

PLATINUM

Rooming Accommodation

Monthly Mastermind
Event

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State Coaches



I LOVE
REAL ESTATE

Accommodation Types?

- Residential -

- ❖ House / Townhouse / Apartment / Unit / Granny flat – Self Contained Long Term
- ❖ Holiday Accommodation – Self Contained Short Term
- ❖ Executive Leasing - Self Contained Short Term
- ❖ **Rooming Accommodation** – Shared Short / Long Term

- Commercial -

- ❖ Caravan Park / Cabins
- ❖ Bed & Breakfast
- ❖ Hostel / Boarding House
- ❖ Hotel / Motel / Backpackers
- ❖ Retirement Village / Nursing Home / Aged Care Facility



Rooming Accommodation – What is it?

- Multiple occupants per dwelling
- Residential accommodation
- Short or long term occupation
- Shared facilities must be provided – not fully self contained
- Occupants = Lodgers / Boarders / Residents (NOT tenants)
- Emergency Accom / Low socio-economic occupants through to professionals
- Requires building approval - Class 1b Building
- Requires compliance with council / tenant authority requirements
- Owner not required to live on site
- On-going management requirement
- Income strategy



Rooming Accommodation – Why **Medium Risk Strategy**? (Module 3 Appendix)

Rooming Accommodation – Why **Medium Risk Strategy?** (Module 3 Appendix)

- Higher **skill level** required – DD & Management
- Investment property + **business**
- More intensive **on-going management** required
- Financing & valuation requires greater management
- Higher **cost to convert / build**
- **Competition** has a big impact
- Greater **compliance** requirements (Building & Occupation)
- **Specialist** end product – potentially fewer buyers



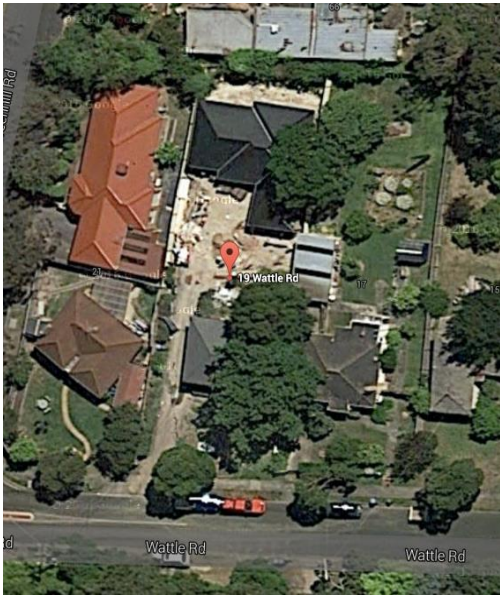
Rooming Accommodation – Process Outline

- Phase 1 – Selecting Location Based on Supply & Demand
- Phase 2 – Compliance Research
- Phase 3 – Deal Finding
- Phase 4 – Property Due Diligence
- Phase 5 – Undertake Works
- Phase 6 – Management
- Phase 7 - Marketing
- Phase 8 – Feasibility & Accounting
- Phase 9 – Financing & Refinancing



The Deal -

- Purpose built **rooming house**
- **Stacked strategies**: Subdivision, reno, rooming house build
- **Income + manufactured growth** strategy (sold reno'd house to pay down debt on rooming house to be kept for cash flow)
- **Indirect cash-cow** (created it!)



Phase 1 – Selecting Location

Base on:

- A) Your **personal circumstances**
- B) **Location** fundamentals
- C) Rental **demand**
- D) **Supply** in the market



A) Your Personal Circumstances -

- Available **equity**, borrowing capacity, **serviceability**?
- Purchase **price point**?
- **Time** availability – sourcing, creating, managing?
- Hands on manager or outsourcing?
- Distance prepared to **travel**?
- **Hold** long term?
- Level of **experience**?
- **Risk** profile?
- Metro / regional / mining – resource?



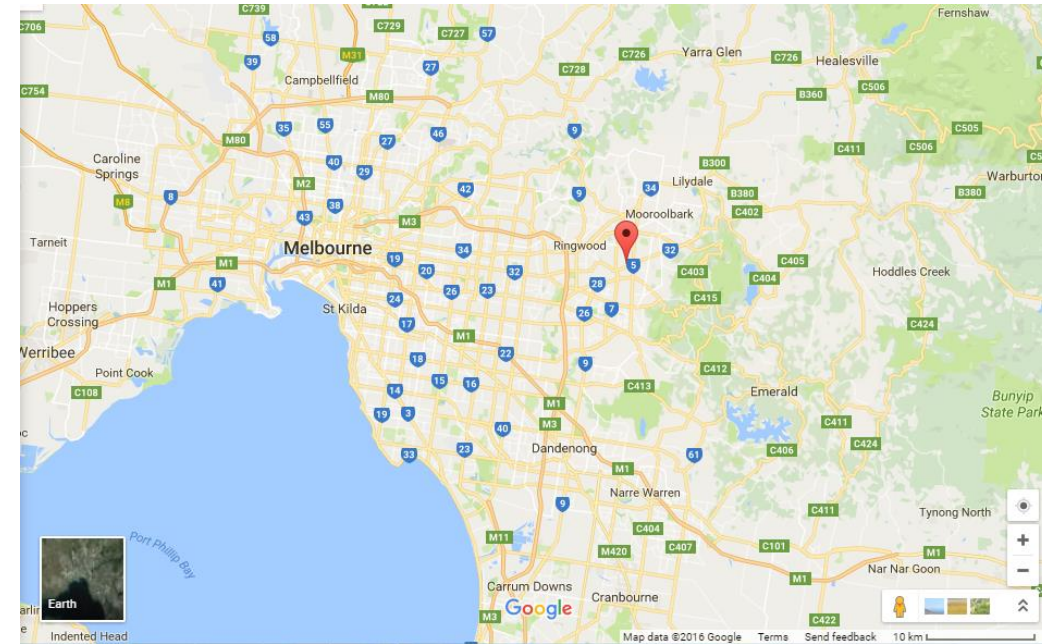
B) Location Fundamentals -

- Population size & growth
 - Employment diversity & growth
 - Income profile
 - Industry / government spending
 - Property market cycle – (supply & demand)
 - Rental vacancy rates
 - Rental affordability
 - Council attitude to development (if relevant for strategy)
-
- ❖ Summarize in spreadsheet – results, references, contacts, maps etc.
 - ❖ Avoid analysis paralysis!



The Deal – Location Fundamentals

- Employment drove location selection
- Volume population
- High rental rates relative to average income – hence rental affordability becoming an issue
- Tight rental market < 0.3% vacancy rate
- Close to bus transport (not rail)



C) Rental Demand Research -

- Phone and visit other providers where possible – e.g. “looking for accommodation for brother”
- Source info from?:

C) Rental Demand Research -

- Source info from?:
 - ❖ **Property managers** specializing in rent by room
 - ❖ **On-line adds** for rent by room - flatmates.com, gumtree, realestate.com.au – shared accom.
 - ❖ Newspaper adds – shared accom.
 - ❖ **Referral agencies** – e.g. Uni, Tafe, Hospital, Homeless services, Government Depts, Not-for-profit agencies (Churches, St Vinnies etc.)
 - ❖ Existing **service providers**
 - ❖ **Industry Associations** e.g. Property Owners Assoc



C) Rental Demand Research -

- **Run dummy add** – Gumtree, Flatmates, newspaper – advertise different rental rates & facilities
- E.g. \$180/wk shared bathroom vs \$220/wk ensuited room
- Include sample photos
- Use email address not mobile phone
- Advertise for **min 4 weeks** to gauge demand
- **Record** number of enquiries, quality of applicant, timeframe etc.



What Does the Market Want?

Research “Market Wants” from the previous sources:

- Location - e.g. suburb
- Proximity to infrastructure – transport, jobs, shops, Uni/Tafe, Centrelink etc.
- Emergency / Short / Long term
- Accom type – bedroom config, bathroom facilities, storage, parking
- Accom configuration – ground level, disability access, bedroom relative to communal areas, access to deck / yard
- Facilities offered – furnishings, parking, utilities, cleaning, internet etc.
- Room rental rates



The Deal – Market Demand Research

- Reviewed **Public Register of Rooming Houses** – Consumer Affairs VIC
- Compared suburbs of similar population size vs. Number of registered Rooming Houses
- **Internet** access essential
- **Price point sensitive**
- Car parking less important

The screenshot shows the website www.consumer.vic.gov.au/housing-and-accommodation/renting/types-of-rental-agreements/sharing-in-a-rooming-house/public-register-of-rooming-houses. The page title is "Public register of rooming houses - search". The search interface includes a "Search by:" dropdown menu set to "Suburb", a "Search for:" input field containing "I am looking for...", and a blue "Search" button. A red arrow points to the "Search" button. The page also features a sidebar with "Renting" categories, a breadcrumb trail, and utility links like "Helpful", "Print this page", and "Email this page".

The Deal – Market Demand Research

- Ran 4 – 5 adds ranging from \$130/room to \$250/room
- Flatmates.com & Gumtree
- Monitored adds for 4 weeks



- Joined Registered Accommodation Association of VIC (RAAV) – Private owners of rooming houses, boarding houses, hostels etc.
- Contacted local housing organizations, Salvation Army, Vinnies etc.



D) Supply Research -

- Research supply from previous sources
- Existing providers = **potential competition**
- The more you understand your competitors business the better!!
- Research:
 - ❖ **Where** located
 - ❖ Accom offered
 - ❖ What they **provide**
 - ❖ **Who** they service
 - ❖ Rental **rates**
 - ❖ **Occupancy** rates (vacancies or waiting list)



Research Properties For Sale – Rooming Accom / Boarding House

- Present as a potential purchaser
- “For Sale” therefore willing to disclose more info e.g.?:



SOLD

BUY 1 OR BUY THEM ALL! - Prior Offers Invited

Clayton 1-2-3/58 Wellington Road

Directly opposite Monash University, these 3 fully-furnished townhouses boast EXCELLENT returns and include "Class 1B Rooming House" permits.

Unit 1
* Returning \$37,740 p.a.
* 4 bedrooms
* 2 bathrooms
* 1 garage

Unit 2
* Returning \$37,980 p.a.
* 4 bedrooms
* 2 bathrooms
* 1 garage

Unit 3
* Returning \$37,200 p.a.
* 4 bedrooms
* 2 bathroom
* 1 garage

RECENT SALES

4
2
1

Sales Agent:
Irene Karamaloudis
Ph: 03 9544 8888
Mob: 0418 371 815
irenek@melbourneC21.com.au

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Century 21
PROPERTY GROUP

Research Properties For Sale – Rooming Accom / Boarding House

- Present as a potential purchaser
- “For Sale” therefore willing to disclose more info e.g.:
 - ❖ Income & rental rates
 - ❖ Operating & holding costs
 - ❖ Cash flow
 - ❖ Occupancy rates
 - ❖ Resident profile
 - ❖ Management
 - ❖ Compliance – Building Code, Council, Government, Tenancy Authority etc.
 - ❖ Insurances
 - ❖ Industry Associations
 - ❖ Marketing strategies

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PROPERTY GROUP

Low Supply = Low Demand or New Opportunity?

- If research reveals low supply & very little rooming accom – need to form opinion of why e.g. **low demand or new opportunity?**



The Deal – Supply Research

- Limited supply in suburb & surrounds
- Met with other Rooming house providers through RAAV
- Mapped search results off Public Register

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z						
Local Council	Full address	Business owner name	ABN	ACN	Registration status	Council contact
Kingston City	1/460 Clayton Road Clayton South 3169	Karingal Dell Pty Ltd	66 242 703 721		Registered	Email Kingston City
Kingston City	22 Bond Street Clayton South 3169	Stephen De Luca	92 278 547 844		Registered	Email Kingston City
Kingston City	23 Third Street Clayton South 3169	Yan Ming (Australia) Trading	49 985 890 892		Registered	Email Kingston City

Phase 2 – Compliance Requirements Research:

Research :

- A) Building Code
- B) Local Council
- C) State Legislation / Tenancy Authority / Office Fair Trading etc.
- ❖ **Summarize requirements** - detailing works / documents / approvals required



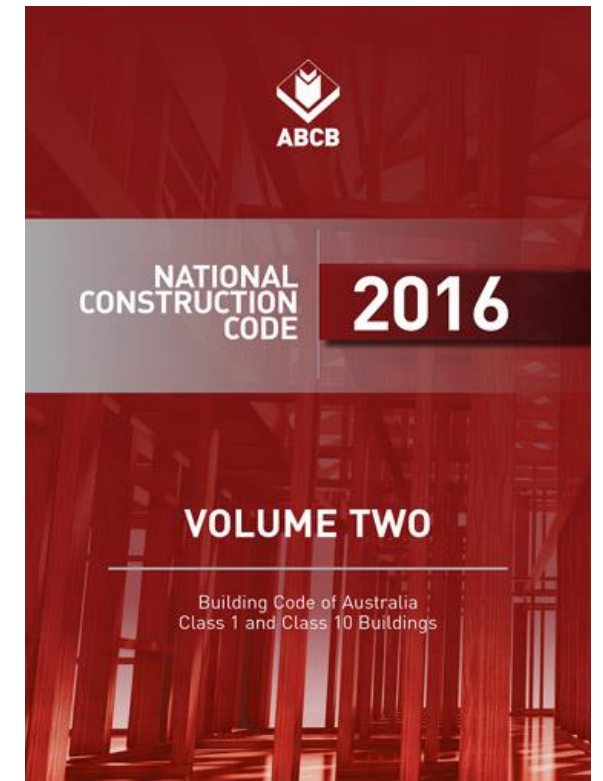
A) National Construction Code of Australia- Compliance Requirements

- **Consistent** Australia wide
- Different class of building to standard single dwelling – **Class 1a**
- 2 main building classes for multiple tenancy accom – differ in floor area & number of residents (**Class 1b & Class 3**)
- **Class 1b** = A boarding house, guest house, hostel or the like with total floor area **not exceeding 300m²** and in which **not more than 12 persons ordinarily reside**, which is not located above or below another dwelling, or other class of building other than a private garage.
- Hence **rooming accom** typically Class 1b.



A) National Construction Code of Australia- Compliance Requirements

- Class 3 = A residential building, other than a building of Class 1 or 2, which is a common place of long-term or transient living for a number of unrelated persons, including a boarding house, guest house etc.
- Hence Class 3 = $>300\text{m}^2$ &/or >12 persons



Class 1b – Key Building Requirements -

- ❖ **Linked smoke detectors**
- ❖ Access Provisions – Disability Access (ramps, doorway width, bathroom)
- ❖ **Fire exit** signage
- ❖ Disability compliant locks on rooms
- ❖ Need to comply with when building new & renovating
- **Building Certifier** to sign off on building class compliance (BA)
- Consult Building Certifier re **potential exemptions**
- Consult **disability access consultant** if required



B) Local Council - Compliance Requirements -

- Councils differ re requirements, approval process, fees and charges etc.
- Must research each Council – never “assume”
- Council Departments that may have input:
 - ❖ Town Planning Dept
 - ❖ Building Dept
 - ❖ Health & Wellbeing Dept (or equivalent)

NEVER ASSUME

Town Planning Dept. Perspective -



Questions:

- **Impact of Class of Building** on level of Town Planning assessment ?
- E.g. Class 1b on low density zoning = no town planning approval (DA) required no contribution fees charged vs Class 3 allowed only on certain zonings + requires DA + charged contribution fees per room.
- **Planning requirements** e.g. zoning, proximity to transport, flooding, bushfire prone, room sizes, shared facilities, parking, self contained-ness, max number of unrelated parties, definition of unrelated party etc.? E.g. Brisbane City Council Rooming Accommodation Code

Town Planning Dept. Perspective -

Questions Continued:

- Council assessment process, application / approval fees, contribution / headworks charges, approval timeframe etc.?
- Research recent approvals
- Research & talk to other recently approved rooming house operators



Building Dept. Perspective -

Questions:

- **Self assessable** through Building Certifier / Surveyor vs through Council ?
- If required - What is Council **approval process, inspections, fees, approval timeframe?**



**BUILDING
CERTIFIERS
DIRECTORY**

Health & Wellbeing Dept. Perspective -

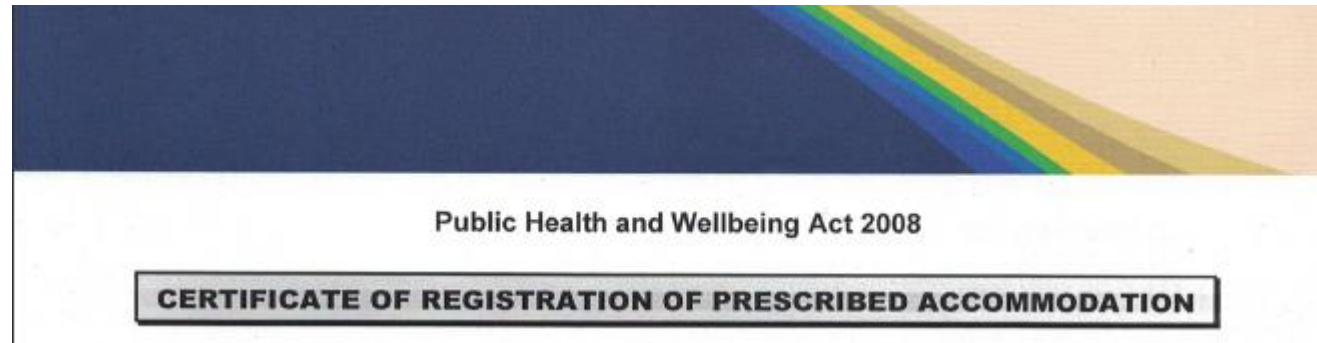
Questions:

- What requirements need to be fulfilled?
- If required - What is Council approval process, inspections, fees, approval timeframe etc.?



The Deal – Council

- Low density resi zoning OK for Class 1b
- Avoided Town Planning Dept. – Lodged application for Rooming House with Council Health & Wellness Department under State Government Exemption (Victoria) – over counter application, simple forms, \$400 fee, timeframe – couple weeks, Inspection conducted
- Council enforces Consumer Affairs VIC regulations
- Self Assessable through Building Surveyor – standard BA process, timeframe,



C) State Legislation / Tenancy Authority / Office Fair Trading - Compliance Requirements -

- Each State has tenancy authority & equivalent Office of Fair Trading e.g. Qld Residential Tenancies Authority (RTA), WA Dept. of Commerce – Consumer Protection
- Confirm if have compliance requirements?
- Typically deal with relationship between owner and residents & provide standards e.g.:
 - ❖ Privacy
 - ❖ Security, safety,
 - ❖ Amenities e.g. fridge space, lockable cupboard space, bedroom ventilation, house rules etc.
 - ❖ Health & Wellbeing Dept (or equivalent)
 - ❖ Registration requirements
 - ❖ Inspections

C) State Legislation / Tenancy Authority / Office Fair Trading - Compliance Requirements -

- Confirm definition of unrelated parties and the number allowed to reside in Class 1b vs Class 3 building
- E.g. QLD dwelling house = up to 4 unrelated parties vs above 5 = rooming house or boarding house
- **Research:**
 - ❖ Lease docs to be used
 - ❖ Landlord responsibilities & rights
 - ❖ Manager responsibilities & rights
 - ❖ Residents responsibilities & rights
 - ❖ Compliance requirements
 - ❖ Incentives for creation / retention of affordable housing e.g. NSW Dept Housing – The Boarding House Financial Assistance Program, NSW New Generation Boarding Houses Subsidy



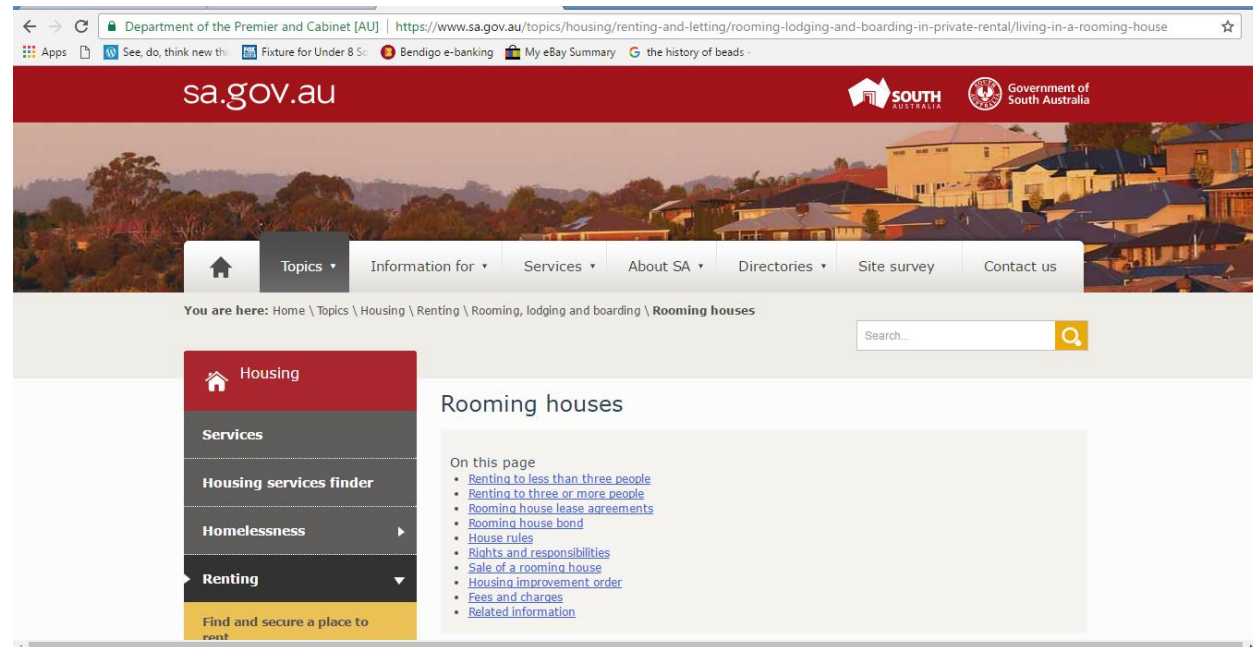
Victoria -

- State Government **exemption**
- Create **10 habitable rooms**
- Self assessable 1B building approval
- Link smoke detectors
- Universal access
- Register with **Health & Well Being Dept**
- Consumer Affairs VIC – Min standards
- Licensing Requirements - To own or operate

The screenshot shows the Consumer Affairs Victoria website. The top navigation bar includes the logo and icons for Housing and accommodation, Shopping, Motor cars, Clubs and not-for-profits, Resources and education, and Businesses. The main content area is titled 'Renting' and features a sidebar with a list of links: Types of rental agreements, Tenancy agreement for rented premises, Co-tenancy, Sub-letting, Sharing in a rooming house (with 'Minimum standards in rooming houses' highlighted), Meeting your gas and electrical safety obligations, Public register of rooming houses, Boarding, Residency in a caravan park, Site agreement, and Holiday accommodation. The main article is titled 'Minimum standards in rooming houses' and includes a breadcrumb trail: Consumer Affairs Victoria » Housing and accommodation » Renting » Types of rental agreements » Sharing in a rooming house » Minimum standards in rooming houses. It also features a Chinese translation link: 'This page is also available in Chinese - Traditional: [分租房屋的最高標準](#)'. The article content begins with 'Residential tenancy standards' and 'Introduction', stating that a rooming house is a building where one or more rooms are available to rent, and that from 31 March 2013, operators must comply with minimum standards set out in the Residential Tenancies (Rooming House Standards) Regulations 2012.

South Australia -

- Conversion through private certifier
- Potential for **exemption** from universal access by private certifier
- Most councils allow up to **5 rooms** without triggering planning application



Brisbane -

- Council has **Rooming Accommodation Policy**
- 5 unrelated parties
- **Self assessable** by private building certifier
- User friendly **Fact Sheet** to follow

Rooming accommodation in existing dwellings

This factsheet has been developed to help owners and providers of rooming accommodation to understand the planning and building requirements of the Brisbane City Plan 2014 (City Plan 2014) and Building Act 1975. Rooming accommodation includes off-site student accommodation, boarding houses and hostels.

What is rooming accommodation?

The City Plan 2014 defines rooming accommodation as use of premises for the accommodation of one or more households where each resident:

- has their own tenancy agreement
- has a right to occupy one or more rooms
- does not have a right to occupy the whole of the premises in which the rooms are situated
- may be provided with separate facilities for private use
- only share communal facilities or communal space with one or more of the other residents

The use may include:

- rooms not in the same building
- provision of food or other services
- on-site management or staff and associated accommodation

When does a house become rooming accommodation?

A premises leased by several people, each under a rooming accommodation agreement, is considered to be several discrete households under City Plan 2014 and the Residential Tenancies and Rooming Accommodation Act 2008. A dwelling house can only be occupied by one household. This means a house occupied by several tenants under rooming accommodation agreements cannot be defined as a dwelling house, and must be approved for rooming accommodation use.

What do the requirements in the Rooming accommodation code mean for me?

The Rooming accommodation code sets minimum building, health, safety and amenity criteria to ensure this type of accommodation is consistent with the amenity and residential density expectations of residential neighbourhoods. City Plan 2014 allows rooming accommodation to occur in low density residential and character residential zones for five or less individuals under separate tenancy agreements without development approval, provided it meets the acceptable outcomes (AO) for self-assessment in Section A of the Rooming accommodation code. Rooming accommodation that does not meet all the acceptable outcomes will need a development approval from Council.

To find out if you need to lodge a development application for rooming accommodation, you can assess your property against the criteria outlined in the Rooming accommodation code. The AOs for Section A are listed below. It should be noted that while you may not need a development approval from Council, you may need to engage the services of a private building certifier.

Acceptable outcomes for self-assessment of rooming accommodation

To comply with the self-assessment requirements of City Plan 2014 Rooming accommodation code, you need to satisfy AO1-6. These are listed below:


Rooming accommodation code - Section A - Acceptable outcomes for self-assessment

AO1
Development accommodates not more than 5 persons in a dwelling at any one time.
Note—The total of 5 persons includes persons residing in a dwelling house and any secondary dwelling on the same lot.

AO2
Development involving a Class 1a building or a building that would be so defined if not for the rooming accommodation use, provides no more than:
(a) 41 meter box;
(b) 41 letter box;
(c) 43 bins.
Note—Building classifications are defined in the National Construction Code. A Class 1a building is a dwelling house; an house; a row house or similar; Rooming accommodation of less than 200m² gross floor area defined as a Class 1b building.

AO3
Development provides a minimum of 2 on-site parking spaces.
Note—Vehicle parking may be provided in tandem.
Note—This car parking rate is for development that accommodates 2 persons or less where it is alone in the residential zone category. Car parking rates for rooming accommodation in other circumstances are included in the Transport access, parking and servicing planning scheme policy.

Section Break (Next Page)


Dedicated to a better Brisbane

Tasmania -

- Communal Residence
- Ease of conversion **varies between Council's**
- No permit required
- Permissible application in most zones
- 28 – 42 day approval



Tasmanian
Government

www.tas.gov.au

DEPARTMENT *of* JUSTICE

Consumer Affairs and Fair Trading

Western Australia -

- Tenancy & Planning Acts suggest **6 people allowed** per dwelling
- WA – Dept of Commerce – Consumer Protection Division
- No need for Council approval if residential dwelling and **deemed to comply**
- 5 bed 5 bath relatively straight forward to get approval to build



Department of Commerce

Our divisions



Who we assist



New South Wales-

- New Generation Boarding House Policy
- Allowable in most residential zones
- Funding & tax exemptions offered
- 4 rooms do not require communal area
- Multiple stepped strategies

Supporting new generation boarding houses

STATE ENVIRONMENTAL PLANNING POLICY (AFFORDABLE RENTAL HOUSING) 2009

The State Environmental Planning Policy (Affordable Rental Housing) 2009 (AHSEPP) helps create new generation boarding house accommodation by:

- Providing floor space incentives to encourage investment in new boarding houses.
- Setting clear standards for the design and construction of new generation boarding houses.

What is the Affordable Rental Housing SEPP?
The State Environmental Planning Policy (Affordable Rental Housing) (AHSEPP) was introduced on 31 July 2009 to increase the supply and diversity of affordable rental and social housing throughout NSW.

The AHSEPP allows for the development of new generation boarding houses in residential, mixed use and some commercial zones.

The NSW Government made amendments to the AHSEPP on 20 May 2011 to respond to matters raised in a review of the AHSEPP that was carried out after it had been in effect for a year.

Feedback during the review revealed general community support for a State planning policy to encourage more affordable rental housing, but also highlighted the need for the NSW Government to work more closely with councils and the community on identifying the most appropriate locations for new affordable housing.

The information contained in this fact sheet reflects the current policy.

Why do we need affordable housing?
Throughout NSW there is a strong need for a range of affordable housing options amongst the community. This is reflected in figures which show there were over 47,000 people in NSW on waiting lists for suitable housing accommodation in February 2010.

It is essential that government at all levels, private industry and the non-government sector work in partnership towards finding innovative ways to provide more affordable housing.

GENERAL INFORMATION ABOUT NEW GENERATION BOARDING HOUSES

What is a boarding house?
A boarding house provides a form of low cost rental accommodation for a wide range of tenants including singles, retirees, students and young couples.

The term 'boarding house' used in the AHSEPP relates to a building that:

- Is wholly or partly let in lodgings;
- Provides lodgers with a principal place of residence for three months or more;
- May have shared facilities, such as a communal living room, bathroom, kitchen or laundry;
- Has rooms, some or all of which may have private kitchen and bathroom facilities, that accommodate one or more lodgers;

But does not include backpackers' accommodation, group homes, serviced apartments, seniors housing or hotel or motel accommodation.

The AHSEPP encourages both the traditional form of boarding houses, being those with shared facilities as well as new generation boarding houses, being those that are buildings with self-contained rooms.

Where are boarding houses permitted?
The AHSEPP makes boarding houses permissible throughout the following zones or the equivalent zones for the local council area (see <http://housingcode.planning.nsw.gov.au/LegislativeandPolicyDocuments/NSWCouncilEquivalentZones/ZoneRMECode.aspx>):

- R1 General Residential
- R3 Medium Density Residential
- R4 High Density Residential
- B1 Neighbourhood Centre
- B2 Local Centre
- B4 Mixed Use

It also makes boarding houses permissible in R2 Low Density Residential zones in locations close to public transport services.

The Deal – State Authority

- Consumer Affairs VIC (CAV) - Sets guidelines that Council's enforce
- Double room > 12m² (x 3 rooms x 2 people = 6 people)
- Single room > 7.5m² (x 4 rooms x 1 person = 4 people)
- Max 12 occupants in Class 1B – built to accommodate 10 people
- 100L Food locker storage
- 80L fridge per room or 400L if shared (up to 12 occupants)
- Dining table to seat max occupants e.g. 10 seats
- 1 Bathroom & toilet per 10 occupants – built 4 bathrooms
- Random Inspections by CAV – Electrical Safety Certificate (5yrly); Certified gas certificate (2 yrly)



Phase 3 – Deal Finding -

- Identify areas that meet industry needs – **map**
- Become an **area expert**
- Use **various tools** to source potential deals:
 - ❖ Property websites – realestate.com.au, Investar, Domain, Gumtree etc
 - ❖ Realestate agents & buyers agents
 - ❖ Talk to locals
 - ❖ Letterbox drops
 - ❖ Door Knocking



Phase 3 – Deal Finding -

- Search terms for internet search & talking to agents?

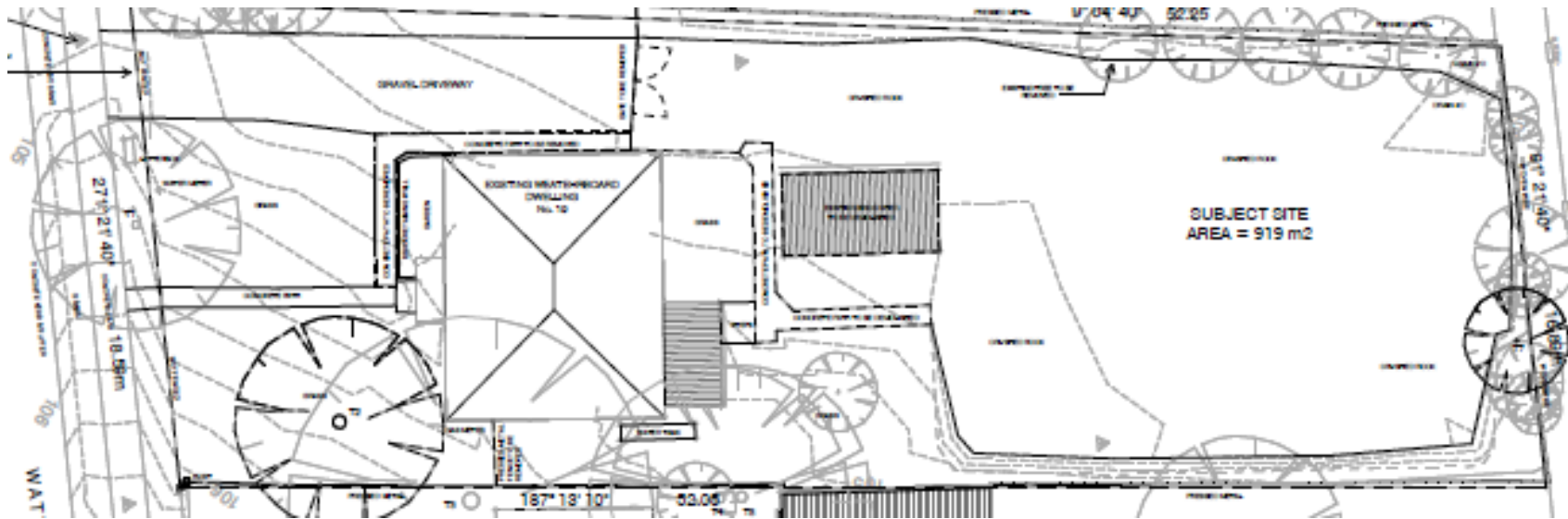
Phase 3 – Deal Finding -



- **Search terms** for internet search & talking to agents?
 - ❖ Rooming house, boarding house, student accommodation, accommodation building, share accommodation, rent by room,
 - ❖ 4+ bedrooms,
 - ❖ 3+ bathrooms,
 - ❖ Formal lounge / dining / family room (e.g. could convert to bedrooms)
 - ❖ Multiple incomes, cash cow,
 - ❖ Cash flow, high yield etc.

The Deal – Deal Finding

- Off-market deal through real estate agent
- Criteria – land size, zoning, subdivision potential, retain & reno house
- Priority – stacked strategies - subdivision priority
- Build new rooming house not reno – less on-going maintenance & repairs, higher depreciation, efficient design



Phase 4 – Property Due Diligence:

A) Property Specifics:

- General repairs, maintenance, reno required
- Property condition – termites, dry rot, rising damp, asbestos, wall cracks etc.
- Council approved, usage approved, Construction Code compliant
- Development potential



Phase 4 – Property Due Diligence:

B) Site Specific Constraints:

Phase 4 – Property Due Diligence:

B) Site Specific Constraints:

- Flooding, overland flow, sea level rise, bushfire prone, cyclone rating
- Heritage, demolition control
- Contaminated, soil type, subsidence
- Significant trees, vegetation, fauna
- Easements, encroachments, covenants
- Neighbor dispute, Council show cause notice
- Road hierarchy, resumption plans, traffic, parking
- Noise pollution – road, flight path, industry, birds, bats
- Air pollution - road, industry
- Crime rate



Phase 4 – Property Due Diligence:

- **C) Reno conversion** – Assess capacity to convert into desired no. bedrooms & configuration, ease of conversion, works required, approvals required, costs, capacity to meet building code requirements, capacity to meet Council / Tenancy Authority / Office Fair Trading requirements etc.
- **D) New build** – Assess capacity to fit on site, design requirements, approvals required, costs etc.



Phase 5 – Undertake Works

- Renovation – See **February** Monthly
- Construction – See **May** Monthly
- Council Development Approval – See **April** Monthly



The Deal - Works

- Build = 2 ensuited bedrooms + 5 bedrooms sharing 2 bathrooms
- Constructed in 7 weeks
- Built Class 1a, Class 1b Occupancy Permit issued – submitted to Council Building Dept then Health & Wellbeing Dept



The Deal - Works

- Installed **Solar system** & 2 **instantaneous gas hot water** systems to reduce power costs,
- **Rainwater tank** supplying toilets to reduce water costs,
- **Double glazing** & double brick for insulation & noise management,
- R6 **insulation batts** installed for thermal efficiency



Phase 6 – Management

- A) **Rental** Manager Selection
- B) **Operational** Management - Insurance , House Rules etc.



A) Rental Manager Selection - Questions

A) Rental Manager Selection - Questions

- Trained, Accredited & Member of State's **professional assoc.**?
- **Specialist** in rent by the room?
- **Proximity** to property?
- **Number** of properties managed?
- Managers rental **vacancy rate** vs area vacancy rate?
- Managers **avg days listed** for rent vs area average?
- **Structure** of management company – who manages, support staff, staff turn-over
- Availability of **tradies / suppliers**?
- Opening & **inspection times**?
- **Inspection** frequency?
- **Marketing** strategy?
- **Fees & charges** – tenanting, rent collection, inspections, statements, maintenance works
- Management agreement
- Engage on **short termination** clause e.g. 30 days vs 90 days



The Deal – Rental Manager

- Rent by room specialist – sourced through RAAV Assoc.
- Based within 10km of property
- 12.5% Management fee (long terms tenants) up to 30% short term
- Inspect 2 monthly
- Full service agent – advertises, tenants, pays all bills etc.



B) Operational Management -

- Insurance
- Rental Agreement Docs
- Bond, Key bond, cleaning bond
- House Rules – No occupants, cleaning, utilities usage (water, power etc.), disturbance, inspections, notices, damages, guests, parking, animals, smoking etc.
- New Residents Integration & resident mix
- Dispute resolution
- Evictions / Termination
- Rent Payment – Centrepay, EFT, Direct Debt, Cash
- Neighborly relations



The Deal – Operational Management

- Insurance policy covers Class 1b rooming house – Insurance broker
- Standard lease agreement + house rules + managers special conditions
- 2 weeks bond charged & lodged with Bond authority
- New Residents – House induction; provided own cutlery/plate/bowl/cup etc.
- Rent Payment - Direct Debt ONLY – RentalRewards
- Neighborly relations – no drinking or drug use on premises



Phase 7 – Marketing

- A) Advertising
- B) Due Diligence on Applicants



A) Advertising

- Research **competition** – See Supply Research
- Make your **add stand out** – Professional photos, targeted copy based on your market needs due diligence, inclusions
- Select **advertising platforms** – On-line, Newspaper, Agency/Dept Referrals
- Monitor enquiries & prospective residents feedback & address
- **Follow-up** property manager weekly



The Deal – Advertising

- Professional photos
- Professional staging
- Inclusions – Fully furnished incl bed, smart TV, bar fridge, excl linen, unlimited internet, power & water included
- Targeted copy – Young professionals, longer term occupancy (6-12mth)
- Advertise online & property manager
- Fully tenanted within 1 month
- Demand – Cheapest rooms tenanted first (single / shared bathroom) – price sensitive vs. facilities
- Rental Rates - \$160/wk; \$190/wk; \$230/wk; \$5/wk carpark



B) Applicant Due Diligence -

- Local to area?
- **Employed** / Unemployed / Govnt benefits?
- **Rental history** – None / shared / sole occupancy, duration, rent \$, non-compliance (TICA / Notice to Leave), reason left?
- **Relationship** status – single / partner / married / kids
- Shared accom before?
- Rental **duration**?
- Vehicle / pets?
- **Criminal** record?
- **Substance** abuse – smoking, alcohol, drugs, medication etc.?



Phase 8 – Feasibility & Accounting

- A) Cash Flow Analysis – Sensitivity Analysis
- B) Deal Analysis
- C) Tax & GST



Cash Flow Analysis – Feasibility

Item	Formula	\$
Income		
Rent		
Forfeited Bond		
Total Income	A	
Costs		
Interest - Loan		
Interest – Owners Funds		
Hold Costs (see over)		
Operating Costs (see over)		
Total Costs	B	
Annual Cash Flow	A-B	

- No specific target for positive cash flow
- Consider \$ tied up, timeframe to create, time input, management, risk, opportunity cost
- Repeat cash flow calcs for different scenarios – diff no rooms; newly built vs reno vs add bedrooms

Cash Flow Analysis – The Deal

Income	Operating Costs	Hold Costs
Room rental	Property Management	Interest
Forfeited bond (cleaning, security, key)	Utilities (power, water, gas, phone, internet)	Insurance (building, contents, public liability, landlord etc.)
Extra utilities	Advertising	Council rates
Hiring sundries (bed linen, cutlery, crockery)	Cleaning	Land tax
	Yard maintenance, Rubbish removal	Site maintenance / repairs
	Phone, Travel	Annual inspections / works (pest control, termite, smoke alarm)
	Furnishing replacement	
	Bookkeeping / Accounting	
	Compliance Costs	
	GST?	

The Deal – Rules of Thumb – Operating Costs

- Insurance - \$1,500 - \$3,000/yr
- Management – 12.5% – 30% of rental income
- Power, Water, Gas – Approx. 10% of rental income
- Internet - \$140/mth
- Cleaning - \$70/ fortnight
- Repairs / maintenance - \$500 /qrt
- Gardening - 3 mthly
- Furnishing set-up - \$5,000



Cash Flow Analysis – Repeat For Different Scenarios

Item	6 bedroom	4 bedrooms	New Build	Cosmetic Reno	Structural Reno
Income					
Rent					
Forfeited Bond					
Total Income					
Costs					
Interest - Loan					
Interest – Owners Funds					
Hold Costs					
Operating Costs					
Total Costs					
Annual Cash Flow					

B) Deal Analysis – See Cash Cow Monthly

- Profit potential of deal
- Value-add potential e.g. reno, add bedrooms
- Funds required



Deal Analysis – Profit Potential

Item	Formula	Total Costs \$
Purchase Price		
Purchase Costs		
Hold Costs		
Strategy Costs e.g. Renovation, Subdivision, Construction, Furnishing		
Total Costs	A	
End Value	B	
Profit Potential	B-A	

- **Rough Feaso** vs Detailed Feaso
- **End value** – determined by comparable sales:
 - ❖ Sold rent by room properties
 - ❖ Sold 5 or 6 bedroom houses
 - ❖ Sold house + granny flat
 - ❖ Sold boarding houses (commercial)

Deal Analysis – Value Add Potential

Item	Option A Cosmetic Reno	Option B Structural Reno	Option C Add Bedrooms	Option D Build New
Purchase Price				
Purchase Costs				<input type="radio"/>
Hold Costs				
Strategy Costs				
Total Costs				
End Value				
Profit Potential				

Add columns to feaso

Deal Analysis – Funds Required

Item	Total Costs \$	Bank Loan Funds (e.g. 80%LVR)	Owner Funds
Purchase Price			
Purchase Costs			
Hold Costs (period of doing deal)			
Strategy Costs (Reno, Subdivision, Build, Furnishing)			
Total Costs			
End Value			
Profit Potential			

- Add columns to feaso – where funds coming from

Deal Analysis – Detailed Feasibility

- Break down into line items

Purchase Price	Purchase Costs	Hold Costs	Strategy Costs (Existing House Renovation)	Strategy Costs (Subdivision)	Strategy Costs (New Build)
Purchase Price	Stamp duty	Interest - Bank	See Reno Monthly	See Subdivision Monthly	See Construction Monthly
	Legals	Interest – Owners Funds			
	Building / Pest	Insurance – Building / Contents			
	Borrowing Costs	Rates & Water			
	Mortgage Insur	Land Tax			
	Structure Set-up	Maintenance			
	Other	Other			
Total	Total	Total	Total	Total	Total

C) Tax & GST -

- Specialist advice – See WiZDOM Accounting
- As a general rule – liable for GST on any rooming accommodation you supply
- Amount of GST depends on whether short-term or long-term & whether premises are predominantly for long term accommodation



C) Tax & GST -

- **Short term** = lease continuously for < 28 days, rents includes GST & remit 1/11th to ATO, GST credits to all services, GST on sale (Going concern applicable)
- **Long term** = leased continuously for >28 days, premises predominately for long term accom e.g. at least 70% of guests stay for 28 or more continuous days, if resi then no GST payable on sale (unless new building sold within 5 yrs), if commercial then GST on sale (Going concern & margin scheme applicable)



Phase 9 – Financing & Refinancing



- **Purchase** Finance – Resi lending = 80-90%, 30 yr loan term, IO
- **Reno** Finance = Owner funds
- **Construction** Finance - Resi lending = up to 80% of build cost (assuming plans looks like domestic home)
- **Avoid** disclosing Class 1B building
- Consider financing build as 4 bedroom house, then once built add extra walls to make 6 bedroom & have **re-certified**
- High bedroom ratio, bathroom ratio, min lounge/dining can **trigger Qu's**
- Construction Finance – **Commercial lending** = 60-70% LVR, higher interest, shorter loan term (e.g. 15-25yrs), P&I?
- **Furnishing** Finance = Owner funds

Refinancing -

- What will **valuer "See" on inspection?** e.g. locks on all bedroom doors, names on kitchen cupboards, furnishing (bar fridge in each room), configuration that looks like rooming accommodation = ALARM BELLS
- Valuer likely to view as **commercial business** = commercial financing
- **Commercial finance** = 60-70% LVR, higher interest, shorter loan term (e.g. 15-25yrs), P&I?
- **Banks serviceability calculator** likely to reduce rental income (shadowing), increase vacancy rate, model on standard rental rate
- Risk of ending up with lower loan than started with – **CAUTION**
- Work closely with **strategist / mortgage broker**



The Deal - Finance & Refinance

- Financing – As class 1a = 80% of build cost
- Refinancing – Not in near future!



Granny Flats -

- **Income** strategy
- **Terms** – Granny flat, Annexed unit, Auxiliary dwelling, Ancillary dwelling, Secondary dwelling
- **Council requirements** differ re approval process, land size required, building size, usage (rent to 3rd party) etc.
- Can't be sold separate to primary dwelling – e.g. retain on **1 title** with primary dwelling – **can NOT strata title or subdivide**
- **Revaluation** often doesn't increase value above build cost e.g. can quarantine \$ hence income strategy not manufactured growth



Granny Flats -

- **NSW** – Best granny flat rules e.g. 450m² min land size, rent to 3rd party (non-related party)
- **VIC** – Can't rent to 3rd party – Use rooming house code to rent
- **SA** – Can't rent to 3rd party
- **QLD** – Varies between Councils re renting to 3rd party
- **WA, TAS, NT, ACT** – Allow renting to 3rd party, specifics vary between Council's
- Council **attitudes changing**



QUESTIONS?