



## Owning Property Through Super *Retire On Your Terms*



# Important disclaimer and no advice warning

The information provided in this eBook is general in nature and intended as an information source only. It does not consider your personal circumstances. Since everyone's personal situation is different, this eBook should not be taken as advice and you should speak with a mortgage adviser, financial planner or your accountant to determine which solution is right for you.

The comments, examples, words and extracts from legislation and other sources in this publication do not constitute legal, financial or tax advice and should not be relied upon as such.

All readers should seek advice from a professional adviser regarding the application of any of the comments in this publication to their situation.





## One Agency Empire Property Group's Introduction of:

Edward Labbad

*Property Investment Specialist*

Dear Property Investor,

Whether you are an existing investor or considering your first step into the property market, Edward Labbad, our very own Property Investment Specialist is here to help you on that journey.

Edward through research, education and analysis helps investors make informed decisions about how, where and when to invest in Australian residential investment property.

He has gone on to help numerous investors with property investments in multiple markets and numerous market conditions.

We are delighted to provide you with a free copy of this eBook.

Let our family help yours!

Regards,

The One Agency Team







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A silhouette of a family walking on a beach at sunset. A man in the center holds the hands of a child on his left and a woman on his right. They are walking away from the viewer towards the ocean. The sky is a warm orange-brown color, and the water is visible in the background.

# Note From: One Agency Empire Property Group

The process of buying an investment property through your Super has many working parts. Australians have a known love affair with real estate and, as a result, there are many 'experts' with various theories of how the market works.

In order to help you navigate through the noise we have produced this eBook, in which you will learn how to implement our ten proven expert insights into buying a great investment property. We will inform you about selecting location and the type of property and help you with strategies for reaching the goals you have set.

Once you have completed this eBook, the most important thing for you to do is take action. You will not become a successful property investor without making informed decisions and acting on them.

We encourage you to share this knowledge with family and friends, and if you would like to know more please feel free to reach out to our property Investment Specialist, Edward Labbad.

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Regards,

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# An Introduction to Self Managed Super Funds

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Self-managed super funds (SMSFs) continue to grow in popularity for financially savvy investors looking to accumulate more savings for their retirement. After growing at a rate of 23% over the past five years, SMSFs currently hold nearly \$600 billion in investments according to official stats from the Australian Taxation Office (ATO). \$600 billion is a massive figure in anyone's language. Plus, the average SMSF balance is approximately \$1 million. One can't help but wonder; why are SMSFs so attractive to financially successful people? What do they know that the rest of the population doesn't?

## What is a Self-Managed Super Fund?

A self-managed superannuation fund is a retirement fund that is set up for between one and six people. The members of the fund also act as the trustees, meaning that they have discretion over all decisions and actions of the fund, whilst being accountable for compliance within the Australian Tax Office's (ATO's) regulations.





## Why you can't survive on the age pension alone

For those expecting to rely on the age pension come retirement. You might want to carefully think again about investing in that property today, to avoid the daily struggles many retirees are facing in their older years.

With better healthcare and education in place, people are generally living longer today, so it's even more important that you maximise your investments and wealth as early as possible so you don't need to solely rely on the age pension. And who knows if the age pension will still exist by the time you do retire, as whispers continue to spread that this model is just not sustainable.

### Age Pension Eligibility

Age requirements for the Age Pension. To be eligible for the age pension, you must be 65 years or older, regardless of whether you're male or female. From 1 July 2017, the qualifying age will increase to 65 years and six months. The qualify age will increase by six months every two years, to 67 years by 1 July 2023.

### How Much do I Get?

A single person eligible for the FULL Age Pension can expect an annual Age Pension income (including Pension Supplement and Energy Supplement) of around **\$23,824**. A couple eligible for the FULL Age Pension can expect combined annual Age Pension entitlements (including Pension Supplement and Energy Supplement) of around **\$35,916**.

### What Impact will my assets have?

A single home-owning pensioner with assets worth less than \$250,000 is now eligible for the full pension. The full pension is also now available to: homeowner couples with assets worth less than \$375,000.



# Can't I just rely on my Super?



The Association of Superannuation Funds of Australia (ASFA) identifies the most recent statistics of superannuation balance at age of retirement. For males, the median balance is \$110,000 whereas for females the median balance is \$36,000. The variance between males and females is substantial and can be attributed to a number of factors including: gross wages throughout career, amount of time in the workforce, participation in fulltime and part-time work, family planning, proclivity to making or not making additional contributions, as well as the individual's risk profile and selection of growth-oriented and conservative investment assets. Although a superannuation balance of \$110,000 is certainly more desirable than \$36,000, neither of them are anywhere near enough to fund retirement any longer than a couple of short years. ASFA defines a comfortable lifestyle in retirement for a couple as an annual income of \$60,264 and \$42,764 for singles. The median male's super fund would therefore be exhausted in the first two years of retirement, and the female balance wouldn't even last one.

This means more than 92% of Australians retire on less than \$42,764 of annual income. That figure might be familiar to you. It is the ASFA's definition of a comfortable lifestyle for a retired Australian couple mentioned previously.



# How much income do I need to Retire?

For each person and each couple, the answer will be different. A constructive way to assess this is to consider what your baseline lifestyle would be at retirement age and work out a budget on that, then consider what nice-to-haves you'd like to include that don't force you to

Remember, however, that today's money isn't reflective of the value of your money when you retire. Say your ideal annual retirement income is \$80,000 each year in today's value (which is more than double the aged pension for couples). If retirement is twenty years away, you can calculate the impact of inflation with the compound interest formula:

$$FV = PV(1 + i)^n$$

FV = Future Value (the value of \$80,000 in 20 years)

PV = Present Value (in this case, \$80,000)

$i$  = Inflation (we will use 2% in this example)

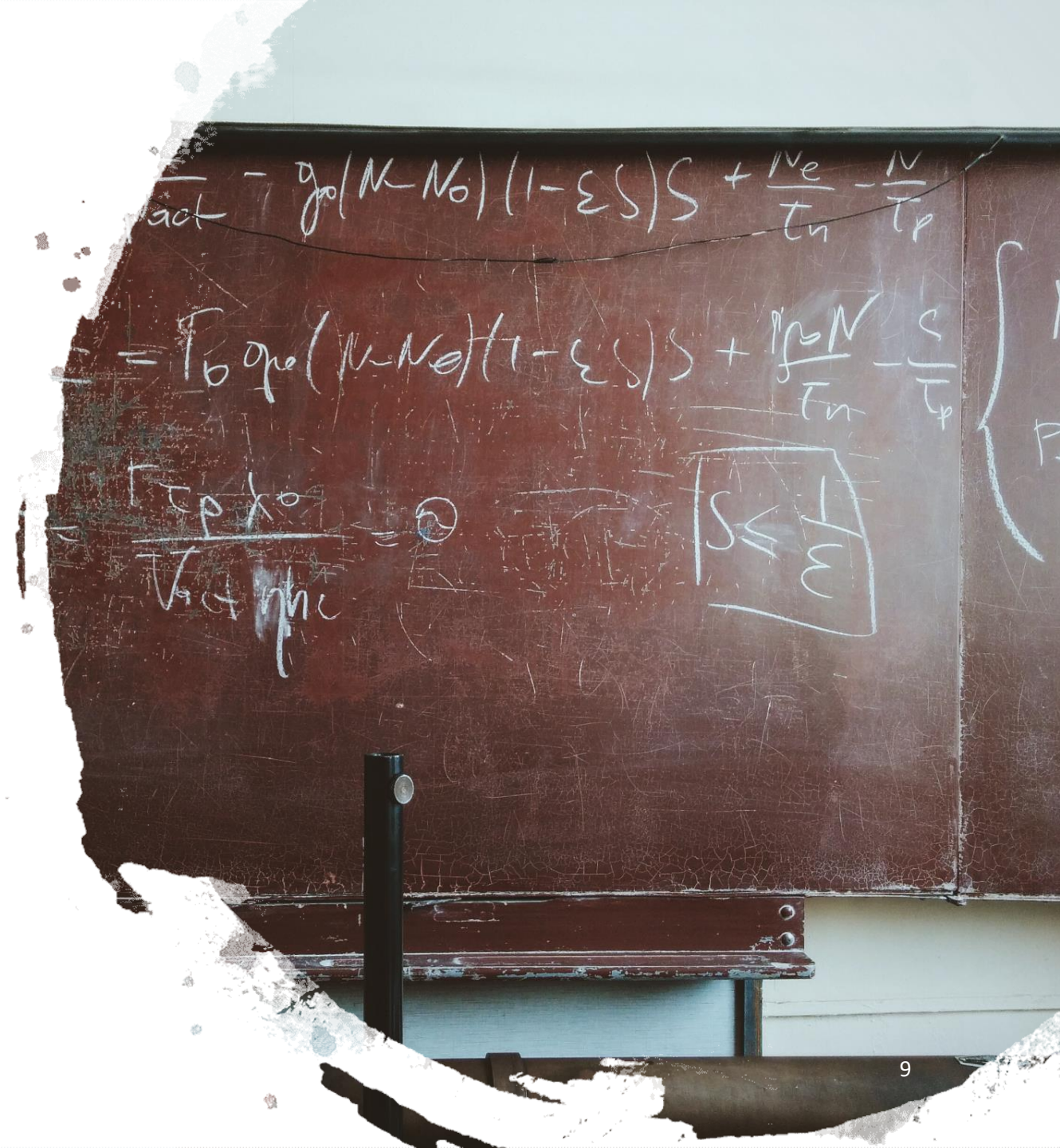
$n$  = Period (in this case, 20 years)

$$FV = \$80,000(1 + 0.02)^{20}$$

$$1.02 \text{ to the power of } 20 = 1.4859$$

$$FV = \$80,000 \times 1.4859$$

$$FV = \$118,872$$





# How do I earn this without working?

The short answer, create a source of passive income.

It is likely that your source of passive income is an investment portfolio. In the real estate market you receive rent. The idea is to accumulate enough properties before retirement. This will enable you to sell some of them off to remove most or all loans associated with the properties you are keeping, resulting in a passive income with minimal outgoings.

This process is usually known as the transition to retirement. Most Australians go down this route as negative gearing is completely useless when they retire because they don't have a taxable income to offset against their losses.

By the time you retire, your assets should generally equal about 20 times the amount of annual income you want to have. For the \$118,872 of annual income in 20 years, that would mean having net assets worth \$2,377,440 by that date. This follows a general rule of your assets having a gross annual yield of 5%.

The idea of having an investment portfolio worth \$2.3 million would be daunting to most Australians, particularly since it is 20 times the size of the median superannuation balance for males at retirement, but there are a number of forces working in your favour.



## Compound Interest

As we discussed earlier in this eBook, the problem we have is that we are living longer, wealthier and healthier lives than ever before in recorded human history (excluding obesity) which has led us to needing to fund our ever extended retirements. A hidden benefit in living longer is that we now have the opportunity to take greater advantage of compound interest than any generation before us. Compound interest (or compound growth) is the reason that holding property (and other assets) over the long term has been a rewarding strategy, particularly when using leverage (borrowing money) to hold a larger asset base.

## Leverage

Take for example a working professional by the name of Judy who decides to invest her hard-saved bank balance of \$50,000. If she was to invest this money in a way that made it grow by 5% each year for 10 years, she would end up with \$81,444. Not bad!

But instead of making this investment, Judy decides to invest in the property market. She doesn't buy a \$50,000 home though, she buys a \$500,000 home, borrowing \$450,000 from the bank at a 90% loan-to-value ratio. If Judy's investment property grows by the same 5% each year, it is worth \$525,000 after year one and \$814,000 after year ten. Deducting the \$450,000 loan she took out from her profit leaves her with \$364,000.

Remember, Judy did not invest \$500,000, she only invested \$50,000 meaning that in 10 years, her initial worth actually increased by more than 7 times.

## Long-Term Investment

The major Australian markets have shown us over the past few decades that residential real estate is capable of performing at levels far greater than inflation, and that leveraging your money to hold a larger asset has proven to be very beneficial for Australians who have held onto their investments for the long term (beyond 10-15 years). Of course, past performance is not a predictor of future performance, so it is important to make your investment decisions based on calculations and consideration to future likely outcomes centred on sound research, rather than simply what happened last year, last decade or last century.

Data from a leading Australian research group, CoreLogic RP Data, indicates that property investors are 10 times more likely to double the value of their property investment if it is held for more than 10 years





# How Many Properties do I need?



By acquiring properties in the range of \$500,000 to \$600,000 in today's value, owning at least two that are unencumbered, or at least three that are encumbered by retirement in twenty years would be an ideal scenario that avoids having to depend on high growth rates to achieve the example retirement income target of \$80,000 in today's currency.

Footnote: an unencumbered property is one without a mortgage, meaning there is no money owing on it. There are two primary ways to unencumber your investment property: 1) amortize the loan (pay off the loan), or 2) what is generally considered a more tax effective strategy of acquiring an additional property in the early stages and selling it to cover any funds owing as retirement approaches.

The million-dollar question!

The number of investment properties you need to fund your retirement is strongly linked to our previous discussion around how much income you'd like to have in retirement and how much in net assets you would therefore need in retirement. If we were to use the \$2,377,440 in 20 years example, we can determine how much in net assets we would need today by first estimating the annual growth rate of your portfolio. Lets use a flat conservative approach and assume that property will grow on average by about 5% a year. We can use the following formula to work out what the property value we should be holding today should be worth:

$$FV = \$2,377,440 \quad n = 20 \text{ Years} \quad i = 5\% \quad PV = ?$$

$$PV = FV / (1 + i)^{20}$$

$$PV = \$2,377,440 / (1 + 0.05)^{20}$$

$$PV = \$2,377,440 / 2.6532$$

$$PV = \$896,065$$



## Investing in property Via Super – The Tax Benefits

	Investing Individually	Investing through SMSF
Tax Rate	30%-45%	15%-0%
Capital Gains Tax	30%-47%	10%-0% after 55
Rental Income Tax	30%-39%	15%-0%





Surrounding yourself with a professional team that is in tune to your end goal is vital for any investor. In the case of Self Managed Super Funds as it is a financial realm that is heavily regulated to protect you, it will be even more crucial to ensure you surround yourself with a team who know the ins and outs of SMSF rules to ensure that not only your fund complies legally but they can assist you in making the best decisions to maximise your investment outcome.

**1. Accountant** - It'll be important that you select an accountant who does not only specialise in property tax, but, an accountant who is licensed to set up and manage the SMSF ongoing. It'll be vital that you comply with the rules and regulations of SMSF legislation.

**2. Financial Advisor** - If you are looking at strategically planning your investment portfolio, it's always a good idea to have someone who understands not only the various investment and strategy options but also the insurance needed to protect the assets that you've worked so hard acquiring.

**3. Mortgage Broker** - Ensuring you structure your loans correctly will heavily impact on your ability to continue to borrow money. A good mortgage broker will also ensure that the construct of your finances allow you to manage your assets in a much easier fashion. Utilising a mortgage broker allows you to shop around for the best lender at that time with most mortgage brokers having a minimum of 20 lenders to choose from and as many as 50.

**4. Conveyancer** - As investment opportunities come up in different states, it'll be important to find a conveyancer who is able to advise you in property contract law no matter where you invest. As rules may differ a little from state to state in the country, this is an important factor when selecting a conveyancer.

**5. Property Investment Specialist** - It'll be important to select a property investment specialist who has their finger on the pulse in every market in Australia. Consultants who focus on one market are usually deemed as Real Estate Agents and it is very important to differentiate between the two. This is the team member that will dig deep and research various areas, they will also have wide connections with top developers and project acquisition marketers across the country. They will understand your end goal, borrowing capacity and ensure that properties that meet your criteria are not only presented but the numbers associated have been heavily analysed.

At One Agency we can put the above team together for you through our strong relationships with partners who are like minded and service our clients within the same high standards we do. As mentioned before we already have our own internal Property Investment Specialist Edward Labbad who is ready to get the conversation started with you.

Call or Email Edward Labbad now and book an obligation free consult to make an educated and informed decision that will change the trajectory of your future

#### Contact Details:

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# Building a winning team – The Fab 5



# Investor Notes

A background image of a notebook with a pencil and the word 'Notes' written on it. The notebook is open, showing lined pages. A pencil is resting on the right page, which has the word 'Notes' written on it. The left page is blank. The notebook is placed on a light-colored surface.



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