As seen in...

Defence housing a safe bet

Florence Chong explains why DHA properties are popular with investors

Renewed interest: DHA managing director Michael Del Gigante

SANDI Foreman and her partner Stuart Maxwell, who are about to settle on their new property, join 10,000 private investors in providing housing for the Australian Defence Force. Collectively, private investors are expected to invest $270 million to $280 million in Defence Housing Australia houses in the present financial year.

Foreman, a mortgage broker, and her partner have bought a five-bedroom house in Canberra for $565,000 from the DHA and signed a 12-year lease plus a three-year optional extension.

"I think there is a silver lining in all this gloom and doom. People with equity can now invest," Foreman says. "This is a good time to buy real estate."

DHA managing director Michael Del Gigante tells *Wealth* that he expects private investors to settle contracts valued at $50 million to $60 million by the end of June.

He says there has been renewed interest from individual investors in the DHA sale and leaseback program in recent months.

"This may be attributed partly to the volatile performance of other assets such as shares," he says.

Low interest rates, high residential rental yields and the relative security the DHA offers in somewhat uncertain economic times are also deciding factors.

Foreman says her property will yield gross returns of about 5.5 per cent based on initial weekly rental of $594 a week.

Ultimately, however, it is the comfort of knowing that it will be a hassle-free investment, without the problems often experienced by residential property in the open market.

Foreman and her partner will have to fix up the property after each tenant leaves. And there invariably will be downtime without income between tenants.

Other investors, such as Wes and Lexie Lassam from Port Stephens in NSW, plan eventually to move into their DHA investment home.

"Our children have grown up and left home so it makes sense for us to move into a smaller house," Wes Lassam says.

"We've taken up the option to lease it to DHA for another three years and at the end of it we will sell our current home and move in.

"It is a beautiful home located in a lovely suburb. Our next-door neighbour is an owner-occupier not in the defence force."

After buying the house in Newcastle for $200,000, the Lassams bought a second DHA house in Cairns for $260,000.

"Within two days of settling on the properties, we received our first rental cheque. The rent is paid in advance," Wes Lassam says.

"We get a gross rent of $395 a week for our Newcastle property and $400 for the Cairn property." He says the rent is reviewed every year.

Like many investors, they choose to pay the DHA 16.5 per cent maintenance fee out of the rent for maintaining and managing the property during the lease.

Lassam, 52, small business manager with the Greater Building Society in Newcastle, says after council and water rates and the maintenance fee, they still receive solid returns. As for capital gains, Lassam figures that his two properties have doubled in value since 2000.

But Terry Ryder, director of property research service Hotspotting.com.au, says investors should be wary.

"These [properties] are overpriced, on average, by 10 to 15 per cent compared [with] equivalent properties in the same area," he says. He says DHA believes the higher price is justified because of its lease security.

"Investors are paying twice for that security. As well as higher purchase price, also the maintenance fee is twice the level charged by real estate agents."

He says unless an investor keeps the property until the end of the lease, they can be sold only with the lease attached.

"This limits the resale market. There is only a small number of people who want to buy this kind of property," says Ryder, who has been researching DHA houses every year for the past six years.

The continued popularity of DHA housing undermines this criticism. Del Gigante says during the past decade the agency's sales to individuals have averaged $200 million to $300 million a year.

He says each DHA house is sold with a long-term lease attached and investors have to agree to lease it back to DHA for a specified term, usually nine to 12 years.

The present leases also incorporate a minimum rental guarantee, which means the weekly rent cannot drop below the starting amount. Independent valuers are appointed to review rent annually.

Before taking up an option to extend the lease, Del Gigante says, the properties have to be freshened up with a coat of paint, new carpets and modifications to kitchens and bathrooms.

"This week I was in Adelaide negotiating with 12 individual owners to update their properties," he says.

"The cost will be between $15,000 and $20,000 for each house and DHA will share the cost with the owners."

DHA houses, old and new, are sprinkled across the country.

"For instance, in Sydney we have houses in Randwick [eastern suburbs], Dee Why [northern beaches], Liverpool [southwest] and Richmond [western suburbs]," Del Gigante says. "You can drive through these suburbs and will not able be able to identify these houses."

DHA has 17,500 homes, valued at $7.6 billion, under its management. Private investors own 10,000 and the rest are owned by DHA and the Department of Defence.

ASX INVESTOR EDUCATION

Road signs of finance: how to read the market

IN recent times, financial markets have taken centre stage across the globe.

Examples of some of the phrases you may often hear through media outlets are that the All Ordinaries index has risen 2 per cent in trading today or that in overseas markets the Dow Jones has closed slightly lower. As an investor you may be unsure of what this means and how they have an effect on your trading and share portfolios.

Essentially, an index is a measure of the performance of a particular instrument through time, and a share-market index is a measure of the change in price of a basket of shares. Indexes such as the All Ordinaries index give a general indication of the trend of the Australian share market. The All Ordinaries index is made up of the largest 500 companies listed on the ASX. It was the benchmark index until March 30, 2000, when it was substituted by the S&P/ASX 200 index.

To determine which companies constitute a particular index, the companies are weighted every quarter according to their market capitalisation. The market capitalisation of a company is calculated by multiplying its share price by the number of shares it has on issue. For example, companies such as BHP and Commonwealth Bank have a large market capitalisation and would reflect a higher percentage of the S&P/ASX 200 index.

The S&P/ASX 200 index is recognised as the investable benchmark for the Australian equity market. It addresses the needs of investment managers to benchmark against a portfolio characterised by sufficient size and liquidity. The S&P/ASX 200 consists of the S&P/ASX 100 (top 100 stocks) plus an additional 100 stocks. The constituents of a particular index are managed by Standard and Poor's.

As well as being used in the Australian market, indices are used across the world to give an indication of the performance of overseas share markets. The most well-known US indices are the Dow Jones index, which measures the performance of the top 30 companies listed on the New York Stock Exchange, and the S&P 500 index, which includes the largest 500 stocks listed on both the New York and NASDAQ stock exchanges. In Britain the benchmark index is the FTSE 100, which measures the performance of the top 100 companies trading on the London Stock Exchange. The Nikkei index is the benchmark index in Japan and consists of the top 225 companies listed on the Tokyo Stock Exchange.

These indices provide investors with an indication of the direction of the overall market.

There are also sector-specific indices. They provide investors with an opportunity to view the performance of their investments against the particular sector of which they are a constituent so you can then benchmark your investment and view whether it has out performed or underperformed against the sector as a whole.

Wealth watch

LOW RATE CREDIT CARDS

Institution	Product name	Card type	Purchase rate (%)	Cash advance rate (%)	Free days	Annual fee	Rewards available?
mecu	mecu Low Rate VISA	Visa	8.99	8.99	0	$59	No
Community First Credit Union	Community First Visa Credit Card	Visa	10.50	10.50	55	$30	No
Sydney Credit Union	SCU Low Rate Visa Credit Card	Visa	10.64	10.64	55	$30	No
Bankwest	Bankwest Lite MasterCard	Mastercard	10.75	20.49	55	$59	Yes
Bananacoast Community Credit Union	BCU Classic Visa	Visa	10.80	10.80	55	$45	No
Hunter United Credit Union	Hunter United Visa Credit Card	Visa	10.99	10.99	55	$48	No
Members Equity Bank	Members Equity MasterCard	Mastercard	10.99	10.99	44	$39	No
NAB	NAB Low Rate Visa Card	Visa	10.99	19.99	55	$49	No
Heritage Building Society	Heritage Visa Classic No Frills	Visa	11.30	11.30	0	-	No
Bank of South Australia	BankSA Vertigo MasterCard	Mastercard	11.39	19.99	55	$55	Yes
St. George Bank	St.George Vertigo MasterCard	Mastercard	11.39	19.99	55	$55	Yes
Intech Credit Union Limited	Intech Credit Union Titanium 55	Visa	11.55	11.55	55	$36	No
Big Sky Credit Union	Big Sky Credit Union Low Rate Credit Card	Visa	11.70	11.70	45	-	No
Aussie	Aussie MasterCard	Mastercard	11.74	17.99	55	$49	No
Commonwealth Bank	Commonwealth Bank Low Rate Card	Mastercard	11.74	19.99	55	$48	No
Newcastle Permanent Building Society	Newcastle Permanent Value+	Visa	11.84	15.84	55	$45	No
Community CPS Australia	Community CPS Low Rate MasterCard (Silver)	Mastercard	11.85	11.85	55	$35	No
CUA	CUA Low Rate MasterCard - Silver	Mastercard	11.85	11.85	55	$35	No
FCCS	FCCS Low Rate Mastercard Silver	Mastercard	11.85	19.49	55	$35	No
IMB	IMB Low Rate MasterCard	Mastercard	11.85	11.85	55	$55	No

Information current as at April 7, 2009

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www.theaustralian.news.com.au