

PROPERTY MANAGEMENT FOCUS



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MINIMIZE YOUR RISKS

It is wise to take action to minimize your risk exposure and secure your gains. Are you insured? You may be familiar with insuring your house but a rented property requires more.

Insurers package a range of covers together under the banner "landlords' insurance". Benefits can include cover for:

- The building (unless this is the responsibility of an owners' corporation or body corporate).
- Public liability.
- The contents – including floor coverings, kitchen cupboards, appliances, paint, light fittings, blinds and so on.
- Loss of rent – when, for example, a fire renders the property unliveable and rent ceases.
- Malicious damage.
- Rent default – when the tenant stops paying rent.

Engage a suitable managing agent

Becoming a landlord can be a dogged pursuit. Deputize an agent to manage the tenancy. He or she will be the buffer between owner and tenant, taking emotional heat out of negotiations over rent, dwelling modifications, subletting and more.

When budgeting for property investment, factor in a period each year when there is no rent. You might be between tenancies or have a defaulting tenant.

It takes fortitude to tough out these periods so consider having a fixed-rate loan as a form of insurance. It gives you the security of knowing precisely how much you have to pay your lender each month.

Of course, it can be expensive to end a fixed-rate deal early, paying "break costs" to the lender, which can add up to many thousands of dollars, so investigate this well.

Ride the tax breaks

There are tax deductions out there and no shortage of places to go for information on them, but negative gearing is often assumed rather than relished. It's not all it used to be but it isn't bad either.

WHAT YOU NEED TO KNOW WHEN STARTING OUT

A survey of real estate agents has shown that demand from rental property purchasers is low at present, with most activity coming from first-home buyers. Rental property is not as trendy as it was a few years ago, when prices were skyrocketing.

Nonetheless, a significant number of people are taking a long-term view, noting increasing rental prices and rental yields, combined with low mortgage interest rates to make rental property cash-flow the best it has been in years.

For those taking their first step into rental property ownership, there is some general advice which might improve your chances of success. First, gain as much knowledge about the industry as possible, before you leap in to make a purchase.

We now have many good books on rental property and these are an excellent way to get a sound understanding of how rental property investment works. Pay close attention to the areas of strategies, tax and finance as these have a large bearing on how well your investment will perform.

Decide on the rental yield you require and seek out locations that have a better opportunity of providing those returns. Choose two or three of these locations and become an expert in them. Identify a strategy that will give you a better-than-average return from your investment.

This can be done by increasing the value of the property (such as renovations), increasing the rental return (such as adding a bedroom or sleep-out) or both. Once up and running, it is imperative to have an ongoing management plan in place to ensure your investment is occupied and maintained properly.

The only way to do this is to enlist the help of a property manager. It is money well spent and their experience is invaluable.

BORROWING FOR INVESTMENT PROPERTIES

The finance market has shown renewed confidence over the past few months,

with second-tier lenders coming back into the market, loan-to-value ratios (LVRs) on the increase again, and lenders becoming increasingly competitive to attract clients. We have seen evidence of this recently with no-fee campaigns and offers of interest-rate discounts.

The investment property market continues to be a very sound long-term investment strategy. A recent survey of investors by a lending aggregator suggested that interest rates were not a major concern for investors looking to purchase investment properties in 2011, with only 11 per cent of respondents nominating rates as a primary concern. This is a reflection of the confidence returning to the lending market.

Of more concern was affordability for investors. With fixed interest rates becoming increasingly attractive, this is one strategy which can provide some confidence for a client as he or she plans the expected return on his or her investment.

As with any property purchase, location, capital growth returns, and, for investment purchases, rental returns are the primary considerations of investors. And, of course, there is the vital part of the transaction: getting professional advice on what lending facilities you should take, and how these are structured.

How do you maximize your investment debt for tax purposes while reducing personal debt? What are your long-term strategies? Do you fix your facilities or split them between variable and fixed? Is your current mix of facilities structured correctly for maximum benefits? Is it time to review your finance portfolio?

For any queries, call me or director of property management Barry Phillips on 8271 1111.
