Property Management For Profit

first national
REAL ESTATE
Palm Beach

We put you first

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How do you make real profits

There are two reasons people buy residential real estate for investment purposes. The first, and perhaps the primary purpose initially, is for a capital gain. The second reason which is what this e-book is about is a stable income source, hopefully with a growth component in it.

Property Management isn't an industrial process. By that I mean it involves people and when you have people you can have unpredictable results. Here at First National we run a very systemised business which we have constantly honed as we strive to supply a superior service to get you the most consistent results.

In a market like the Southern Gold Coast, when the price of property rises it drags the rental value with it so that over many years the gross rental return has hovered around 5% of the purchase price. In times of strong price increases the yield on the property you purchased three or four years ago will also rise.

Compare this to commercial property where the yields drive the value and, comparatively speaking, interest rates drive the yield so that in a low interest environment people are likely to pay more for commercial property.

Here we are dealing with residential real estate and we have taken three of the most important elements of ensuring that you will receive returns that will let you keep your investment property for many years purely on the basis of the current return on your original investment.

In no particular order the areas your property manager can help you with are :-

- Minimising your loss of rent;
- Point you in the right direction to sure that you get your full legal tax deductions for the property;
- Making sure you have a Plan B that works if something goes wrong.

Minimising the amount of rent you lose has several elements which we have dealt with for you. Getting market rent involves reaching the widest possible audience, and that doesn't mean just putting it on the major advertising portals. You also need to be constantly pushing tenants towards upcoming vacancies.

Maximising your tax depreciation allowances is very often overlooked. Given enough time the entire house and its contents can be depreciated against the taxable income. New properties usually come with a depreciation schedule, established properties never do but a Quantity Surveyor can place a value on the allowable items that are included in your investment.

The last area that you should think very carefully about is **Landlord Insurance**. There are a number of products supplied by specialist landlord insurance companies and there are also policies offered by lenders when you take out a mortgage.But all of these products are not the same - we deal with claims under the various policies often enough to know which ones offer you the safest Plan B.

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Getting a good return What is involved in maximising your return

Your return is measured in terms of both cash and non cash deductibles. You should be looking to your Property Manager to ensure that you maximise the cash component of you income on any investment property you buy.

Let us do a very simple exercise: say you buy a property that rents for $500 a week for $500,000. That's going to give you a gross return of **$26,000** a year assuming it's rented for 52 weeks without interruption.

That assumes that you have a tenant waiting to go in the day it settles. Say for one reason or another you don't and you have to start showing the property to tenants when it settles and you can get access. Everybody knows that this is not a perfect world and that is unlikely to happen so let's call it **$25,000**.

Speed is going to be critical at this time but there is also an old saying that speed kills.

If you sacrifice good tenant selection for a speedy commencement of cash flow it may come back to bite you in one or more of several ways.

Say it takes two more weeks after you select somebody to get them moved in, that's going to knock your first year gross income back to **$24,000**.

The next thing you going to have to be concerned about is whether the tenant is going to be a prompt payer or is going to drag the chain and stay just inside the regulations. Tenants can do this, they can stay in a property and wait until just before the notices are due then pay - always one week in arrears.

Take off the $500 that you will have to leave in the account to keep the bank happy if this happens instead of paying the bank fees when there is not enough in the account to pay the mortgage. Now you down to **$23,500**.

By now if you are "over" the tenant and you decide to move them on because it's a six-month lease and you can at that time you going to have to allow for another two or three weeks to manage the change over plus, pay another letting fee. You may also finish up with a cleaning bill.

You are now down to **$22,000** or maybe less and your gross return has dropped from **5% to 4.4%**.

It doesn't have to be this way. A well priced property, a super efficient vacancy management process and a stringent tenant selection process can prevent this happening.

The following are examples of how good management of the property will ensure you are receiving the maximum return.

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Getting Market Rent � And avoiding extended vacancy periods

The most obvious factor is ensuring that the property is achieving the highest possible rent within the current market, yet also ensuring it does not see extended vacancy periods due to pricing outside of the market. Your agent should be able to provide you with detailed information about similar properties in the area, the prices they are achieving and the time frame this is taking.

Sometimes all it takes is for a property to be priced $10 or $20 outside of the market for it to sit for extended periods. That then means the landlord is losing a week's rent each week it sits vacant just to try and achieve an extra $10 or $20. You never get that loss back.

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Reaching Your Audience

If you want to find that good tenant quickly you need to reach a wide range of potential tenants right from the get go.

Watch a video of Dot Hamilton our PM Director being interviewed on how we manage vacancies.

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Tenant Selection � Avoiding poor tenant selection

Poor tenant selection has the potential to have a major negative effect on the return of the property. A tenant who is consistently in arrears will result in reduced yearly income for the property.

To avoid this, prospective tenants should be able to provide a wide range of proof of ability to pay and ability to support the rent. Their details should also be checked on not only state tenancy default databases, but national databases. Each application should then be cross checked and examined for discrepancies.

You can also ask to see a copy of the tenant's payment ledger in their previous property to evaluate their payment consistency.

Ensuring you have a quality tenant paying rent on time, every time, will give you a maximum return.

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Lease Expiries Setting lease expiries at optimum times of the year

Often the duration of leases and the timing of lease expiries is over looked when considering ways to ensure a maximum rental return is achieved. There is a common misconception that leases can only be 6 or 12 months, when this is not the case. An agent should be able to give you advice on when the best time is to rent a property in any particular area, and what times have proven to be the slower months.

Leases can then be coordinated around these time, meaning that if a tenant was to vacate at the end of a lease the property is becoming available at the optimum time; alternatively if the current tenant is going to renew it will be at a time when a rent can be increased in accordance with the current market.

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What is Depreciation

As a building gets older, items wear out – they depreciate. The Australian Taxation Office (ATO) allows property owners to claim this depreciation as a deduction. Depreciation can be claimed by any property owner who obtains income from their property.

To maximise taxation returns, owners of investment properties should organise a depreciation schedule upon settlement. A tax depreciation schedule is a document which helps the property owners' accountant identify exactly how much depreciation can be claimed.

Maximise returns with a tax depreciation schedule

Claiming all the depreciation property investors are entitled to on an investment property can make a big difference to their cash flow. Of all the tax deductions available to property investors, depreciation is most often missed as investors do not need to spend money for it to be claimed. It is already there to be claimed on the building structure and on existing fittings and fixtures.

Visit BMT's case studies page to see the difference a tax depreciation schedule can make to your cash flow.

A depreciation schedule should be structured so your accountant can amend previous years' tax returns to re-coup any unclaimed or missed depreciation benefits. It should be pro rata calculated for the first year of ownership based on the settlement date. A tax depreciation schedule should take into consideration whether there are multiple owners of the investment property and divide the benefits accordingly.

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Tax Depreciation

Most income producing buildings are eligible for tax depreciation. They do not have to be new properties to qualify. The extent of the tax benefit depends upon when it was built and when it was purchased by you.

Quantity Surveyors are qualified to, among other things, determine the original construction cost of the building and the basis for determining what is allowed in respect of the building you have purchased.

Do you think your property is too old to worry about depreciation?

Many investors remain unsure about whether it is worthwhile obtaining a depreciation schedule for a rental investment property that was built before 1987.

Current tax legislation states that any property built before 15th of September 1987 (residential) and 20 July 1982 (non-residential) cannot claim the capital works allowance as a deduction. This often results in the investor not thinking to obtain a depreciation report as they believe that their property is too old. However it is worth enquiring about any property – even one that is 100 years old!

In the case of older properties, it is worth noting that a capital allowance and tax depreciation report covers not only the capital works allowance but depreciation of plant and equipment as well. This means that all properties that obtain an income by the way of rent should be eligible to claim a deduction for the plant and equipment items contained within the property.

Even if a property is too old to claim the capital works allowance for the building structure, the investor will still be eligible to claim the plant and equipment allowance.

Additionally, if extensions or renovations were completed after 1982 (non-residential) or 1987 (residential), they will attract the capital works allowance.

What types of plant and equipment items can be claimed?

Many plant and equipment items contained within a property are able to be depreciated over their effective lives.

Some of these items include:

- hot water service
- ceiling fans
- dishwasher
- carpet
- blinds
- exhaust fans
- washing machines
- cooktops
- ovens
- floating timber floors
- rangehood
- smoke alarms
- air conditioner
- light
- shades
- microwaves
- vinyl
- furniture package
- clothes
- dryer
- freestanding spa
- curtains
- security systems

If you're unsure about your property's depreciation potential contact **BMT** and they can provide a **depreciation estimate**. Additionally, if they inspect a property and believe that it's not worth completing a **depreciation schedule**, they will not charge you for their services.

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Why use a Quantity Surveyor

Investment property owners should contact a specialist quantity surveyor like BMT to prepare their tax depreciation schedule to ensure benefits are maximised. Quantity surveyors have specialised knowledge on what to claim to ensure nothing is missed and know how to maximise available returns for investors.

Quantity surveyors are one of the few professionals recognised to have the appropriate construction costing skills to estimate building costs for depreciation. Quantity surveyors are qualified under the tax ruling 97/25. They also have access to the latest information through their affiliations with industry regulating bodies.

A detailed tax depreciation schedule prepared by a quantity surveyor such as BMT Tax Depreciation should include:

- **method statement**
- **detailed diminishing value, pooled items and prime cost schedules**
- **diminishing value and prime cost comparison tables and graphs**
- **capital allowances available**
- **forty year forecast**
- **evaluation of common property for strata or community title properties**
- **schedules based on the proportion of ownership for properties with more than one owner**

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Landlord Insurance

Peoples lives change, often for reasons beyond their control. Their priorities change and they do not act normally.

Landlord Insurance is for loss of rent. It can cover you for absconding tenants, defaulting tenants, failure to give up vacant possession when ordered to do so, the death of the tenant, a claim after termination of the lease on grounds of hardship by tenant, because the property has become un-tenantable or because access is prevented.

Usually the insurance company will only pay you what you would be legally entitled to if the tenant had complied with the lease agreement.

Having a Landlord specific insurance product in place can give an investor peace of mind that they have coverage for events out of their control.

A good Landlords policy will include:

- Accidental and Malicious damage to your contents and building (if it is not strata titled);
- Loss of Rent if the premises are not habitable due to an insured event;
- Rent Default; and
- Public Liability.

There are a number of mainstream insurance products available to landlords to insure their investment properties, and just like standard home or car insurance different policies will cover different events.

There are also providers that have basic landlord insurance bundled with other products such as mortgages that may not always have as extensive a level of coverage. You should always look for a specialised Landlords policy.

Some policies take into account the required RTA mandated notice periods relating to state based tenancy law. Others take a more national approach.

First National has extensive claims management experience with all types of Landlord Insurance.

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How making a Claim works Learn to avoid the traps

Generally your claim will be calculated from the vacate date until one of the following events occurs:

- The day before the property is re-let
- The date the lease agreement expires
- The date the landlord withdraws the property from the rental market
- The date the tenant vacated if no effort is made to replace the tenant
- The maximum amount claimable is reached

Because policies will only pay on what you would be legally entitled to if the tenant had complied with their lease agreement you will have to produce:

- Proof of advertising to re-let the property following a loss;
- A copy of the tenant's rental history ledger showing a full rental payment history;
- Copies of all notices issued for example Breach Remedies, Notices to Leave, Notices of Termination Orders of Tribunals in particular all notices for the three months prior to the vacate date.

There are several areas where the way claims are calculated can get you into trouble e.g.

If a property is not under current lease at the time then the tenant can leave on two weeks notice;

If your agent has not been giving the correct notices when required under the RTA rules you may have not tried to mitigate your loss.

Cover Periods

Last but not least most of the policies have differing periods of cover.

Loss of Rent can go to 52 weeks

Rent default can range from 6 weeks to 18 weeks;

Failure to vacate a property can range from 15 weeks to 28 weeks;

A tenant hardship claim can range from 4 weeks to 15 weeks.

Excesses

These can vary greatly from policy to policy, some examples of what we have had to deal with are set out below

$200 excess per event and capped at two events ($400)per claim.

$250 per excess (capped at 2 events for accidental damage only) with the excess applied to each and every occurrence i.e. per room

$50-$250 excess per claim depending on the type of claim (not capped) for each and every occurrence.

Cumulative excesses can be a problem. . Check the way your excesses will be applied by your Insurer. You may find that you are further out of pocket than you expect

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More about Anna

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Anna is one of our many graduates of the First National training system. She started work with a Brisbane training company that dealt with computer software and personal development such as conflict resolution.

Anna began her real estate career First National Palm Beach as a receptionist in October 2006. Since then she has progressed to Property Clerk, Property Manager, Senior Property Manager and is now New Business Manager.

As Business Development Manager Anna handles all communication with our new clients and ensures that the process of securing quality tenants and handover to the property managers is seamless and stress free for our Clients.

With the hard work and dedication put in by the property management staff, Anna the team have won numerous awards in both our State and National Conferences.

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More about First National

We have 3 prominent offices located at Palm Beach, The Pines and Burleigh. The 3 offices promote our available rental properties and provide great exposure for your property.

Our Property Management Team is based at Palm Beach and manages about 550 properties on the southern Gold Coast and the Tweed. This concentration of resources increases efficiency and provides us with access to top quality management tools at reasonable rates. We have been in business under the same ownership since 1986.

The culture we have developed puts high emphasis on continuous training, promoting from within where possible, adhering to systems and ensuring consistent high quality work ethics resulting in more positive outcomes.

In these days of continual change one of the things we are proud of is the fact that most of our team have been a part of our business for many years.

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Our Guarantee

PROPERTY MANAGEMENT

Guarantee

GUARANTEE 100% SATISFACTION

RETAIN THIS DOCUMENT IN A SAFE PLACE.
AS YOUR MANAGING AGENT, WE GUARANTEE TO PERFORM THE FOLLOWING SERVICES.

We guarantee

1. To establish the rental value of your property by comparing your property to similar properties currently let.
2. To interview all prospective tenants.
3. To Check the references of all prospective tenants.
4. To ensure that the tenancy agreement is completed in writing and signed for the protection of both parties
5. To prepare a written inspection record of the property at commencement and completion of the tenancy.
6. To ensure a rental bond is lodged
7. To check that rents are paid promptly in accordance with the tenancy agreement.
8. To carry out regular inspections of your property and provie you with wirtten reports.
9. To account to you monthly in writing for rental monies collected.
10. To arrange repairs and maintenance according to your instructions and ensure they are carried out in a professional manner.
11. To pay all accounts on your behalf as instructed.
12. To inspect the property at the completion of the tenancy and refund bond monies only when the condition is satisfactory.
13. To review rents to market regulary.
14. To provide a written end of financial year report.

Should we fail to provide any of the above services you are at liberty to cancle your Managing Agency Agreement or we will refund the last three months management and collection fees from the time you notify the Principal(s).

OWNER: ______________________________

PRINCIPAL: ______________________________

PROPERTY MANAGER: ______________________________

OFFICE: ______________________________

ADDRESS: ______________________________

DATE: ______________________________