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Three things you should know before investing in multi-generational living

Granny flats and multi-generational housing have garnered a lot of media attention lately as possible remedies for rising housing costs. Yet there are three important things you should know before you dive in.

As cost-of-living pressures bite and family members look for ways to support each other, multi-generational living is being discussed as a solution. Pointing out the potential, property researcher CoreLogic identified more than 655,000 residential properties as being suitable for a granny flat in Australia's three biggest cities: 242,081 in Sydney, 229,051 in Melbourne, and 184,660 in Brisbane.[1]

Yet, as more Australian families consider living together and sharing property assets, it's important to understand what's involved. Whether you're considering adding extra rooms or a granny flat to your property, here are three things to consider.

1. What are the costs and will it increase my home's value?

Increasing the size of your property may increase its value. According to a report by **Core Logic and Archistar**,[2] adding an extra two bedrooms and an additional bathroom, for example, could add as much as 32% to the value of an existing property. Obviously, the better the quality and liveability of the addition, the greater the likely value increase (among other local market factors). An independent registered property valuer should be able to advise you on the type of addition that would optimise your property's value, considering your neighbourhood. Here are some ways to estimate the costs:

- **New building.** Archicentre offers a construction **price guide**[3] and **cost calculator**[4] which may help you estimate the costs of adding to your property. Granny flat providers suggest costs from $120,000 to $140,000 for a completed one-bedroom dwelling, to between $145,000 and $155,000 for a two-bedroom home.[5]
- **Modular building.** Pre-built granny flats and converted shipping containers may be available at lower price points than those mentioned above.[6]
- **Other costs.** Site access, water, sewerage and electrical connections will also affect costs. Also consider landscaping, as it's an investment that could make the property much more appealing over the long term.

Capital gains tax exemptions[7] may be available where there is a granny flat arrangement. This is a written agreement that gives an eligible person the right to occupy a property for life that's not commercial in nature. However, ensure that advice is obtained from a tax professional if this is of interest to you.

Also remember that adding a secondary dwelling does not entitle you to sell it on a separate title in the future.

2. Is your property suitable?

State governments have eased requirements on secondary dwellings in recent years to help tackle the housing shortage, but you still need to check with your local council to see if your property is suitable. Consider:

- **Local council requirements.** Check what types of structures your local council allows in your area.
- **Space.** Consider any state or council rules for separate entrances, setbacks from fences and building to land ratios.
- **Privacy.** Will there be enough privacy for family members? And for the long term, is the privacy appropriate for a renter who's not related to you? Separate entrances, decking and planting arrangements can assist.

3. Protecting yourself and your relationships

If you're planning to live and share property assets with family members, talk to your solicitor and get the arrangement set out in writing. This is to protect everyone involved and avoid conflict in the future. You'll want to establish how much each family member is contributing to the construction or purchase costs as well as to other expenses such as rates, insurance and maintenance. Your legal agreement should also consider estate planning implications and set out what happens if a family member wants to move out or sell the property.

How we can help

While multi-generational living can bring personal and financial benefits, careful consideration and planning is required. If you'd like to learn more about how multi-generational living could fit into your financial plan, speak to us. We can provide assistance, taking into account your overall financial goals.

1 CoreLogic, Archistar, Blackfort, **Granny flats: Where are the greatest opportunities for development?**, October 2023, accessed 27 February 2024
2 Ibid
3 Archicentre **Cost Guide 2023**, accessed 27 February 2024
4 Archicentre **Cost Calculator**, accessed 27 February 2024
5 Backyard Grannys, **The Ultimate Guide to Costs to Build Granny Flat – Plans and Prices in 2023**, accessed 27 February 2024
6 Modular One, **A new standard in granny flat design**, accessed 27 February 2024
7 Australian Taxation Office, **CGT exemption for granny flat arrangements**, accessed 27 February 2024

What do rising geopolitical tensions mean for investment markets?

As conflicts between nations flare into open armed warfare and elections around the world become more contentious, there's plenty to spike investor concern. We look at how wars and political tensions influence investment markets over the long term and examine the implications for your retirement savings.

Recently, we've seen a humanitarian crisis unfold in the Middle East as the Hamas/Israel war continues, and Russia's war with Ukraine stretches into a second year. Increasingly, regional tensions with China over trade, defence and Taiwan keep many of us on edge.

More than half the world's population is heading to the polls in 2024, with many of these elections contentious, including the US presidential election in November 2024.

It's natural that we're concerned for those people directly affected by each of these tensions as well as the security of the world at large.

What does history tell us about the impact of geopolitical tensions?

While geopolitical conflict makes investment markets more volatile over shorter time frames, this volatility tends to ease over the medium to longer term. For example, the outbreak of conflicts in Ukraine and the Middle East caused investment markets to immediately fall and then recover. Indeed, investment markets performed very strongly over 2023, with global shares up 24%.[8] Likewise, historical shocks such as 9/11 and Brexit haven't had an enduring impact on global investment markets.

This is because it's the fundamentals of economic growth: corporate earnings, inflation and interest rates that drive the value of investment markets, and in turn, the value of your investment portfolio.

Generally, geopolitical tensions don't impact how economies operate, particularly the larger economies that drive global economic growth. Governments continue to collect taxation revenue, pay interest to government bond holders, and spend on programs across their economies.

Likewise, people usually continue to consume goods and services, and the companies that supply them earn profits that are paid to shareholders and bond holders.

Where geopolitical tensions can have a more notable impact is in the dispersion of returns, that is, large performance differences between companies within the same economy. Some companies or sectors may be exposed to geopolitical tensions and their performance may be supressed as a result. For example, at the time of writing, a strong US economy pushed the US share market up 28%,[9] yet the US energy sector is up only 1%[10] in comparison. This is in part due to the energy sector's exposure to energy price volatility, global supply chain disruptions and, in consequence, some consumers and companies reducing their demand.

Yet sometimes geopolitical conflict can actually amplify the performance of exposed companies and sectors. For example, if a government increases its cyber security, aerospace and defence spending, the performance of the companies that supply these goods and services is also likely to increase.

How to defend your retirement savings against a world in turmoil

The good news is that there are four things that you can do to help guard your portfolio.

1. **Diversification.** In the same way that diversifying across a range of geographies, assets and companies can drive long-term performance, diversification is also likely to be a strong defence against geopolitical uncertainty, volatility and dispersion of returns.
2. **Take a medium to long-term view.** When tensions are rising, maintaining a long-term perspective can be challenging. Yet it's important to take a medium to long-term view and avoid making sudden portfolio decisions in response to daily events.
3. **Professional investment management.** Geopolitical tensions can be nuanced and complicated which is why professional investment managers watch these events closely. They monitor geographic and sector risks and work to smooth out negative impacts while also positioning for the opportunities that emerge.
4. **Staggered deposits and withdrawals.** If you're investing or withdrawing your money from investment markets, small transactions over time mean that the impact of market disruptions on your savings are minimised. This is one of the reasons why allocated pensions, which draw down on super savings gradually over time, are a popular choice.

How we can help

If you have any concerns about geopolitical risks to your investment portfolio, speak to us. We can advise you on whether any adjustments to your portfolio are warranted, taking into account your financial goals.

8 MSCI, **Index Factsheet**, MSCI World Index (USD), accessed 27/02/2024

9 S&P Global, **S&P 500 Overview**, accessed 27 February 2024

10 S&P Global, **S&P 500 Energy Overview**, accessed 27 February 2024

The numbers

Household spending is **3.0%** higher than a year ago, driven by spending on essential goods and services.[11]

The unemployment rate is **4.1%** at January 2024.[12]

During the December 2023 quarter, the total managed funds industry rose **$176.6b (3.9%) to $4,751.5b** funds under management.[13]

Inflation continues to impact most goods and services. CPI rose **0.6%** in the December quarter and was up **4.1%** in the past 12 months.[14]

Australian retail turnover rose **1.1%** (seasonally adjusted) in January 2024.[15]

11 Australian Bureau of Statistics
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