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## How To Make A Granny Flat Strategy Work

By Aidan Devine

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BUILDING ON PARTNERSHIP

Once upon a time, a couple had the bright idea to utilise their backyard to build a place for granny to live. It was perfect: they were doing their part to look after the ailing dear, without having to give up any of their own space. All parties had a private area to call their own, while a babysitter or a hand in the kitchen was just a patch of lawn away.

Nowadays, as Australia's population continues to grow, the residential space around the nation's major cities is shrinking. Families and investors looking to maximise their income are getting creative and thinking outside the block. Meanwhile, local and state governments are looking to facilitate the provision of affordable rental properties, as the costs of living continue to rise. Witness the emergence of the granny flat as a common solution.



Wally Gebrael of Granny Flat Solutions gives YIP readers a tour of one of their granny flats

### What is a granny flat?

Granny flats are regularly defined as 'secondary dwellings', meaning they are secondary to the main property on a single block. The dwelling must be self-contained, meaning it has a separate entrance, as well as separate bathroom, kitchen, bedroom, laundry and living area.

The following general regulations govern granny flats across most local councils:

- Granny flats can be built only on Residential Zone property
- Each residential property is limited to one granny flat
- The block must be at least 450m<sup>2</sup> to build a granny flat
- The owner of the granny flat must also be the owner of the primary dwelling

- The granny flat can have no more than 60m<sup>2</sup> of living space. However, patios, verandas or carports can be attached in addition to that allowance
- Granny flats cannot exist on strata title, subdivided or community title property
- Granny flats cannot be built on unoccupied land or on a property used for commercial purposes
- Granny flats can be attached to the primary dwelling, or can be free standing
- Granny flats must have clear, separate and unobstructed pedestrian access

**If you convert an internal part of your house into a granny flat, it must have a separate entrance**

### Building on your existing home

Granny flats have taken off in recent years and many investors are getting caught up in the hype. The advantages can certainly stack up if you go about it the right way. The ideal granny flat situation for investment and return would be to build the secondary dwelling on the same block as

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your permanent place of residence. This can add value to your property and also provide a fantastic rental yield, depending on where you live. In most city suburbs, two-bedroom granny flats can achieve a similar weekly rent to two-bedroom units. So, let's just say you spend \$100,000 building a granny flat at your house on [Sydney's](#) north shore. Once completed, you get a tenant in paying \$450 a week. With an interest rate of 7%, you would be paying the mortgage off at approximately \$200 a week. That is a gross rental yield of 23%, or a handy \$13,000 in your pocket each year. Of course, that is one of the better case scenarios.

**\$100,000 investment + \$450 rent per week = 23% yield**

### Do your homework

First, you need to analyse the viability of a granny flat on your property and indeed in your suburb. According to Right Property Group buyer's agent Steve Waters, there are several major areas that you need to make sure you cover:

#### Council

"The first thing to do is contact the local council to find out exactly what you can and can't do," says Waters. "What frontage you need, how many square metres you need, the zoning, whether you can put a granny flat on your property."

Getting the council involved at the early stages will stop you from getting your hopes up only to suffer a surprise rejection down the track.

#### Demand

If you want to get a return, you need a ready supply of tenants willing to provide it. Not everyone wants to live in a family's backyard. Talk to local real estate agents to find out if there is demand in the area for granny flats and how much rent you might expect to get for one, then check to see how many are listed for rent online and in the newspapers.

"Drive around the suburb and see what type of granny flats are in the area," says Waters. "Some of them can look like shipping containers, which is not aesthetically pleasing and may reduce the value of a house rather than add to it."

**Tip: The most ideal properties are corner blocks, because the house can face one street and the granny flat the other. This minimises privacy concerns**

#### Costing

Get in touch with builders and specialist granny flat construction companies and have them quote the construction work and any other costs. Based on the quotes, get a real estate agent to give you an estimated market appraisal, not only on rent, but also on value as a pair of dwellings, so that you know you won't end up in a negative equity position.

"Granny flats can be a fantastic strategy if done correctly," says Waters. "In the right area, on the right piece of dirt and with the right construction costs. Don't do one just for the sake of it. Think of the whole parcel and the real net effect on your whole property, rather than just as individual dwellings."

### Making it happen

Once you are satisfied that a granny flat will be a solid investment for your property, you are ready to go. Following is a step-by-step guide to turning your back yard into a second income.

#### Step 1 – Obtain council approval

You need to get a DA (Development Approval) from your local council, which should only take a couple of weeks. The necessary forms can be obtained at the council's website. It is best to engage the help of an architect, building designer, or planning consultant, who can help with any required compliance. A local draftsman will also be able to provide professional drawings that the council will accept.

#### Step 2 – Obtain finance

You should only need a maximum loan of around \$100,000, but it is important to have your finances in order from day one. If you have sufficient equity in your PPOR, you should be able to finance it by increasing or refinancing your current loan. If you don't have enough equity, or you need the lender to consider the rental income from the flat, you may need to take out a construction loan.

#### Step 3 – Engage builders

The recent surge of interest in granny flats has seen the emergence of a number of companies that specialise in the field and act as a 'one-stop shop' for all of your secondary dwellings needs. These companies can offer a cooperative process, which is free from potential conflicts involved in engaging separate designers, builders and tradespeople. They can even take care of the

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application and approval stages if you wish.

"The first thing we ask people to do is get a 149 certificate from their local council, which outlines all the planning and zoning objectives of that property," says Wally Gebrael, design and approvals manager at Granny Flat Solutions. "From there, we go through that and make sure there are no surprises, implications or anything that might prevent you from putting in a granny flat. We research the property and make sure it can be done, then from there we design the granny flat to suit and take care of the construction from start to finish."

Gebrael says the rule of thumb for construction costs is around the \$100,000 mark, but due to the different nature of each block of land, costs could climb to as high as \$130,000.

"Because you're building in backyards, you have to rely on existing services like storm water, sewers, power and gas," he says. "Some are easier to connect to; some are a bit more difficult."

Dealing with a specialist company will help you rest easier about the costs involved and any legal issues that may have arisen if you took the project on by yourself.

**TIP: Before using a specialist granny flat company, you should check up on them to make sure they are legitimate. Check their website, ask to see other examples of their work and run a check on their building license by going to the website of your state government**

### Choosing the best area for granny flats

#### Recent [Sydney](#) projects

Suburb	Weekly rent	Weekly mortgage repayments	Net additional annual income
<a href="#">Blacktown</a>	\$350	\$200	\$7,800
Thornleigh	\$490	\$200	\$15,080
Manly	\$550	\$200	\$18,200

As can be seen from some of Gebrael's recent granny flat projects, location is crucial when looking at potential returns. As you get closer to the city, housing density means that granny flat opportunities are severely limited, but the returns are still decent out in the suburbs.

Generally speaking, whatever part of the country you are in, proximity to amenities and infrastructure will help attract big-spending tenants.

"The closer you are to shopping or transport hubs, you find there's greater demand," says Gebrael. "A lot of people these days will pay more for convenience. If you're further away from public transport, you will want to provide parking access for a car. Another good position is near a university, where you can attract student renters."

### When granny flats are not for you

Some investors get caught up in the hype surrounding granny flats and fail to take into account their own unique situation.

### Investing in a property with potential

If you go out with the intent to buy an investment property that has the potential to house a granny flat, rather than simply build a granny flat on your existing property, it's a whole new ball game.

You then need to take into account the cost and return of both properties, rather than just the granny flat.

#### Example

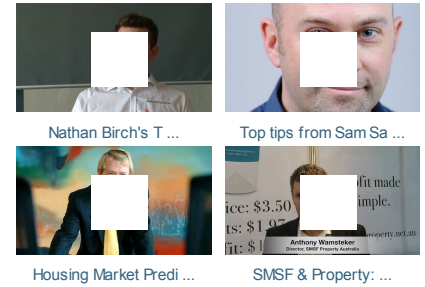
- You buy a property on a large block for \$300,000. You then spend an additional \$100,000 constructing a granny flat
- The main property rents for \$350 a week, while the granny flat brings in \$200 a week
- The rental return per week for both properties is \$550, which equals a gross rental yield of 7%
- A 7% rental yield is pretty good, but it is also achievable by getting a good price on a regular property, without having to do the construction.

### Adding to a tenanted property

Constructing a granny flat at an investment property that already has tenants in it is also likely to give you some headaches. Firstly, you will need to give the existing tenants notice of your actions and be understanding if they want to move out. A family of four that is living in a three-bedroom house with a large yard is unlikely to want to share that space with a new set of strangers.



### Videos



The value added by the granny flat can also be offset by value lost on the primary dwelling.

“Sometimes, you may have to reduce the rent on the original house, because you have taken away space and reduced what the tenants are paying for,” says Gebrael. “If it’s a small block and you’re squeezing two properties on it, the houses are going to be very close to each other. This creates a noise issue and lack of outdoor living space.”

Most houses have windows on both sides, so there will usually be one portion of the separate access point that always passes close by a window. This can be unsettling for tenants. You should also be prepared to have periods of vacancy in these situations, while tenants from both dwellings come and go until you find a harmonious mix.

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7 Responses to "How to make a granny flat strategy work"

**peter mclean** says on [20/12/2012](#)

it's a great idea, having a granny flat. however if you live in Queensland, we aren't as yet allowed to have them. the only thing you can have is additional accomodation for family members. it would be great if you guys could lobby the QLD government to allow us the same as NSW.

**cjoakes** says on [20/12/2012](#)

We call them garage apartments here in America...they've been around since the 50's. PS - I love a nice Spumante.

**Tax Worries** says on [21/12/2012](#)

You don't mention the CGT impact of altering the (normally exempt) family residential property. Any comment?

**Peter** says on [12/04/2013](#)

You do not mention the insurance requirements. Also do not mention Land Tax, as part of the proerty is income producing, so part of property would be included in land tax calculations, and if are over the land tax threshold .....

**Toby** says on [25/04/2013](#)

You dont mention the existing house yields less rent also because they lost there privacy, yard etc etc

**Toby** says on [25/04/2013](#)

Can have a granny flat in all qld councils as far as im aware... look into it. I have one on my Brisbane investment property, we are not allowed to rent them outside family, but we are also not restricted by size like nsw ( mines twice the 60sqm nsw maximum) for example...

**Guddi** says on [23/08/2013](#)

I just learnt from an agent that the councils charge you two sets of rates if there is a granny flat in the house. One for the main house and one for the granny flat.

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