



## IN THE END IT'S ALL ABOUT LAND VALUE

In the long run, it's the value of the land on which your home is situated that will contribute most of all to growth in the value of your property. Of course, you can still significantly affect the growth potential through the building decisions you make.

In the property sector, the phrase 'highest and best use' refers to the most effective way to build on a block of land to bring about either the largest growth in capital value or the highest rental income.

The highest and best use test more commonly applies in the commercial property market, but it also has applications in the housing sector.

For example, the owner of an older style home on a block that allows for a triplex development might be considering whether to sell the property and move, renovate or demolished and rebuild a new home.

It is likely that in this situation that the most profitable option would be to either redevelop the property into a triplex or sell the property to a developer who is looking to do that for themselves.

The other option, to renovate or rebuild the existing home might be a favourite or sentimental option, but it's probably the case that this would restrict the resale value of the property.

Most of the likely buyers for such properties would be developers, and so the owner would be undercapitalising.

However, if an owner wanted to remain in the same location and to either renovate or rebuild, it's probably best to consider strategies that would keep alive the redevelopment potential of the land.

For example, if the land is zoned for strata development the owner could subdivide the block, build on one lot and sell the other, or perhaps just keep it vacant.

Homeowners considering this option should make sure they understand the tax implications of this strategy, in particular the likely capital gains and land taxes. The safest strategy is to keep to a similar pattern of housing that already exists in your street or neighbourhood and concentrate on achieving the best quality construction for your budget.



Owners who correctly forecast a change in the style of housing in an area, particularly from rezoning options by local authorities, can find that they will be rewarded by stronger growth in property values if they proceed with a suitable building project.

Metropolitan Perth is experiencing strong population growth and there is growing pressure for more affordable homes built as strata titled dwellings, particularly closer to the city and suburban infrastructure.

The challenge for local councils and developers is to meet this demand through increased density that complements the neighbourhood.

*relax . celebrate . enjoy*



## PARENTS HELP KIDS GET FIRST HOME

Cautious bank lending habits are prompting a growing number of young West Australians to seek their parents' help to get a foot on the property ladder.

While lenders are increasingly offering options, such as guarantor support or limited recourse guarantees, they also say the older generation should know how to minimise the risk to their finances.

None of the bank and non-bank lenders contacted by *The West Australian* kept figures on the number of lenders using family assistance to secure a mortgage. However, most agreed the trend was rising.

Police & Nurses chief executive Fred Huis said the trend was being driven by financiers, who were more reluctant to take on risky loans.

"There's a general trend that the banking fraternity is more reluctant to accept 100 per cent LVR (loan-to-value ratio) now with the housing market being quite flat," he said.

"In the past if a mortgage loan was made and it wasn't too strong it didn't matter because house prices were going up so quickly. House prices aren't going up now so I think financiers are saying, 'We'd prefer to have a bigger deposit'"

LVR is the amount a person borrows as a percentage of the value of the property being used as security.

Mr Huis said he had also seen evidence parents were more risk averse when acting as a guarantor for someone, particularly after the global financial crisis.

"In many instances the parents are not necessarily cash rich but they're asset rich and therefore they're probably saying, 'I'll use my asset as a guarantee for you, but I've heard so much about guarantees, and I'm a bit worried, so I'll give you a limited guarantee that covers the deposit and no more'," he said.

A Commonwealth Bank spokeswoman said the bank offered several options aimed at helping would-be borrowers to take out loans they may not be able to afford under a traditional mortgage.

They include guarantor support where one person mortgages their property as security for another; property share where two parties can guarantee the other; or interest-only loans.



## Northside Home Loans

0402 158 676  
Steve Langoulant



### Disclaimer

This newsletter has been prepared by Northside Residential. Every effort has been made to ensure the contents are accurate at the time of publication. Northside Residential takes no responsibility for any subsequent action that may arise from the use of this newsletter.

### Northside Residential Joondalup

Unit 4, 80 Grand Boulevard  
Joondalup WA 6027  
P: 08 9300 2283  
F: 08 9300 1854

### Northside Residential Greenwood

Shop 6, 130 Coolibah Drive  
Greenwood WA 6024  
P: 08 9203 9800  
F: 08 9203 9811

### Northside Home Loans Northern Suburbs

Steve Langoulant  
(Mobile Consultant)  
M: 0402 158 676  
E: stevel@northsidere.com.au