PROPERTY **MANAGEMENT** GUIDE

first national
REAL ESTATE

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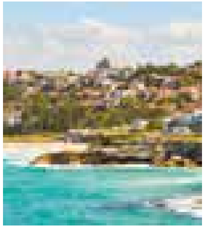
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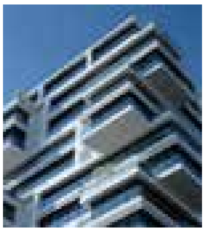
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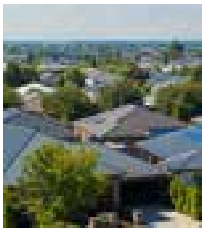
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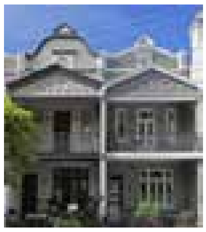
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Introduction

Property represents a secure, long term form of wealth creation. As such, Australians are increasingly turning to property investment to secure their future.

A well-managed investment property can offer distinct advantages, including income and capital growth. Many investors are able to use their investment property to reduce the tax payable on their assessable income. Property is also an important component of an entire investment portfolio, particularly, for people who do not need immediate access to their money and wish to protect themselves against inflation over the long term.

It is important to be aware, however, of the responsibilities of managing an investment property and assuring its proper care. As considerable sums of money are involved, you should take the time to develop a comprehensive understanding before you act. This booklet is the first step in the process and is designed to provide an overview of the considerations required for any owner of an investment property.

Remember, consideration of any financial investment presents wide and varied alternatives and there are always plenty of experts ready to share their opinion. It is wise, therefore, to always seek appropriate advice from a qualified f inancial adviser or accountant.

Why invest **in property?**

There are some good reasons to invest in property:

- Property is a solid, long-term investment
- Property investment can reasonably be expected to provide capital growth in the long term
- Property market information is easily accessible and easily understood
- Property is tangible - you can actually see and monitor your investment

Tips

1.

Some people choose an investment property by assessing whether they would be happy to live there themselves. Think with your head and not with your heart when it comes to choosing the right investment property. For it to properly serve your needs, it must be capable of appealing to the widest possible market of potential tenants.

2.

Talk to an accountant or financial adviser before beginning your property search. It's important to fully understand what type of investment property is most likely to serve your financial goals appropriately. Investment properties may be purchased using many different financial methods, all of which have differing tax implications and long term impacts.

Do your **sums**

"Borrowing power" is a term you'll often hear used to describe the amount you can comfortably borrow to finance your property purchase.

Your borrowing power is determined by your current income and financial commitments as well as your savings and credit history. You should carefully consider your current and future living expenses so you'll be assured you can repay your loan and maintain the quality of lifestyle you'll require.

One of the biggest initial outlays you'll face is, of course, the deposit. This is usually 10 per cent of the purchase price but don't forget that the deposit, like many elements of a property purchase, can be negotiated. It's not uncommon for a property owner to consider a 5 per cent deposit in some circumstances, so don't be afraid to ask your agent if your funds are stretched.

In addition to the purchase price of your new property, you will need to pay for things like Stamp Duty (on the purchase price and the loan amount borrowed), conveyancing fees and possibly mortgage insurance. Stamp duty scales vary from state to state but your First National Real Estate agent will happily explain what is applicable in your home state. Check if you're eligible for the First Home Owner's Grant by visiting firsthome.gov.au

Tips

1.

The starting point is saving towards a deposit but it's important to understand all the costs associated with home ownership, such as mortgage insurance, taxes and legal costs. Starting a rigorous savings plan and doing all the sums can help you see what the hurdles are and how you can best plan to tick them off.

2.

Get professional advice. Sit down with a range of lending institutions to fully learn about and understand the options and possibilities. Even if you don't act, you will properly understand where you are at and what you need to do.

3.

Be flexible with your expectations. Units and townhouses are available in many areas at lower prices and could provide a feasible market entry point. The key is to get into the market, pay down your mortgage and establish equity in the home as a basis for future financial options and flexibility. Then you are able to think about an upgrade or a move to a suburb you've always wanted to live in.

Arranging a new **home loan?**

Choosing the right home loan from the many products available can be daunting. It's important to understand the alternatives before making your choice.

Talking to several brokers as well as a financial adviser will help you understand the most suitable mortgage product to help you make the transition from your existing home to your next.

Ask your local First National Real Estate office or agent about the range of mortgage brokers available to you.

Using home **equity**

If you do not have, or prefer not to use cash for a deposit, you can borrow against the equity in your home.

A home equity loan may be used to cover your deposit as well as other costs of purchasing such as stamp duty, legal fees etc.

Negative gearing

Negative gearing is a common term associated with property investment. Put simply, it refers to the situation where your outgoings may, particularly in the early stages, exceed the incoming rent on the property. Where this occurs, there may be the opportunity to gain tax advantages. If you are a PAYE taxpayer, you may not have to wait for the tax adjustments as you may be eligible for a tax reduction. Nonetheless, negative gearing is not for everyone because there are risks. Property values may decline from time to time, the flow of rental income may be interrupted, interest rates may rise or your ability to finance the cost of borrowings may suffer.

Investors need to take into account their ability or willingness to deal with these risks and discuss them with their adviser before negatively gearing an investment property.

Tips

1.

If you already partially own your home, or have paid off your mortgage fully, tapping into your equity provides a viable method for launching yourself into property investment.

2.

If your home was valued at $700,000 and you owed $350,000 on your mortgage, you might consider investing 10 per cent of the equity (or $35,000) into another property. You could do so provided that you can comfortably afford the repayments.

3.

Affordability should be your main consideration. If you have any doubts, consider the advantages of pooling resources with people you know in order to get into the property market. There are a myriad of home loan options that cater to multiple ownership arrangements.

Property **investment benefits**

A well-chosen property can provide a good, steady return on investment which, over time, improves along with the property's value.

The income from good, reliable tenants will assist you to increase equity in your property.

With the assistance of a good real estate agent, the management of the investment from the landlord's point of view is relatively easy and time efficient.

To be successful in property investment, your goal should be to increase the property's value and rental return in the long term. Investment in property, for many, is not ideal in the short term, even though it sometimes can provide a benefit.

Choosing an **investment property**

Most first time investors choose to invest in residential property. It is more familiar and, therefore, easier to understand than the stock market

We all expect our investment property to grow in value. Therefore, a choice needs to be made on two important criteria: location and quality. Keep in mind that this is not a property that you will be living in so always look at the property through the eyes of a potential tenant.

A property located close to transport, schools, places of work, shops and recreational facilities will be in greater demand and command a higher rent.

The property needs to be desirable and of a size that suits the area's average family. If located in a family area and near schools, a three or four bedroom house or apartment may be more in demand than a smaller property. The property should be attractive and as low-maintenance as possible. As a general rule with apartment investments, modern buildings require less upkeep and are usually more desirable to tenants.

However, concierges, excessive numbers of lifts, pools and gymnasiums all add significantly to strata maintenance levies and these can heavily erode bottom line investment returns.

First National Real Estate agents are experienced in investment property advice. You'll find them happy to discuss your goals and assist you to find the right solutions.

House VS **apartment**

Purchasing property is a great way to begin and grow an investment portfolio. Depending on where you live, and the available properties that surround, you may find yourself in a difficult situation having to decide between buying a house or an apartment.

There are many pros and cons associated with both, and ultimately, the decision comes down to what's right for each individual. Ultimately, you need to conduct research on the properties you may be interested in and decide on what outcome you're trying to achieve.

Houses

Houses are often seen as the best and safest form of investment, and this is reflected in the consensus of consumer advice.

Buying a house as an investment means buying the land that the house sits on, whereas no land is acquired when purchasing an apartment. The land is what appreciates in value, not necessarily the house itself.

The pros of investing in a house

- **Capital growth –** houses usually offer greater capital growth than apartments do, because the land they're on appreciates in value. However, remember that a plot of land in an area that is far from the CBD, shopping areas, schools, and amenities, is unlikely to rise in value at the same rate as one that checks all those boxes.

This is why it's important to choose a property that has potential to become, or already is, very desirable.

- **Renovation –** houses allow residents and owners to renovate with much more freedom and flexibility. If you abide by your area's laws and codes, you can choose to renovate to your liking, or in a way that increases the property's desirability. Apartments do not offer the same freedom.
- **Reliable returns –** while apartments offer a higher rental yield, a house is often rented by families or couples, who are usually more reliable as payees and more likely to stay in one location for longer periods of time. This reduces the likelihood that rent will be late or unpaid and helps reduce the hassle and stress of having to find tenants.

The cons of investing in a house

- **Initial investment –** while a house will appreciate more steadily and quickly than an apartment, the initial cost of purchasing is higher. If you're after larger capital growth, that's the price you'll have to pay.
- **Rental yield –** as previously stated, houses produce lower rental yields than apartments, and can often lead to property owners negatively gearing their properties, to offset any potential mortgage supplementation.
- **Maintenance –** any maintenance related issue that may arise will have to be repaired and paid for by the owner of the property.
- **Upkeep –** in addition to maintenance issues, simply keeping the property looking good can be a hassle, and thus becomes an added responsibility.

House VS **apartment...**

Apartments

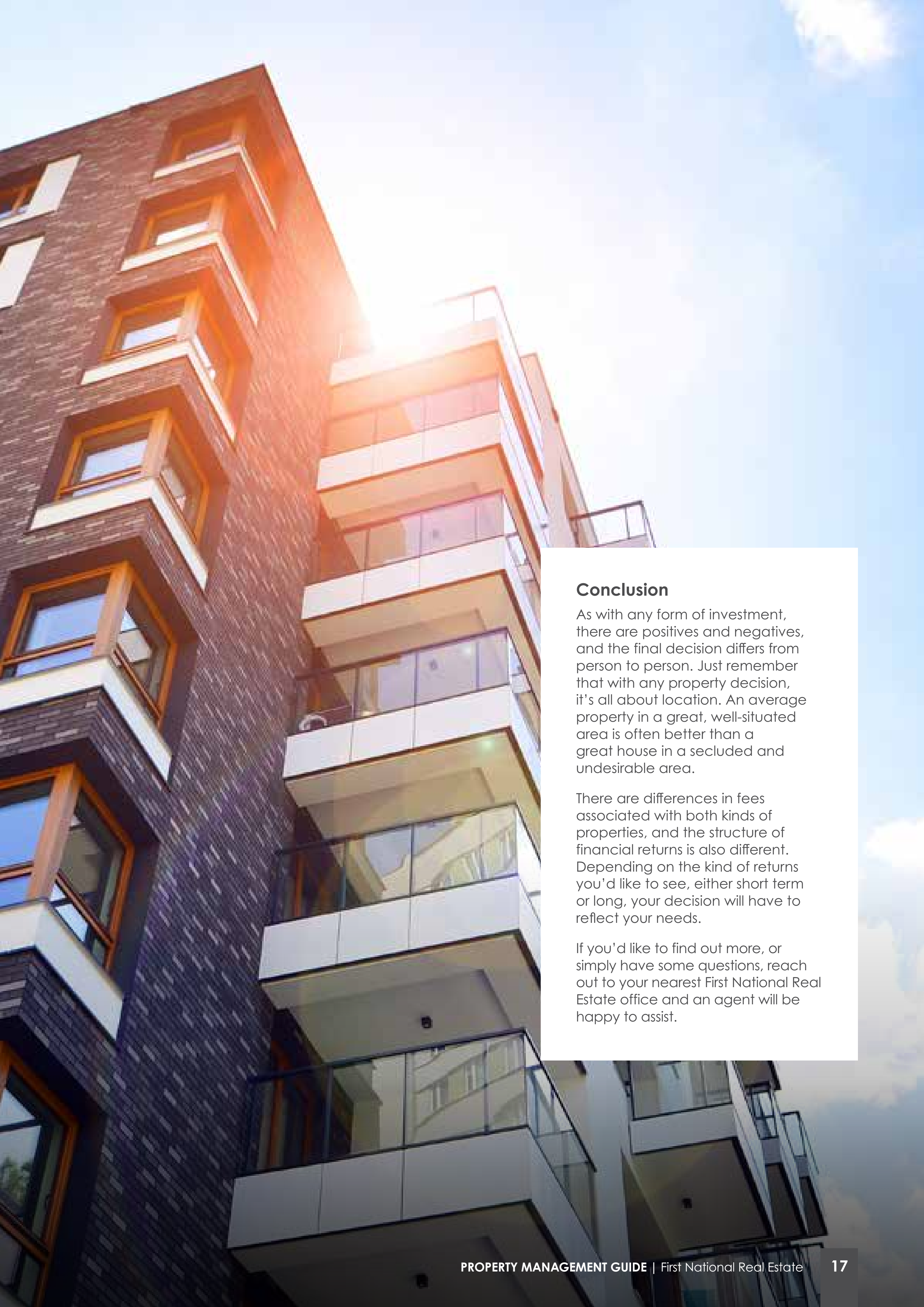
Apartments offer an alternative form of property investment. Houses have garnered a stronger attraction from investors, especially since the effects of Covid-19. The pandemic forced people indoors and created a strong 'work from home' culture that drove people out of city apartments and into larger, more comfortable houses. Having said that, there are still pros to investing in an apartment.

The pros of investing in an apartment

- **Low initial costs –** as mentioned, houses cost much more to buy. Apartments offer, those who may have less to invest, another avenue of entry into the investment market.
- **Room for growth –** as apartments are cheaper to buy than houses, you may find that you can buy multiple, and diversify your portfolio, along with bringing in more income from tenants.
- **Shared costs –** as an apartment owner, maintenance, upkeep, and insurance costs are split among all the owners in the building through a strata title. An owners' corporation (AKA body corporate) maintains and oversees the common areas in the building and charge body corporate fees. It is important to know that council rates, contents insurance, and maintenance or repairs costs to your individual apartment are not shared and must be covered by the owner.

The cons of investing in an apartment

- **Associated fees –** body corporate fees are both a pro and a con. While, in essence, a body corporate protects and maintains your investment, it does come with an added cost, which can eat into profits. However, if an apartment building possesses a reliable and diligent body corporate, it only helps in labelling your apartment as a more desirable place to live.
- **Lack of control –** apartments offer much less, or no control of renovations and changes to the property. This may turn some investors away.
- **Less potential for growth –** apartments have lower entry costs and higher rental yields, but this comes at the cost of lower capital growth when it comes time to sell.



Conclusion

As with any form of investment, there are positives and negatives, and the final decision differs from person to person. Just remember that with any property decision, it's all about location. An average property in a great, well-situated area is often better than a great house in a secluded and undesirable area.

There are differences in fees associated with both kinds of properties, and the structure of financial returns is also different. Depending on the kind of returns you'd like to see, either short term or long, your decision will have to reflect your needs.

If you'd like to find out more, or simply have some questions, reach out to your nearest First National Real Estate office and an agent will be happy to assist.

Who manages the **property?**

All property requires ongoing maintenance and day to day management.

There are landlords who take an active, hands-on role in the management of their property and there are those who prefer to have an agent professionally manage their investment. Obviously, those who manage their own property must be prepared to look after their own repairs, do their own cleaning, collection of rent, preparation of Leases/Tenancy Agreements, etc.

In addition, they are required to:

- Ensure the premises are clean/ secure and fit for occupation at the beginning of the tenancy
- Ensure that all repairs are completed by licensed tradesmen to appropriate standards
- Ensure all appliances and facilities are safe and in good working order
- Be available to arrange urgent or essential repairs or reimburse the tenant for the same.

It is vital that all landlords who manage their own property are completely familiar with the legislation in their state that governs residential or commercial tenancy.

Frequent changes to Acts of Parliament in each state mean changes to the way the property must be managed.

Many changes affect administrative duties like record keeping, receipts, access notices for inspections, inspection sheets, Tribunal hearings, bond lodgement/refunds.

Landlords who engage an agent to professionally manage their investment are not required to remain informed of changes to Acts of Parliament – this responsibility passes to the agent.

Landlord **insurance**

Not all tenants are bad, but you do need to make sure you are covered should something go wrong.

While most tenants take good care of the property they are leasing, those that don't may intentionally cause extensive damage. Intentional damage is not covered by many standard home insurance policies nor is the failure to pay rent.

The valuable common features of a Landlord Insurance policy include cover for:

- Malicious or intentional damage to the property by the tenant or their guests
- Theft by the tenant or their guests
- Loss of rent if the tenant defaults on their payments
- Liability, including for a claim against you by the tenant, and
- Legal expenses incurred in taking action against a tenant.

It's important to remember that not all landlord protection policies are the same. Some, for instance, are designed to be implemented in addition to a typical home and contents or strata title policy while others are more comprehensive. Some policies allow cover for the contents of the property.

This is particularly important if you rent a partially or fully furnished property. Speak to your First National Real Estate Property Manager and they will be able to help you find the right policy.

What costs will **I have to meet?**

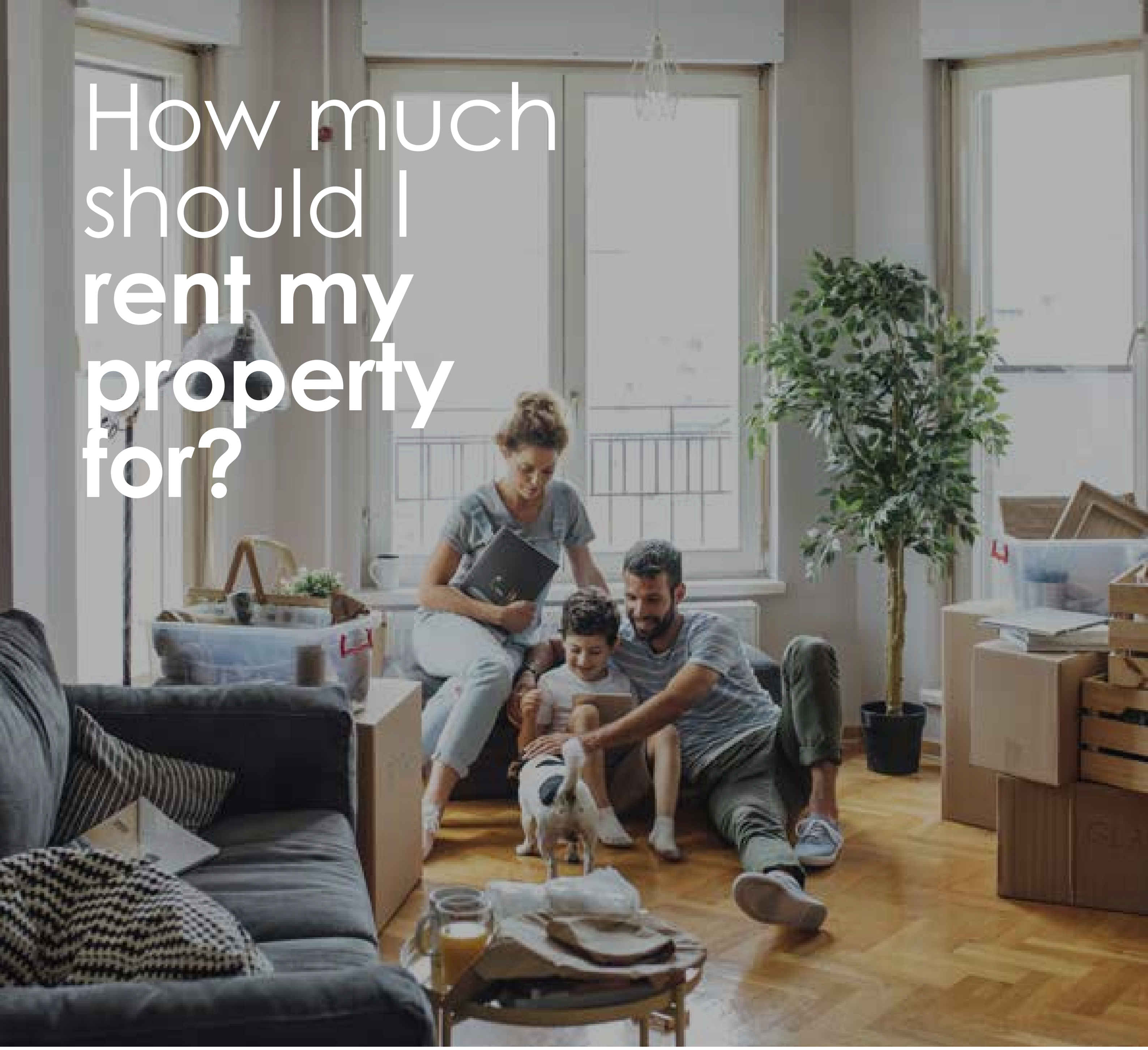
As you'd expect, there are various costs associated with property investment in addition to the costs of property maintenance.

When you buy a property, there are government charges such as stamp duty and registration fees on the transfer of title and mortgage.

There are also solicitor's fees and real estate agent's fees for managing your property (and selling it if you decide to do so in due course).

Your real estate agent can assist you in the calculation of these costs.

How much should I **rent my property for?**



As with selling a home, your property must meet the market and be competitive with other properties being offered for rent.

Similar properties and their weekly rents should be carefully compared. This may be difficult to do, given that you may not know the condition of the competing property and internal improvements.

An experienced property manager can provide a market analysis. They can inspect your property and compare with other similar properties under their management.

Because they are aware of the local rental market, they will be able to set a rent which will help your property to be rented at the earliest possible opportunity, whilst ensuring you get the best return for your investment.

Your property **on show**

Prior to renting your property, you should consider any improvements or maintenance that might be required.

The better your property is presented, the easier it will be to rent and the more likely you are to attract better quality tenants.

Make sure:

- The garden is well presented and tidy
- Appliances are in safe working order
- Minor repairs have been made to windows, taps, toilets and sticking doors
- Property has been professionally cleaned
- Carpets have been professionally cleaned
- Cracked, chipped or peeling paint repaired

Marketing **your property**

Marketing your property is something that needs consideration. Highlighting your property amongst the multitude of other vacant properties being advertised can be challenging.

The rent being asked, location, attributes of the property and community facilities are all elements that prospective tenants will take into account when considering which property they'll choose.
A real estate office attracts a steady stream of rental inquiries from prospective tenants.

The agent will consult their tenant database to establish whether your property is suitable for any prospective tenants on their system. In addition, their expertise in marketing your vacant property can make the process far more effective than a landlord could ever achieve themselves.

Tip

1.

Nine out of ten people start their search for property online, regardless of whether they're looking to buy or rent. Make sure that the agent who will market your vacant property has an attractive, informative website that is easy to use.

The **tenant**

Selecting a suitable tenant for your property is extremely important.

You need to select someone who you believe will look after your investment and be in a position to pay the rent reliably.

Remember, you will use rental income to offset your investment loan. Privacy legislation prevents you from gaining credit checks, however real estate agents have additional processes in place that make them expert in guiding your decision.

When tenants default on their rental payments, it's important to understand that a managing real estate agent must follow a legislated process and corrective action can take time. Unfortunately, your financial obligations continue and investment property owners must be prepared to meet their ongoing commitments.

If you choose to self-manage, you may need to perform the following tasks:

- Repairs and maintenance
- Collect unpaid rent
- Inspections of the property for prospective tenants
- Legislation may require the provision of a trust account for the safe keeping of the rental bond, or lodgement of the bond with an independent authority such as a rental bond board
- Condition/inspection reports
- Rent collection
- Payment of rates and other ongoing costs
- Attendance at statutory tribunals where required
- Prepare applications and arrange for the serving of notices, in compliance with relevant legislation or tenancy agreements

The role of the **property manager**

Most real estate agents have a property management department which is solely established for managing investment properties.

Different agencies specialise in different styles of rental property.

Primarily, your real estate property management services will include:

- Establishment of an appropriate rent
- Marketing of the rental property
- Showing prospective tenants through the property
- Receipt of applications and assessment of appropriate tenants
- Discussion with Landlord about applicants
- Completion of all relevant documentation required
- Receipt of rent monies
- Follow up of arrears in rental payments
- Organisation of repairs/ maintenance
- Provision of regular payments and statements
- Payment of accounts
- Initial, final and routine inspections of property
- Organisation of and representation at tribunal hearings
- Bond collection and the first month's rent in advance prior to tenant moving into the property
- Lodgement of Bond with the appropriate body
- Personal service from property management team

Tips

1.

Keep up appearances. Before offering your property for rent, a property manager will recommend your property must be clean and secure, and that all appliances and facilities are in safe, working order.

Once your tenant moves in, your property manager will ensure all repairs and routine maintenance tasks are carried out quickly and satisfactorily.

2.

Finding the appropriate tenant can be more difficult than it seems. You will need to decide on an advertising strategy after listening to the advice of your property manager. Your property manager will arrange and conduct open and/or private inspections.

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Legislation

Under many of the Acts governing residential tenancy throughout Australia, tribunals are established to oversee disputes and the administration of rental bonds.

The outcomes of many hearings relating to residential tenancy disputes are dependent upon the accuracy of records and systems used by the person managing the property.

Making sure you have the best real estate agency managing your investment is vitally important. A good real estate agency saves time and takes the hard work out of owning an investment property.

Here is a checklist of some areas you should consider when selecting a real estate agency to manage your property:

- Does the company have property managers solely designated to that task?
- How will they communicate with you and how often?
- Do they possess sufficient knowledge of the local rental market?
- How many properties do they manage?
- Do they have property management systems in place?
- Is their property manager well experienced with state legislation?
- Do the property management staff attend regular training?
- Do they have the support of a larger network?
- What is their approach to selecting tenants?
- Do they have systems for regularly following up arrears?
- What systems do they have for collecting rent and reporting to the landlord?
- Can they arrange insurance and payments of all outgoings?
- Organisation of and representation at tribunal hearings
- Bond collection and the first month's rent in advance prior to tenant moving into the property
- Lodgement of Bond with the appropriate body
- Personal service from property management team

Property management **budget**

This form will help you estimate your income against expenditure on your investment property.

Income

Rental Income per annum	$

Expenditure

Advertising	$
Agency fees	$
Letting fees	$
Maintenance/repairs	$
Loan repayments	$
Insurance	$
Rates and taxes	$
Depreciation (if applicable)	$
Body corporate fees (if applicable)	$
Other	$
Balance	$

Landlord and tenant **agreements**

A lease/tenancy agreement will be prepared that specifies the rights and obligations of the landlord, agent and tenant.

This is a legally binding document, enforceable under the relevant state legislation. The legislation is designed to protect the consumer and is open to interpretation and change. It's therefore important to have a sound working knowledge of the Act and also to be experienced in dealing with tribunal in the event of a dispute. Leases can be of varying terms but are generally set at six months or one year.

The lease has standard and special conditions, as required, and will include the following:

- Rental payments
- Term of the lease/tenancy
- Requirements of the landlord is clearly stated and obligations of the tenant fully outlined
- Details of how vacation notice must be given, either by the landlord or tenant
- Rental bonds
- Special conditions as presented by the landlord/agent and agreed to by the tenant

Landlord and **real estate agent agreements**

Landlords are required to complete a management agreement which engages the agent to manage the property on their behalf.

The agreement documents all aspects of management and outlines performance responsibilities of the agent. Agreements may be altered or updated as circumstances change.

Included in the agreement will be:

- Agency fees
- Regular, and reporting of, inspections
- Details of payment to landlord
- Level of expenditure and process in relation to maintenance/repairs
- Notice required for cancellation of agreement
- Rent reviews

What your First National Real Estate property manager **can do for you**

First National Real Estate offices offer a complete property management service for property investors, backed by the marketing services, systems and professional training offered by a large nationally recognised brand.

First National Real Estate Property Managers are well known for attention to detail. For the care of your valuable asset, they prepare a written inspection report with supporting photos at the commencement of each tenancy and ensure that a rental bond is lodged. An inspection of the property when a tenant vacates is a standard procedure at First National Real Estate and bonds will only be released if the condition of the property is deemed satisfactory. Inspections are conducted during the tenancy and important repairs and maintenance will be arranged with your approval.

Financial transactions are conducted with efficiency and receipts issued for all monies received on your behalf. You are accounted to regularly and monies are paid by cheque or deposited in an institution of your choice.

By maintaining your asset in good repair and ensuring it is well presented, you will maximise rental income, reduce vacancy periods and attract a high standard of tenant. Vacant properties cost money and are a security risk.

First National Real Estate can assist in building your property investment portfolio as a secure means of investment for your future.

Our Property Management Services cover Residential, Commercial and Industrial property. With around 260 offices in Australasia, First National Real Estate can offer services anywhere and attract tenants from far and wide.

Glossary **of terms**

Lease/tenancy agreement	Is an agreement for possession, not ownership, of a property for a set period.
Lessee/tenant	One who leases/rents a property from a lessor owner.
Tenancy Agreement document	Sets out details of the property to be rented and the terms and conditions agreed to between landlord and the tenant.
Landlord	Is the owner of property being rented.
Negative Gearing	Is where the costs associated with your property investment exceed the income received over the tax year. This loss can be used to offset other income in that year's tax return.
Net Yield	Is the income on your property less certain expenses such as rates, insurance, maintenance and body corporate levies.
Depreciation	Is a non-cash allowance that you may be able to claim on your tax which reflects the limited life of an asset.
Capital Gains Tax	Is the tax based on the difference between the purchase and selling price, less inflation, applied upon the sale of an investment property.

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