country to ensure we retain the healthy banking sector we enjoy. If I look back 20 years, the nation's population has grown by 25% yet the number of lending institutions has halved. These are important statistics to be aware of, and something I know Government and regulators keep top of mind when looking at any talk of consolidation within the industry.

My job as a mortgage broker is to shop around for a loan that is right for you from the host of lenders I work with every day. Whether you're a first home buyer, looking to re-finance or building your investments, choice is key to matching you to the correct product. Healthy competition across the financial sector is a good thing for every Australian; something we all need to encourage and endorse.

Please enjoy this edition of Haven and as we move into the festive time of the year I would like to wish you and your family a wonderful and safe holiday season.

James Tong, Managing Director
Tong Partners

162-168 Gilbert Street
Adelaide SA 5000
Tel: 1300 00 TP TP / 08 8228 5335
| Mob: 0401 150 542
Web: www.tongpartners.com.au

Australian Credit Licence Number: 387306
ACN: 114 754 586

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