5 Obstacles To Tenanting Your Rental Property

This Issue:
February 21, 2017

TRILOGY news
"the property investor's mortgage broker"

Cashflow and capital growth make the property investment world go 'round. Really, when all the strategies are said and done, it's that simple. You need both to make a successful real estate portfolio.

As such, attracting and retaining reliable, paying tenants for your rental is essential to the survival of your asset base and should be very high on the priority list, right there behind considered asset selection.

Getting the location and property itself right, in context of your market, will of course go a long way to determining how readily you can find decent residents.

But there are a number of other factors to consider when it comes to the blockages that can potentially inhibit that necessary, consistent income stream. Here are five big ones…

1. The Price

With masses of market data available via online property portals, today's tenant is more educated (and discerning) than ever. Price your property above expectations and you'll fail to attract the market.

Your rental value must be based on what local tenants are willing to pay, not just your financial needs as a property owner. In this instance, it can literally pay to lower your sights a little and enjoy consistent cashflow, rather than unpredictable spurts of interrupted income.

2. Vacancy Rates

When we see a surge of investment activity in a particular location or, as has recently occurred, a glut of new apartment stock come online all at once, vacancy rates can start to creep up in certain pockets.

This is commonly witnessed when investors buy into speculative areas or developments 'en masse'. Think the resources boom and mining towns built on the back of this single industry.

When tenants are spoilt for choice due to a saturation of rental accommodation, for whatever reason, you can end up with an asset that's doomed to fail in the long run.

3. Asset Selection

On the odd occasion, there's no escaping the fact that you've simply bought a 'dud', in a location lacking the necessary amenity to attract and retain good long-term residents.

Tenants, just like everyone else, require a diverse local industry base within easy commuting distance of various employment opportunities. How else will they pay the rent?

Many prioritise lifestyle amenity and well-established social infrastructure, such as education and healthcare facilities. It all comes back to knowing your tenants and targeting their requirements accordingly.

4. Marketing

As just mentioned, the first critical step in minimising rental vacancies is to know your tenant. Even a basic understanding as to your target audience, what they want and what they're prepared to pay will dramatically increase your chance of successfully finding good, reliable tenants.

Your property should be sold to a prospective tenant with much the same gusto employed to reel in a prospective buyer…because one is just as important to the long-term viability of your portfolio, as the other.

5. Presentation

Today's digital marketing is a highly visual medium, where tenants generally make decisions on the basis of their immediate emotional response to your property. Or more importantly, the first impressions it makes online.

Staging your rental asset to translate its liveability in pictures is important to make it stand out from 'the crowd'. Your investment must look inviting and homely if you want it to 'reach out and touch' the long term tenant audience.

All The Small Things... Or 10 Anyway

This Issue:
February 21, 2017

TRILOGY news

"the property investor's mortgage broker"

Irrespective of your intentions as a property investor, it's important to understand what makes your market tick. And I'm not talking about tenants here. Yes, tenants will keep your cashflow in check. But they won't ultimately determine the end value of your asset. That's up to the buyers.

Whether you're planning on selling a property to unlock equity, looking to refinance, or actively seeking a new addition for your portfolio, recognising what influences buyers to pay top dollar will certainly work in your favour.

Not only do you want to discover what will draw purchasers in and engender sufficient emotional response to really want to secure a certain type of property in a certain type of location, you also want to know what will equally repel them.

Matters that might seem small to you or I could be quite significant to prospective purchasers. Hence, you need to make every effort to step into the shoes of a potential buyer and ask…what might make them run, and what might make them keen to offer the asking price?

To get you comfy in those shoes, here are 10 of the biggest 'small things' that can turn a potential buyer off and diminish your investment's value or conversely, really float their boat…

More than just location

Investors are frequently reminded that location, location, location can be a winning capital growth trifecta…if you get it right. But what exactly does the 'right location' look like?

From major considerations like employment accessibility, to which school zone the neighbourhood falls in, there are many variables that can determine whether homebuyers will be willing to pay that little bit extra to live in a particular area.

1. Everybody wants to work

Well, maybe that's not quite true, but we generally need to make money if we're going to service monthly mortgage repayments. As such, the diversity of industry and employment opportunities available in any given location (or lack thereof) can either reel buyers in or drive them away.

2. Get in the zone

For family buyers, the question of offspring education will be a high priority, along with access to a variety of recreational and entertainment amenity in the local community. Remember, the more well regarded the local primary and secondary schools in the district, the greater the chance of drawing in cashed up mum and dad purchasers.

3. Take a walk on the wild side

Or maybe you could catch a tram, train or bus instead? Either way, an increasing number of buyers are prioritising properties located in neighbourhoods well serviced by established public transport infrastructure and a high 'walkability score', as it's commonly known.

This essentially means places where you can leave the more expensive car at home, accessing work, shops and leisure pursuits on foot, by bike or, if you live in Melbourne and can figure it out, with a magical Myki card.

4. The price is right

At least you want to try to make sure it's as close as possible. If you happen to be selling an investment property, anticipating and advertising an unrealistic price point can really get in the way of meeting your market.

Whether you over-inflate the asking price to give yourself some breathing space for negotiations, or just as the result of poor advice from an estate agent, quoting lofty numbers will alienate homebuyers and narrow your potential purchaser pool.

5. Do you like what you see?

Logically, appearances matter when it comes to how much value the market will place on a property. And it's not just the appearance of the building and surrounding allotment that will either work in or against your favour either. It's the surrounding streetscape(s) as well.

Remember I mentioned earlier about seeking out a high appeal area with a diverse employment base? Well, make sure you don't take that too literally and end up on the doorstep of an industrial estate, or a vast expanse of land nearby with commercial zoning for future development

You should also pay close attention to the surrounding properties when considering what your market wants.

Noisy neighbours with obnoxious pets (or vice versa), and homeowners or tenants on either side of the fence who don't understand the concept of 'curb appeal', can really drag the value of a property down. No matter how presentable you make it.

This is particularly the case when you're considering a property investment within some type of apartment or townhouse complex.

6. Is it retro chic or just old and bleak?

There's no denying that everything old generally becomes new again. Many buyers love period and architectural features and will pay more for unique or quirky characteristics. But not everyone prizes circa 1985, brown brick veneer.

If you do plan to refinance or sell an investment property, the end result in terms of value gain will be impacted significantly by, whether or not the kitchen and bathroom need an upgrade for instance.

Buyers will always pay a premium for a 'simply move your stuff and settle in' type of property. Just ask any home improvement reality TV host!

On the flipside, if obvious work is required, this will be used to drive the price down in buyer negotiations and likewise, can compromise bank valuations.

7. Let there be light!

An increasingly important consideration among young homebuyers in particular – remember Millennials will soon start to dominate the market – is layout.

Just as a modern kitchen and bathroom can work wonders when it comes to upping the price point of a well located property, so too will an abundance of natural light streaming in through large, picture windows into vast, open living spaces.

Awkward floorplans and poky rooms make it difficult for people to imagine living comfortably in the space, thereby diminishing that emotional tug at the heart strings you want to evoke in a potential purchaser; or a number of them.

8. A place for everything...

Storage. Remember that word and use it wisely when you're selecting an asset. The more the merrier when it comes to functional storage options adding value.

Secure car spaces are another big one; even if your buyer is a young, upwardly mobile Millennial who trams it to work and you're trying to move a one-bed apartment in the city.

And remember...the tech revolution means more of us have greater flexibility in choice as to how, when and where we work. A dedicated home office will wow buyers into parting with a few extra dollars, when executed the right way.

9. Speaking of technology...

High tech gadgets and gizmos, alongside decent Internet connectivity, have the same favourable impact as that dedicated home office.

10. Time is on my side

At least that's how you want homebuyers to feel when they walk into your low maintenance investment property. Everyone is busy these days; a syndrome of modern life I suppose.

If you can make a property seem less 'beast of burden' every weekend, and more self-maintaining, allowing residents to enjoy brunch and coffee in a nearby swanky café, you'll be onto a winner.

Ultimately, it's all about what the market wants.

What Is The New Lending Landscape Costing Today’s Investors?

This Issue:
February 21, 2017

TRILOGY news
“the property investor’s mortgage broker”

Reports continue to emerge of investors taking advantage of our ongoing low rate environment, pushing up prices in key areas where returns are most attractive. And in response, regulators are getting antsy once more.

Stories abound of equity laden, mum and dad purchasers raiding the banks' coffers and pushing potential first time buyers out of inner city markets, particularly in Melbourne and Sydney.

Of course investors are not lamenting the monumental value growth we've seen across pockets within both of these major urban hubs in recent times.

Interestingly though, as 'more fortunate' property owners celebrate rising house prices (think of all that additional equity), in this instance it seems that cheap credit and exponentially climbing property values are actually costing investors more than most realise.

Side by side comparison

Recently the Trilogy Funding team undertook some professional development, with our brokers honing their servicing calculation prowess to ensure we secure the best possible finance deals and structures for clients.

During the training, two examples were provided to demonstrate how lenders calculate serviceability – the applicant's capacity to repay a mortgage – in the instance of a loan for investment purposes.

In one case, the applicant with a combined net monthly income of slightly more than $6,000 and total outgoings of $3,380, just passed the bank's servicing requirements with a $14 surplus, once the applicable HPI and buffer were applied.

The HPI, or Henderson Poverty Index, is a sliding measure used to calculate variable expenses, depending on the applicant's personal circumstances. In this case, a couple with three dependents whose monthly expenses, based on the applicable HPI, totalled $2,160.

They also had a loan outstanding of $500,000, which attracted a 0.10% buffer of $500.

All of the figures plugged into the servicing calculator in this example were based on lender's risk measures from back in 2003.

So…a time before the GFC that sent our finance sector into a tailspin of change, and well before the recent regulatory rumbles influencing how the banks are assessing investor borrowers now.

Fast forward to the present day, and even though property values have increased, while interest rates have decreased to record lows, investors are in more of a quandary when it comes to the cost of servicing a loan.

With an approximate combined income of $6,660 and outgoings of $2,675, the couple with three children would now require a surplus of $4,496 to cover all of their outgoings based on today's HPI values, and a higher buffer of 0.19% on their existing $500,000 loan.

This means they'd fail the servicing criteria by just over $500.

In a nutshell, the applicants from 2017 are $607 per month better off due to tax cuts and $705 better off each month as a result of lower interest rates.

However, they're $1,386 worse off due to HPI increases and an additional $450 per month worse off because of a higher buffer rate.

In other words, investors had a greater capacity to service debt 14 years ago in a less risk adverse, higher interest rate environment.

And if industry regulators have their way, serviceability assessment and risk criteria calculations are only set to get tougher.

APRA makes itself clear

Late last year, the Australian Prudential and Regulatory Authority made it clear that authorised deposit institutions should be using a buffer of at least two percentage points when assessing a borrower's serviceability.

The regulator also suggested the Henderson Poverty Index was an obsolete risk management tool, instead recommending the use of a borrower's declared living expenses or an appropriately scaled version of the Household Expenditure measure (HEM) or HPI.

In its report APRA states, "Prudent practice is to include a reasonable estimate of housing costs even if a borrower who intends to rely on rental property income to service the loan does not currently report any personal housing expenses (for example, due to living arrangements with friends or relatives)."

It would appear stay at home investors are no longer safe either…

Principal and founder of Digital Finance Analytics Martin North, recently told Australian Broker, "If I were in their (APRA's) shoes, I would be more worried about the risk in the books than they are. So essentially while they've crystallised a lot of things and they've made a few changes, to my mind they haven't fundamentally removed the risk."

It will be interesting to see what further egulatory interventions come our way in the next few years.

In the meantime, now more than ever, with the servicing goalposts having already moved so drastically, you cannot afford to lack the skills of an experienced mortgage broker on your investment team.

If you would like more information on serviceability criteria and the many differences between lenders and products, why not connect with the team here at Trilogy Funding?

Click here now to talk about how we can help put you on the path to a successful finance structure that works to meet your needs, now and in the future.

What This Month's Interest Rate Decision Says About Our Future?

This Issue:
February 21, 2017

TRILOGY news

"the property investor's mortgage broker"

At its meeting two weeks ago, the Reserve Bank decided to leave the cash rate unchanged at an all time low 1.50 per cent, citing improved global economic conditions and a slight, but notable jump in business and consumer confidence.

A better second half of 2016 for China also impacted the Board's decision, even though due to "a composition of growth and…rapid increase in borrowing," medium term risks still remain a reality for the Asian juggernaut.

Interestingly, Australia's commodities sector has made a slight, confidence inspiring resurgence recently in the wake of China once again cranking up its infrastructure and property construction spending.

"Headline inflation rates have moved higher in most countries, partly reflecting the higher commodity prices," said RBA governor Phillip Lowe in the official monetary policy decision media release.

Although the outlook appears relatively brighter than it has for some time from an RBA perspective, things are still far from ideal. Hence, a rate rise may not happen any time soon.

For now, mixed labour market indicators and "considerable variation in employment outcomes across the country", alongside an economy still transitioning from its resource sector heyday, are creating an outlook that "continues to be supported by the low level of interest rates."

Most economists are in agreement when it comes to which way rates will go this year…and that's nowhere fast.

What about our housing markets?

Lowe observes that the variances among Australia's housing markets are extreme right now.

"In some markets, conditions have strengthened further and prices are rising briskly. In other markets, prices are declining. In the eastern capital cities, a considerable additional supply of apartments is scheduled to come on stream over the next couple of years," says Lowe.

He continues listing the anomalies…slowest rental growth in a couple of decades, resurgence in borrower demand from investors and, "With leverage increasing, supervisory measures have strengthened lending standards and some lenders are taking a more cautious attitude to lending in certain segments."

So…should we continue to expect 'cheap credit'?

Well, as we've seen, cause does not equal correlation when it comes to how our finance sector operates.

Although the RBA implements a cash rate 'benchmark' for lending institutions, based on all the economic variables of the day, borrowers are at the mercy of the banks when it comes to what rate you pay on a retail loan product.

According to Ratecity.com.au, 33 separate lenders have independently raised their rates this year.

Most are justifying the increases with talk of rising risk in certain segments. Yes, you guessed it; investment lending to new customers tops the list of 'reasons to up our rates'. Hence the rationing of capital, as they intensify loan assessment criteria.

Will the current cash rate move at all this year?

Some say no. Others say yes, but it will most likely be in the form of a further, record-breaking cut. Others still suggest if the US raises interest rates and we see a strengthening in our local economy come Christmas, the Reserve Bank may feel some pressure to force an increase.

What it means for investors

The big take home message for investors seeking to leverage further into the housing market at this point, is to play the game strategically, preferably with a few expert allies on your side.

Why? Well, because the field is continually shifting and serviceability obstructions are becoming larger problems to overcome…particularly as an investor.

If you want to know how you can continue to grow your portfolio in a lending environment that's less accommodating for investor borrowers, why not connect with the Trilogy Funding team?

One of our expert brokers can help you sort through today's financing minefield and point you toward the optimal lender and product for your investment needs, objectives and personal circumstances.

Click here to connect with us and arrange a confidential chat.