

GRANNY FLATS

Dream solution or potential disaster?

Watching your parents age is never easy. Finding an affordable aged care solution designed to maintain their independence AND provide appropriate support can be equally as challenging.

One option gaining popularity is the granny flat. Adapting your home to provide accommodation for parents or in-laws can be a cost effective way for them to remain independent, delay the need for an aged care facility and ensure you are close by to provide companionship and assistance. And don't forget the side benefit of having a built-in house sitter and babysitting service!

BMT¹ estimates the construction of granny flats has increased by 10% across Australia in the past two years. The fastest growth has been in NSW where local councils have introduced easier planning regulations.

Granny flats are generally thought of as a separate dwelling but they can also be a renovation to your existing house. Either way, the granny flat cannot be put on a separate ownership title or sold separately. The most common arrangement is that your parents contribute to the building costs with money or assets. This is known as *granny flat interest*.

Also gaining in popularity is the Fonzie flat. Named after the Fonz in the television sitcom *Happy Days* a Fonzie flat is a loft apartment built above a garage in a new development - subject to council approval - and can be sold separately to the primary residence.

Look before you leap

It is important to understand both the pros and cons of building a granny flat such as:

Advantages of a granny flat:

- it can be cheaper than buying a house, flat or entering a retirement village
- it can add to the capital value of the primary residence
- in most cases it is a positively-g geared investment
- you can monitor your parents' wellbeing and increase the level of care you provide as needed
- having your parents close at hand can strengthen generational ties and avoid isolation
- NSW, Western Australia, the Northern Territory, Tasmania and ACT allow granny flats to be rented, so they can become an income stream when no longer required by your parents

Disadvantages of a granny flat:

- it cannot be sold separately
- there is the potential to overcapitalise
- it can potentially affect pension entitlements
- changing circumstances can lead to family conflict
- it cannot be income-producing in Queensland, Victoria and South Australia (although Peter Phibbs, an urban planning professor at the University of Sydney, predicts all state governments will look at liberalising granny flat rentals and introducing Fonzie flats in due course)

Get it in writing

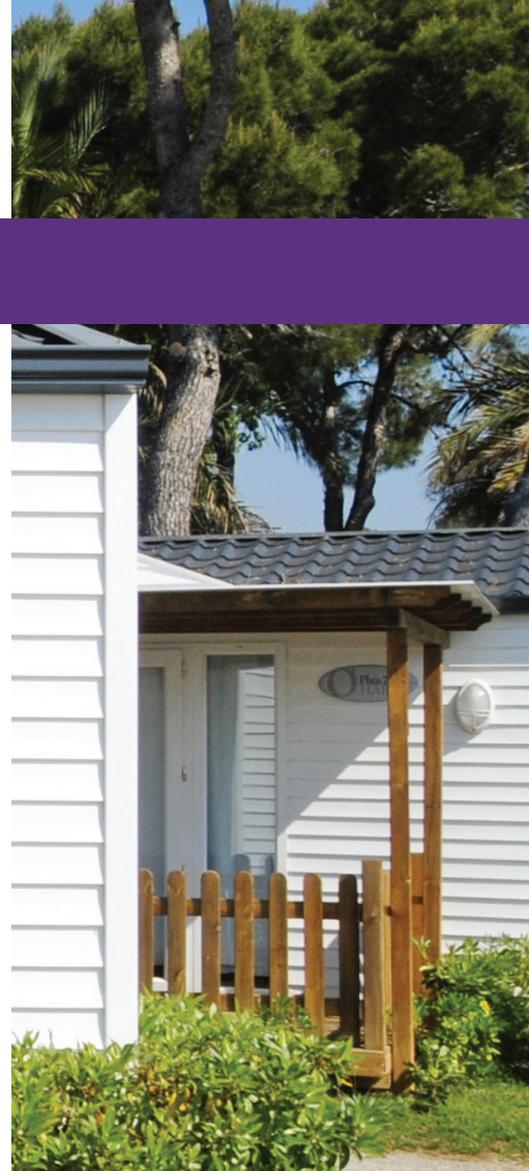
Many people are uncomfortable drawing up a legal agreement between family members believing it signals a level of distrust between loved ones. However, if you decide to build a granny flat, a Deed of Family Agreement outlining intentions and expectations offers a number of protections for everyone.

An agreement:

- makes it clear whether the money your parents contribute to modifications to your house is a gift or a loan. If the arrangement is not documented, Centrelink may regard the contribution as a gift. As a result your parents' pension may be reduced. Centrelink looks at the value of the asset transferred to see if your parents have paid a 'reasonable amount'.
- clearly outlines the level of physical care and support you are willing to offer.
- covers changes in circumstances such as a relationship breakdown, conflict between siblings, financial arrangements and estate planning issues.
- provides a pre-agreed way forward if the arrangement doesn't work out.

The cost of independent legal advice will be significantly less than resolving legal disputes down the track. More importantly, starting off with everyone clear about their legal position reduces the likelihood of future family disunity and fractured relationships.

1. BMT Tax Depreciation - www.bmtqs.com.au



Have you been thinking about a granny flat?

Call us today for a sample copy of a Deed of Family Agreement.

Like to discuss your finance options? We're here to help!