Trilogy news
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NEWSLETTER | ISSUE 9

IS YOUR PROPERTY MANAGER UP TO PAR?

With property continuing to gain favour as the commodity of choice among Australian investors, an increasing amount of rental stock is coming online.

This has seen a notable rise in the number of boutique property management agencies offering their services to property investors, with traditional real estate agency 'rent rolls' evolving into businesses whose sole focus is providing property management services.

Having more choice is always a good thing, and the increased competition within the sector means landlords can shop around for the most suitable candidate to look after their rental.

But exactly how do you qualify a decent property manager? And how do you assess and measure their performance to make sure they're doing the best possible job of maintaining your asset?

Management fees - what's reasonable?

Fees charged by dedicated agencies are comparable to traditional real estate management costs, and are generally based on a percentage of your investment's rental income as with a commission.

You will be required to pay a letting fee, which is often charged as the equivalent of one week's rent, and an ongoing percentage of the gross weekly rental to facilitate all management related aspects of your investment.

Given management fees can be as little as 5% or as much as 12%, this charge should be negotiated with your preferred agency.

But remember you get what you pay for, so try not to be too ruthless when working out the final commission. As a guide, the average fee is usually around 7% to 9% these days.

Other variable costs can include:

1. Marketing expenses to advertise your property in different mediums
2. Statement fees
3. Administration charges for things like postage
4. Tribunal appearances and warrants of possession

You can also provide written authority for your agent to deduct things like rates, water charges and urgent repairs up to a specified amount from your rent.

The agreement

When you decide on an agent, you will need to sign a management agreement. Make sure all the matters you want them to handle and any specific conditions are negotiated and put in writing, to avoid any conflicts down the track.

Clearly state your expectations around things like:

- How often inspections should occur
- Whether you want copies of inspection reports and other management related documents to be sent to you
- Whether you want to be contacted regarding approval for all maintenance issues or only repairs that cost in excess of a nominated amount (say $200)
- In most instances, the agreement will also contain a clause stating that a notice period of 30 or 60 days applies should either party wish to terminate the contract.

What should you expect?

An experienced property manager can remove a significant burden from you as an investor, freeing up your time to find more high growth assets and ensuring all tenant interactions comply with relevant legislation.

Given that the cost for their services is tax-deductible, it pays to engage them in order to take care of all the little things. You can expect a good property manager to:

- Help to determine a fair market rental for your property
- Market the premises and find suitable tenants through comprehensive applicant screening processes
- Draw up a concise tenancy agreement and ensure it's properly completed and signed
- Conduct regular inspections, including entry and exit condition reports
- Lodge the bond on your behalf
- Pay the net rent into your nominated bank account (or via cheque), minus any deductions
- Handle the day to day management of your tenancy, including:
    - Rent collection and maintaining appropriate records
    - Handling any tenant disputes that may arise
    - Arranging repairs as needed

Your managing agent will also represent you should things go awry and you end up before the Residential Tenancy Tribunal.

They will have an excellent understanding of the legislation governing your rental premises, and subsequently ensure that all formal notices and requirements related to the lease agreement are organised in accordance with the law.

This is one of the reasons it can be difficult to self manage, because the regulations you must comply with as a landlord can be difficult for the layperson to fully comprehend and follow.

Additionally, a well-rounded property management agency has access to tenancy databases and records that may not be publically available. These resources can mean the difference between identifying a reliable resident for your property or the tenants from Hell.

Assessing your management team

A great property management team will go above and beyond for their clients. They will be pro-active in conducting annual rent reviews and keep a close eye on the local market and your competition in order to maximise your investment property's income earning potential.

Measuring the performance of your property manager is relatively straightforward. It's a case of asking the same important questions that you should raise with candidates when qualifying the best person for the job…

1. How long have they been in the industry?
2. How many properties do they currently manage?
3. How well do they know the local market, including your tenant demographic?
4. What is their tenant turnaround like?
5. How long does it take them to find suitable tenants and what does their application process involve?
6. How will they market your property and where?
7. What is the average period between tenancies?

8. How do they determine the fair market rental price for your property?
9. How well do they communicate with you and your tenants?
10. How do they manage your enquiries and any tenancy issues, including maintenance and repairs?
11. What technology do they use to assist in managing your investment?
12. What steps do they take if the tenant is late in paying rent?
13. How often have they attended Tribunal and what is their success rate?
14. How much are you paying in management fees and associated charges?

Just as you conduct regular reviews of your property investment portfolio, it pays to evaluate the performance of your property management team. If your current manager comes up wanting, it might be time to look elsewhere.

Remember, how well your property manager works for you can mean the difference between a strong cashflow position and a shaky one, thereby influencing the long-term success of your portfolio.

With more and more options available in the form of a burgeoning property management industry, it's easier than ever to find the right person for the job and make changes if something isn't quite right.

6 WAYS TO IMPROVE YOUR CASHFLOW POSITION

Success in property investment requires meticulous planning, particularly around your finances and how you sustain your portfolio for the long term.

Creating an optimal cashflow environment is essential, as you will require a solid fiscal foundation from which to manage your mortgage repayments and other associated investment outgoings, such as property management and professional service fees, rates and maintenance.

Following are 6 easy steps you can take to strengthen your cashflow position and minimise the risk of coming up short at any stage throughout the acquisition phase of your investment journey.

1. Review your rent regularly.

Given that the rental payments your tenants make will be the primary means by which you consistently manage your property investment expenses, it's essential that you receive the maximum possible amount for your asset.

A pro-active property manager will be your greatest ally when it comes to establishing a fair market rental price for your investment, and should conduct annual appraisals to determine if you can ask your tenants to reasonably pay a little more.

Given the incredibly low interest rate environment and buoyant accommodation market of the day, property investors can easily sustain that enviable, neutrally geared position in many instances, just by keeping on top of market rent reviews.

2. Manufacture extra income and equity all at once.

Not only can minor refurbishments to a tired property investment immediately boost your rental yields, they can also see you manufacture instant equity if the right kind of cosmetic improvements are undertaken. This gives you the capacity to augment your cashflow in two ways…

In the first instance you are within your rights to ask a higher rent on the newly renovated premises, thereby increasing your bottom line. And secondly, you could access some of that extra equity you've created to establish a cashflow buffer, consolidating your financial position with a bit of added security.

3. Maintain a cashflow buffer.

In a natural segue from the above step; it's impossible to discuss a healthy cashflow position without mentioning the need to maintain a suitable cashflow buffer.

Establish a Line of Credit or Offset account linked to your mortgage and you have immediately boosted your cashflow by reducing the interest payable on your loan (based on the balance of your cashflow buffer).

How much you need in a 'rainy day' account will depend on your portfolio position and risk profile as an investor. Essentially, you should at the very least have enough to cover any shortfall there might be between your rental income and mortgage repayments for a year.

In other words, if you have to contribute $10,000 per year from your own pocket to hold onto your investment, you should have at least $10,000 in an offset account. This would give you 12 months of breathing space should some unforeseen circumstance see you lose your job, tenants or any other regular income.

Consider how many years of "safety" you need to sleep soundly at night and then build your buffer accordingly. For some it might be two years – or a $20,000 buffer in the above instance, for others it might be 6 or 7.

4. Refinance for a better deal.

Reducing your level of debt immediately improves your cashflow position. It's simple logic – the less debt you have, the less interest you pay on that debt and the better off you are from a cashflow perspective.

This is perhaps the best possible time in lending history for property investors to negotiate a better loan, or seek one elsewhere if necessary.

Competition to win and retain business is fierce among the banks, and there are deals to be done.

It might seem like an arduous task to refinance one or more investment properties, but if it means saving tens of thousands in interest repayments over the life of your loan(s), surely it's worth it? And remember…a good mortgage broker can work wonders for you.

5. Find a good accountant.

One of the benefits in being a landlord and providing private rental accommodation for Australian tenants is the very helpful tax incentives. Claiming all legitimate deductions and ensuring you have an up to date depreciation schedule drawn up by a professional Quantity Surveyor are two of the measures your accountant should assist with to reinforce your cashflow position.

And it's not just at tax time that you can use allowable deductions to boost your income either, with provision made to withhold portions of income tax payable through your employer in certain circumstances, via special application to the ATO.

Make sure your accountant is helping you make the most of the property investment tax perks available to you.

6. Review your portfolio and make any necessary changes.

We all find it difficult to admit to a slight error in judgment, particularly when it comes to something as significant as the hundreds of thousands of dollars you'll invest in a property asset. But the fact is any real estate 'lemons' you might have acquired along your journey could potentially sour your entire portfolio.

You should assess the progress of your property investments every year, so you have a consistent measure of their performance. If you identify an underachiever that's simply not providing the necessary returns to ensure you reach your end objectives, have the courage to admit you made a mistake and then be pro-active about implementing an adequate solution. Throwing money at a dud asset is a serious waste of critical cashflow.

INVESTORS OPTIMISTIC ABOUT INTEREST RATES AND REAL ESTATE

In a climate of continual newsfeeds and non-stop information, property investors could be forgiven for getting spooked by all of the negative press Australia's residential real estate sector attracts.

Luckily though, the availability of balanced reporting from industry insiders who understand the rules of real estate and the intricate workings of market cycles is just as prevalent.

And it usually paints a vastly different picture, eliminating the doom and gloom that sells newspapers to reassure investors that housing is a stable and reliable commodity, when approached with the appropriate strategy.

Thankfully, more investors seem to be listening to the latter message and paying less attention to the alarmists, with sentiment surveys revealing a high degree of optimism among property punters as we head into 2015.

Aussies most confident investors

According to a Colliers International 2015 Global Investment Sentiment Report, "Pacific investors (across Australia and NZ), remain the most confident in the world about property investment conditions thanks to sustained levels of strong economic growth and improving global sentiment."

And our high level of confidence is accelerating, with a whopping 60% of investors expecting favourable market conditions to endure across 2015, compared to just 35% last year.

Data from the study also revealed that 61% of local property investors intend to expand or increase their asset base over the next 12 months, while 34% plan to maintain and consolidate their current portfolios, with only 5% thinking about reducing their real estate holdings.

Interestingly, 75% of respondents to a Smart Property Investment and PIPA Property Investment Sentiment Survey from October last year, said if the current low interest rate environment continues across 2015 they would consider buying more investment properties.

The same research findings showed that 79.6% believe now is a good time to invest in property, with 30.1% citing favourably low interest rates and 21.8% stating stability compared to other asset classes, as the reason they felt property represents an attractive investment right now.

It's reassuring to see that the message about how and why to invest in bricks and mortar as a commodity is apparently filtering through.

Just over 60% of investors who participated in the SPI/PIPA survey stated they select property assets based on a long-term strategy and 64.9% are buying based on capital growth prospects. While 51.5% said their overall appetite for risk as an investor was medium/high.

Feeling good about our fiscal future

One of the reasons Australia's property markets are maintaining their current, relatively high level of esteem with investors is obviously interest rates. So what do punters anticipate from the Reserve Bank in 2015?

Data from research house Investment Trends suggests that the number of investors who expect the RBA to slash rates when they reconvene in February has increased more than sevenfold, from just 4% in August to 30% in December.

Contrary to the apparent tide of investor enthusiasm outlined in the aforementioned two reports however, Investment Trends research analyst Recep Peker said, "The December edition of our monthly Investor Intentions Index found a sharp deterioration in investors' outlook for the Australian economy."

He said the proportion of active investors who planned to increase their exposure to property investment in the next month was just 3% - the lowest it's been since October 2011.

Senior rates strategist at ANZ Bank Martin Whetton, said falling global oil prices and poor employment data had people banking on further rate cuts over the first half of 2015.

All of this research comes on the back of languishing returns on cash and term deposit accounts, as well as an unimpressive 7.5% investor yield on Australian super funds for 2014 - a far cry from the bumper 16.3% netted in 2013.

Many market analysts believe these less than enticing returns will force more investors to seek out alternative vehicles to fund their retirement, including local and international real estate.

Overall, it appears as though we are in for another interesting year in Australia's housing sector. Numerous global fundamentals operating on an increasingly worldwide economic stage will continue to shape local consumer sentiment and habits into the future.

The question is, what and who will you be listening to across 2015? And what will be the basis of your next investment move?

10 THINGS I WOULD TELL MY CHILD SELF ABOUT THE TOOTH FAIRY (AND OTHER STUFF)

Throughout life we have the opportunity to learn many valuable lessons. Some things we find out the hard way and some the easy way. All too often it's the former however, as expectations go unmet and disappointment ensues, which begs the question, why is it we seem to set our children up for a fall?

Think about it…we tell them that once a year some fat, jolly guy in a red suit will shimmy down the chimney and give them a bunch of stuff just for being 'good', even though we've spent most of the year thwarting tantrums and playing referee to sibling spats.

Irrespective of how 'naughty or nice' little Johnny has been, he will invariably end up with loads of shiny new toys, because we live in a material world and as Madonna so eloquently put it, we are all essentially material girls…or boys. You get where I'm coming from.

The point is, life might be far less disappointing and a lot more rewarding if we were never promised something for nothing as children. Or at least, if we could re-visit our child self and give them a heads up on some important life lessons, including…

1. The tooth fairy is giving you a head start, so take it! One dollar invested is worth a thousand spent unwisely. Don't look a gift horse in the mouth (pun intended) and always put your money into a worthwhile asset before you squander any excess on things you want but don't really need.

2. Never trust a bunny with chocolate. We may as well get the entire hoard of mythical gift giving critters out of the way in one fell swoop, so let's talk the Easter Bunny. Yes, the odd chocolate here and there makes a nice treat, but looking after your health should be a priority in life. In this world, you literally cannot afford to be sick, so please take care of that body – it's the only one we've got!

3. Santa is setting you up to fail. Sad but true, I know. You get out of life what you put into it and there's no such thing as a free lunch. Expecting something for nothing will only lead to disappointment and is a mentality that prevents people from taking affirmative action to improve their lot in life. No one is going to hold your hand and do it all for you. Which leads me to my next little insight…

4. Your parents did the best they can. At some point you have to stop blaming them for your misgivings and start taking control and responsibility. The sooner you realise this, the sooner you can get on with creating the life you want and achieving the success you strive for.

5. Education is important, but so is free thinking. Learn as much as you possibly can from your teachers, but never restrict your learning to set curriculums. Broaden your horizons, absorb all you can from the school of life and remember, you can never know too much. Become a critical consumer of information, because what you read, hear and see is not always what it seems.

6. Mistakes are just opportunities in disguise. Try not to dwell on worries and regrets. We all make mistakes, but the biggest blunder of all is failing to learn our lesson, apply it and move on. Keep putting one foot in front of the other, improving yourself and your path with every step you take and every gaffe you make. I'll be watching you!

7. Do what you like…within reason. Follow your passion in life and chances are you'll end up in the job of your dreams, with the man or woman of your dreams. Chasing money over happiness and personal fulfilment often leads to a life of emptiness and longing. Ask those who have achieved great success their secret and I can guarantee 99.9% will tell you the key is to do what you love. Above all else, know your truth and you will inevitably end up on the path that's right for you.

8. Haters gonna hate. A wise man once said, "What other people think of you is none of your business". This is a fantastic manifesto to live by. Don't allow yourself to be brought down by the opinions of others. Be your own person no matter what and you'll naturally draw people into your life that appreciate you just as you are. Remember, the lion doesn't lose sleep over what the sheep think of him.

9. Procrastination is the killer of success. It can be tempting to put things off and promise ourselves that we'll get around to that 'one day'. Take investing for instance…many would-be punters fall victim to fear and uncertainty, opting to do nothing when the fact is, anything would be more productive. Harness that ambition and drive you have when growing up and remain pro-active throughout your life. You'll be ever so grateful you did.

10. There are no problems, only solutions. Look for answers to your questions and stop dwelling on all those little molehills you perceive as troublesome mountains. A problem is just a solution waiting to happen, it all depends on your point of view.

Most of all enjoy the ride. Life just seems to get faster as we get older, so slow down, smell the roses and do all those wonderful things advised by common proverbs and clichés. There's a reason for them. Just don't be literal about it, because a bird in the hand can get really messy!