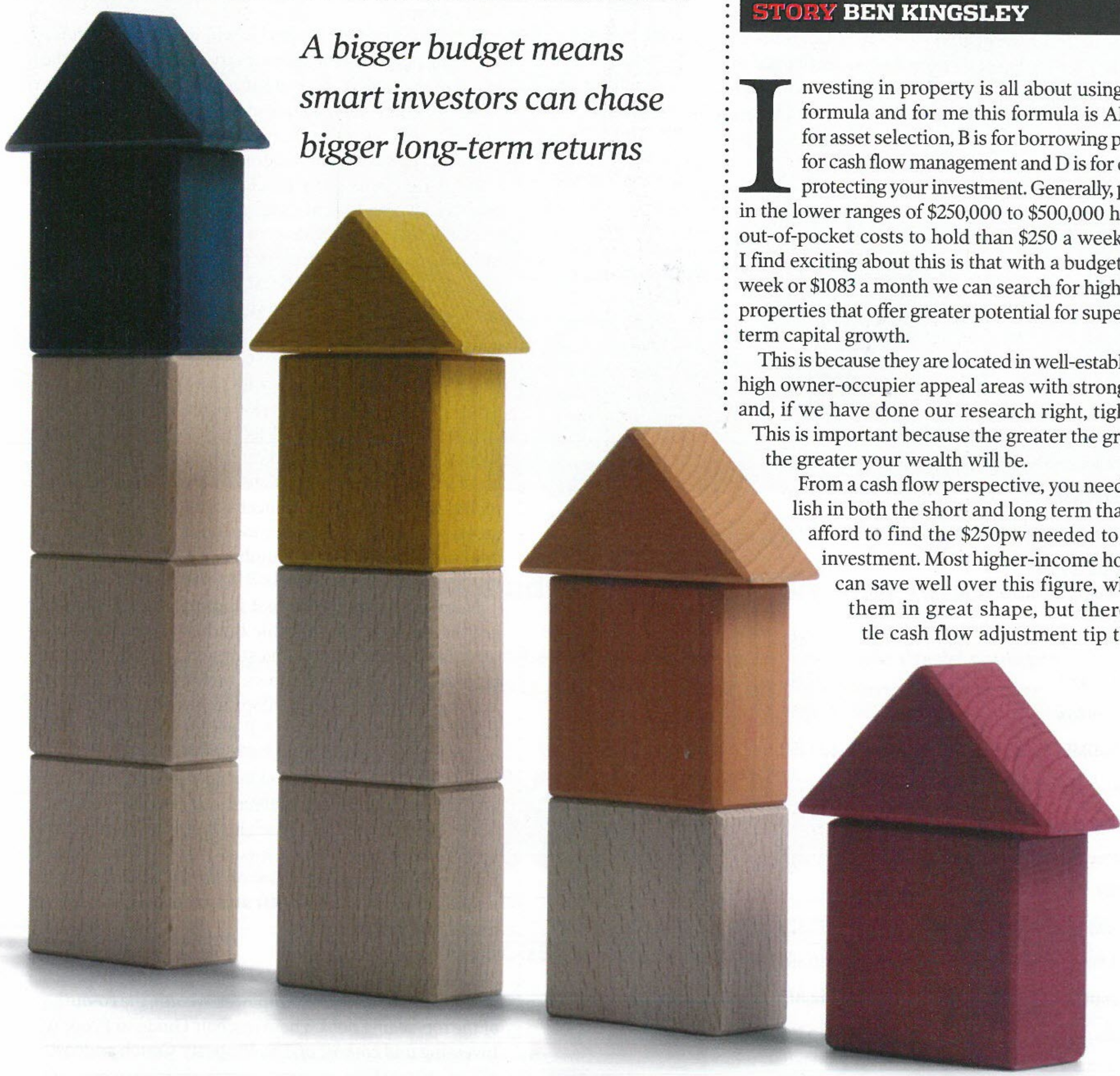
PROPERTY FOR $250 A WEEK

A bigger budget means smart investors can chase bigger long-term returns



STORY BEN KINGSLEY

Investing in property is all about using a proven formula and for me this formula is ABCD. A is for asset selection, B is for borrowing power, C is for cash flow management and D is for defence in protecting your investment. Generally, properties in the lower ranges of $250,000 to $500,000 have lower out-of-pocket costs to hold than $250 a week. So what I find exciting about this is that with a budget of $250 a week or $1083 a month we can search for higher-valued properties that offer greater potential for superior long-term capital growth.

This is because they are located in well-established and high owner-occupier appeal areas with strong demand and, if we have done our research right, tight supply. This is important because the greater the growth rate the greater your wealth will be.

From a cash flow perspective, you need to establish in both the short and long term that you can afford to find the $250pw needed to hold this investment. Most higher-income households can save well over this figure, which puts them in great shape, but there is a little cash flow adjustment tip that other households can implement to also find this $250pw without impacting the family budget – it's the one I'm using in this scenario.

This household's home is worth $800,000 with an outstanding loan balance of $220,000. They are making repayments of $2442pm, and if they keep that up the loan will be paid off in 10 years. Yet they want to invest in property because their own home is not going to deliver them any passive income in retirement. So we restructure the loan back to a 30-year principal and interest term as this resets the monthly repayments to $1319, assuming a 6% interest rate in both cases. This frees up $1123 a month, which can now be used to invest in a property, and the weekly family budget commitments can still be met, because they haven't been impacted by this restructuring.

INVESTMENT FOR $250 A WEEK

LOCATION	Fadden, ACT; Shellharbour, NSW; Belmont, Burleigh Heads and Palm Beach, Qld; Stirling, SA
PURCHASE PRICE	**$650,000**
Purchase costs (5%, including stamp duty & fees)	$32,500
Total mortgage (105% LVR)	$682,500
ANNUAL EXPENSES	
Annual interest payment (6%pa)	$40,950
Holding costs (1.25%): rates, insurance, maintenance & repairs, land tax	$8125
Vacancy (5%)	$1463
Agent fees (7.3%)	$2140
Total cash outflow	$52,678
RENTAL INCOME (4.5%)	$29,250
Additional tax deductions	
Depreciation	$5100
Total expenses for tax	$57,778
CASH FLOW	
Property income minus cash outflow	-$23,428
Tax refund (37% marginal rate)	$10,555
Net cash outflow	**-$12,873**
Weekly cash outflow	**-$248**

STAMP DUTY VARIES

A tip for new players: each state and territory operates under its own title laws and as such the costs for things such as stamp duty, council rates, insurances, and body corporate and property management fees can fluctuate considerably. It's important you do your homework and understand these expense variations as they will impact upfront and ongoing holding costs as you embark on your investment journey.

From a borrowing perspective, the plan is to utilise the equity in the current family home and therefore borrowings of 105% of the investment property's value, which will cover the stamp duty and other acquisition costs, such as legal and borrowing fees.

The household has borrowing power of $700,000 in addition to the existing mortgage, so we have decided to chase a purchase price of $650,000 to be on the safer side of things and not to stretch to our maximum lending capacity.

Both the husband and wife will go on the loan for servicing purposes but the property will be owned in the name of the higher income earner (income assumed at $120,000). Interest in calculated at 6% and the investment property will have an interest-only loan.

From an asset selection point of view, a $650,000 purchase price opens us up to a lot of markets around the country. We can look at inner-city-fringe apartments in small blocks in either Sydney or Melbourne. Townhouses in Brisbane also within close proximity come into our calculations at this price point and freestanding houses with character appeal come into play in markets such as Adelaide.

All these locations must have excellent lifestyle amenities and be close to the city with good public transport. Scarcity must be a consideration as we don't want to buy anything or anywhere that faces an oversupply of the type of property we are looking at. This means staying clear of medium- and high-density apartment blocks and technically, given we are concentrating on high-demand areas, we wouldn't consider locations with house-and-land packages or a large number of townhouses being introduced to the market.

Naturally when we invest in anything we want to get the best returns possible but just having that as a wish is not what smart investors do. They set return targets and, as the table shows, we have done the same. We are targeting a 7%pa capital growth in addition to the 4.5% rental yield to fall within our $250 a week budget.

Five suburbs worth considering that fit our criteria are Fadden in the ACT, Shellharbour in NSW, Belmont, Burleigh Heads and Palm Beach in Queensland and Stirling in South Australia. All have median house prices around $650,000 (the most expensive on the list is Stirling, with a median price of $667,500) and gross yields ranging from 4.3% to 4.7%.

Ben Kingsley is a multi-award-winning property investment adviser. He is the CEO of Empower Wealth, the co-author of the top-selling book The Armchair Guide to Property Investing *and co-host of* The Property Couch *podcast.*