COVER STORY Susan Wellings

Pool your resources

There is a lot to consider before investing in a managed resort.

Is it a fabulous holiday in a favourite beachside spot or is it a smart investment in other people's dream breaks? Or is buying a strata-titled villa or unit in one of the increasing number of managed resorts up and down the coast - where you can holiday and then rent out - quite simply the best of both worlds?

We're now spoilt for choice, with up to $10 billion worth of development under way along Australia's coast, with staged extensions often on the drawing board, and the regional planning strategy released this week for NSW's mid-north stretch promising even more development. The resort complexes often appear the perfect hybrid of lifestyle add-on and a profitable investment, yet finance experts urge buyers to look closely at what's available.

A GOLF COURSE, POOL, SPA ...

Many of the managed resort complexes have wonderful facilities. Some, such as Magenta Shores, nestled between the ocean and Tuggerah Lake at The Entrance, a 90-minute drive from Sydney, and Tallwoods, a 15-minute drive from Forster, at Hallidays Point on the Mid-North Coast, have golf courses.

Others promote their own spas as their major selling point, with Mantra on Salt Beach (formerly Outrigger), the 73-hectare, $750-million coastal village at Kingscliff, even boasting a Golden Door Spa, one of Australia's leading brands..

Most have pools, gyms, restaurants and cafes and are close to good beaches, with a fair number of their apartments having ocean or bush views.

"But while many of them look fabulous, make sure you're buying from the head, rather than the heart; it should be a calculated buy, not an emotional one," says Justin Doobov of mortgage brokers Intelligent Finance. "Some resorts might sell the sizzle rather than the sausage."

HOW DO THEY WORK?

The resorts generally have units or villas that buyers can settle in permanently, choose to rent out and be managed in-house by the development's operators or a mix of both.

Sometimes, owners are limited to staying a certain number of days a year, as in Magenta Shores where they can stay 42 days, including peak periods (see box, above).

At others, such as Coast at Merimbula Beach, on the Sapphire Coast, with its two pools and tennis court between the beach and lake, buyers can dip in and out of the managed rental pool as often as they like. "It makes it more flexible," says Andrew Finlayson, managing director of developer Carrington.

"It means they can choose to use it at certain times, but then rent it out at others."

Salt has an innovative arrangement whereby almost half of its 213 apartments in Mantra resort, and nearly all 164 units in the Peppers beachside resort, are "dual key". They comprise both a hotel room and suite on one side to be rented out, and a one-bedroom apartment complete with kitchen and laundry on the other, for the owner's use.

"We've found this to be a very popular model," says Tom Ray, chief executive of Gold Coast developer the Ray Group. "And people can always choose not to rent out the room and instead use it themselves as a two-bedroom apartment."

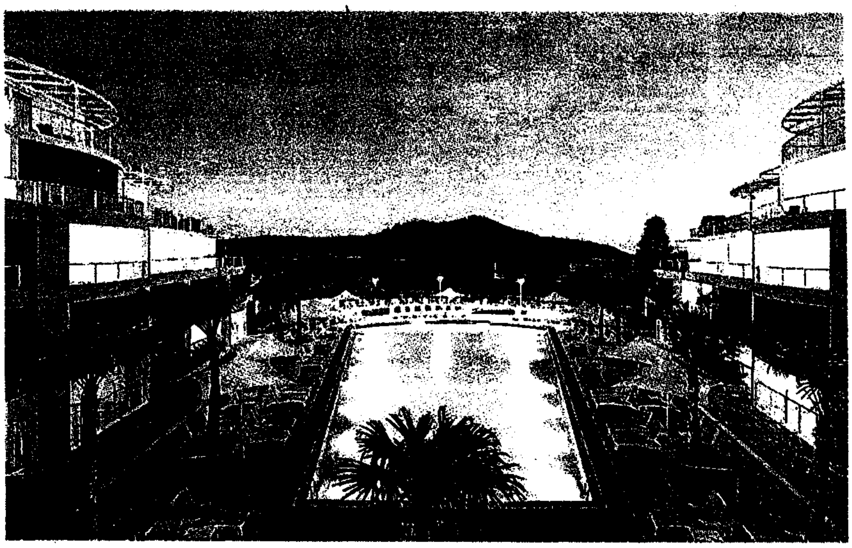
Some managed complexes, such as Salt, Magenta, Coast, Tallwoods and the Ettalong Beach Resort on the Central Coast, pool the income from all the units rented out, deduct the management fee and then divide the remaining income among all the owners, according to unit entitlements.

"Over the course of the year, it means people aren't disadvantaged by where their rooms in the resort are," Ray says. "But when you buy an apartment in the better location, you're likely to have a better capital appreciation."

At Domain Casuarina Beach Resort, on 3 1/2 kilometres of absolute beachfront at Tweed Heads, however, the rental income is not pooled, but earned individually. "We feel that's a more fair way of earning income," says David Parrish, general manager of Domain Resorts.

Likely occupancy rates are another determinant of yield. Financial adviser Marisa Broome, of wealthadvice.com, says the rates should be carefully predicted. "It might be that a real estate investment in Sydney would have better year-round occupancy," she says.

The quality of the management is also critical, says financial planner Andrew Bowring, of Maven Financial. As a child he used to holiday at a Gold Coast resort but, when it was taken over by another operator, the golf course became overrun with weeds and the buildings were allowed to become shabby. "Suddenly the value of our investment went from $200,000 to $100,000," he says.



Share the joy ... at Ettalong Beach Resort on the Central Coast all the rental income from the units is pooled and divided among the owners.

THE COSTS

Units or villas in the resorts now dotting the eastern coast range hugely in price, depending on location, facilities and competition.

Among the cheapest are units for $310,000 at Tallwoods while the more expensive can be up to $1.16 million at Coast. Most resorts have units still for sale.

Finance experts advise that buyers should do their research thoroughly, as it can be easy to pay too much when buying off the plan at a resort, as the true value has never been tested. That's even more critical when the same developer, or rivals, might build more units nearby, increasing supply.

"Also, you should always see if a bank is willing to lend 80 to 90 per cent against the property – even if you are buying with cash," Doobov says. "If no one wants to lend against it now, then no one might in five years time when you want to sell, so potential purchasers would be knocked out."

Vendors should also bear in mind that most lenders will only offer money against the value of the property itself – not towards the extra $20,000 a buyer might be paying for furniture packages, TVs and linen.

Running costs always have to be taken into consideration, too. This means strata levies, payable quarterly, usually about $1000 a quarter on a $500,000 apartment with good facilities.

Then there is the management fee, which can vary enormously. At Magenta Shores, it's 9 per cent of income, says Mirvac sales and marketing director James Bell, although no projections of income have been made. At Mantra, the management takes 40 per cent of the rental revenue brought in by all the units in order to pay for the facilities and services, and redistributes 60 per cent to owners.

"It becomes quite cost effective," Ray says. "And we have a 5 per cent net income guarantee on the beachside apartments."

At Coast, the fee is 13 per cent of gross revenue, but Finlayson says the average net yield is 6 per cent. "When you look at the Sydney average of 3 to 4 per cent, it compares very favourably," he says. Casuarina Beach Resort charges a 13.2 per cent management fee and Tallwoods a fixed fee of $550 a month. "Look at the cost closely," Broome says. "Compare it to the cost of a regular real estate agent."

IS THE INVESTMENT SOUND?

As with any investment, it depends on what you want to get out of it, finance experts say.

Buyers can claim tax deductions for the periods the unit is rented out, and depreciation. However, it may be more effective to invest in a regular unit and pay for holidays, Doobov says.

But all advisers concur that buying such a unit for a mix of lifestyle and investment cannot be fairly compared to a straight property or stock market investment.

"If you have surplus funds and you like that kind of lifestyle, then you might get 10 years of enjoyment out of it and be able to sell it for more at the end," Bowring says.

"So if you can afford it, why not have it? You'll make more out of Commonwealth Bank shares, but you can't go on holiday with the bank CEO."