

Granny flats the new cash crop

Rentals Several state governments are making it easier for homeowners to earn an income, writes **Duncan Hughes**.



Rental yields of up to 15 per cent can be achieved on backyard "granny" flats and "Fonzie" flats built over garages in the nation's hottest property markets, according to property and tax specialists.

Soaring property and rental prices combined with strong demand for rental accommodation have created rent-generating options for house owners with spare room in popular suburbs.

"There could be a goldmine in your backyard," BMT Tax Depreciation managing director Bradley Beer said.

But those hoping to cash in need to do their homework to ensure efforts to dig a goldmine don't create a financial sinkhole.

Some state governments are encouraging granny and Fonzie flats by speeding up building approvals and allowing property owners to rent to tenants other than relatives and friends.

NSW, which has the strongest rental demand, is leading the pack by allowing granny flats to be used as income-producing secondary dwellings. It is also allowing Fonzie flats to be built above garages in new developments, subject to council approval.

The flats are named after the Fonzie, a character played by Henry Winkler in the American sitcom *Happy Days*. Fonzie flats can be sold separately to the primary residence. Granny flats must be included on the same title and sold with the primary residence.

Western Australia, the Northern Territory, Tasmania and ACT also allow granny flats to be rented. They cannot be used as income-producing secondary dwellings in Queensland, Victoria and South Australia.

Peter Phibbs, a professor of urban planning at the University of Sydney, expects the potential taxpayer cost of building infrastructure needed for new suburbs will encourage other state governments to consider liberalising granny flat rentals and introducing Fonzie flats.

The 15 per cent yield is based on a typical \$120,000 one-bedroom flat using a mix of rental income and depreciation allowances, which vary according to the maximum

apartment sizes set by state and territory authorities.

BMT says the average first-year depreciation deduction for a granny flat is \$5288, increasing to more than \$23,700 in deductions over five years. These are available even if the owner is occupying the primary residence. Shared areas, such as swimming pools, patios and barbecues, can also entitle the owner to depreciation deductions.

Demand will continue to be driven by population growth, housing pressure and a trend towards single-occupant accommodation as the number of people living alone rises from about 12 per cent, according to the Australian Institute for Family Studies.

Professor Phibbs said some Baby Boomers are using their main house and

As rents continue to climb, the sites in the backyard will look increasingly attractive.

Bradley Beer, BMT Tax Depreciation

granny flat to provide income for their overseas trips by renting the main house and putting their furniture into the flat. Others are moving into the flat and allowing their married grandchildren to live in the main house.

BMT estimates the construction of granny flats has increased by about 24 per cent in the western districts of Sydney and about 10 per cent across Australia during the past two years. "Cost of construction, faster approval by councils and the comparatively low cost of construction are also making it an attractive option," Mr Beer said.

Those considering building in their backyard, or over the garage, need to carefully consider what it might involve, said Lee Janssen, the owner of Avalon Granny Flats, a building company that specialises in custom-designed houses.

Some Sydney councils have trimmed the amount of paperwork required for what are

Weigh it up

Pros

- An alternative income stream—even more if built at the back of an existing investment property.
- Easier planning regulations than alternatives such as building a duplex. But it depends on the property and needs to be considered case by case. Some states, such as Victoria, impose restrictions on who can rent them.
- Generous depreciation allowances mean you can also make claims on shared patios, pools and barbecues. Additional cash might turn negative gearing into positive gearing.
- They can add to the capital value of the main house. But this depends on the quality of design, privacy and access.

● These sorts of properties appeal to tenants who want a backyard, particularly those with animals. Nuisance pets, such as barking dogs, could be more pain than gain, particularly if neighbours complain.

Cons

- Granny flats cannot be put on a separate ownership title. That means the cost is added to the price of the property. It also means they cannot be sold separately.
- There is the potential to over-capitalise. In some markets the cost of the granny flat may not be reflected in a higher overall value for the property. This depends on rental yields and quality of construction.
- Watch out for the impact on privacy, particularly for children

wanting to play in a backyard. This is not so much of an issue on large blocks where new construction can be screened off and there is separate access.

● Oversupply and low demand are causing rents to fall in former mining-boom capitals such as Perth and Darwin. Check how many apartment blocks are in the pipeline that might become competition.

● You get what you pay for. The price of a granny or Fonzie flat is different from a modular home, kit home or flat-pack home, which often exclude the cost of design, council approval and construction. Assess all construction and planning costs before starting.

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considered to be suitable properties for development, which typically refers to the size of the block and ease of access.

"But it could take a lot longer," Mr Janssen said. "Councils are going to be asking about heights, setbacks from the street, privacy, noise ... it could take between six and nine months to receive planning permission."

He said a one-bedroom granny flat will cost about \$1500 to \$2000 a square metre, including outdoor patios. That means a 70-square-metre flat will cost about \$120,000.

Other costs, such as plumbing, engineering certifications, council approval and inspections, remain constant regardless of

There's money to be made at the bottom of the garden.

PHOTO: ISTOCK

the size, he adds. "Most granny flat kitchens would be the same as one in a four-bedroom house."

Engineers would need to be consulted before building a Fonzie flat to assess existing beams and posts. "Tacking something new onto something old can also look funny," Mr Janssen added. "You might also need to renovate the facade of the main house."

Investors also need to research whether there is enough rental demand to justify the cost. Sydney's western suburbs and parts of Melbourne are booming but in other capitals, particularly Perth and Darwin, rents are falling faster than house prices.