

> INVESTOR

How to make a property work harder

There are five things you should consider to maximise rental returns, Janet de Silva writes.

AN investment property is just like any other business: it needs to be well-managed and focused on its target market for the best returns.

While the recent turnaround in rental vacancy rates across most Australian states has made life a little easier for many landlords, the likelihood of interest rate rises in the near future means there is no room for complacency.

Here's how to ensure a property pulls its weight.

LEAVE IT TO THE EXPERTS

Whether you are new to property investment or an old hand, a good property manager can make a huge difference to your bottom line.

Seasoned property investors agree that employing the services of an experienced, professional managing agent is money well spent.

Buyers' advocate Janet Spencer of Buyer Solutions rates a good property manager as one that keeps a keen eye on maintenance issues and provides regular feedback to landlords, thus allowing plenty of time to budget and plan for future expenditures such as replacing carpets or repainting.

Core services include rent collection, routine inspections and co-ordination of maintenance requests. Importantly, a property manager can act as an intermediary buffer zone between the owner and the tenant.

Fees generally range from between 6 to 9 per cent of gross rental income and – as with most services – you get what you pay for.

INSPECTIONS AND BODY CORPORATE

Regular inspections are vital for landlords, particularly the estimated 30 per cent who manage their own property. Inspections can alert owners to minor maintenance issues that could develop into major problems if left unattended.

In Victoria, landlords can inspect their properties every six months. But more frequent inspections may be possible if the tenant agrees. In NSW, rented properties can be inspected up to a maximum of four times a year, with seven days' notice to the tenant required.

There is probably nothing duller than a body corporate meeting, but such meetings are also vital sources of information for landlords. This is where they can learn about problematic tenants, the budget for future maintenance costs, such as exterior painting or landscaping, and any potential levies.

TIME FOR AN UPGRADE?

Sometimes you have to spend money to make money. Routine upgrades to your property can translate into quality tenants, rental increases and a shorter vacancy time between tenancies.

Gerri Keays, national property management executive at Ray White Australia, says tenants have become more savvy and are increasingly demanding properties that are well-maintained and come with fixtures and fittings



that are reasonably up to date. "Vertical blinds that have been around for 30 years are not going to add value to your property," Keays says. The same can be said about dated kitchens, brightly coloured walls and shag-pile carpet.

Sophie Lyon, general manager of property management at Philip Webb Real Estate, agrees. "Many tenants we see these days are choosing to rent as opposed to having to rent," she says. "They are not prepared to take just anything."

RENTAL REVIEW

Raising the rent is an obvious way to increase the return on your investment, particularly in the current hotly contested rental market where vacancy rates in Melbourne and Sydney average 2 per cent or less. In the 12 months to June 2006, the increase in the median rent outpaced the annual CPI increase of 4 per cent in many areas of these cities, with rises of more than 7 per cent recorded for two-bedroom apartments in popular suburbs of Sydney.

That said, raising the rent could be counterproductive if your property remains vacant for more than a few weeks.

Anthony Atra, a leasing agent with Century 21 Cityline Realty, which specialises in the keenly sought areas of inner Sydney and the eastern suburbs, says if your inner-city

property is taking more than two weeks to rent out, it is probably overpriced.

DEDUCTIONS AND INSURANCE

While the Australian Tax Office has recently stepped up its targeting of property investors who claim expenses inappropriately, there are also plenty of landlords who underestimate what they can legitimately claim. This will be particularly important for those investors who have seen the value of their tax deductions reduced as their marginal tax rates have fallen.

Expenses for which there may be an immediate deduction include advertising for tenants, bank charges, body corporate fees, travel and car expenses for collecting rent or property inspections and certain depreciable assets that cost less than \$300 (see right). For further information download the Rental Property Report 2006 at the ATO website (see www.ato.gov.au and search for rental).

Finally, loss of rent is a common problem – particularly when tenants fall into arrears – but landlord insurance can cover this expense. Several insurers offer protection against malicious or accidental damage by tenants, theft by tenants, legal expenses and legal liability. But read the fine print, excesses vary widely as does the time you are covered for rent loss.

> WHAT YOU CAN CLAIM

Besides loan interest, rental property expenses for which you can claim a tax deduction include:

- advertising for tenants,
- bank charges,
- body corporate fees,
- borrowing expenses,
- council rates,
- decline in value of depreciating assets,
- gardening and lawn mowing,
- insurance,
- land tax,
- pest control,
- property agent fees or commissions,
- repairs and maintenance,
- stationery,
- telephone,
- water charges, and
- travel undertaken to inspect the property or to collect the rent.

Source: ATO

> THE RIGHT MANAGER MAKES A DIFFERENCE

AFTER 10 years of buying and selling properties and dealing with all sorts of tenant issues, Margaret Steel believes finding the right property manager is crucial to success in property investment.

"It really makes it so much easier if you have someone who is able to foresee maintenance issues and head off problems," says Steel, whose residential investment portfolio consists of nine two-bedroom properties, eight of which are part of two refurbished older-style inner-city apartment blocks.

Steel has been with the same property management firm since she began buying properties in the mid-1990s, just before Melbourne's last big

real-estate boom. During this time the energetic mother of two has avoided any major problems with her tenants, encouraging them by way of a personal letter to report all maintenance issues, however minor.

"A lot of tenants don't like to be seen to be whingeing, but it is better to have a leaking tap reported and fixed than to have to replace the parquetry when a tenant leaves", she says.

Steel, who built her property portfolio on the advice of buyers' advocate Janet Spencer says she regularly upgrades her properties, paying close attention to carpets and benchtops. "We figure it is worth [it] in order to get a good tenant who will stay," Steel says.

