STORY PAM WALKLEY

How to be a smart landlord

Money gives you the rules for financial success with your real estate investment

PHOTOLIBRARY

IF YOU WANT TO MAKE THE most of your investment property you must avoid being a set-and-forget landlord. Even if, like most investors, you do use a managing agent you still need to make sure that your agent is doing a good job for you. If you are not satisfied, find a new one.

Many first-time landlords think that all they need to do is buy an investment property and the tenants will queue up. Indeed sometimes, in tight markets or in January – when a lot of people are moving because of work or study – finding tenants is relatively simple.

But for much of the time it's hard work, especially securing a good tenant. And of course no tenant means no income – the worst possible outcome for an investment property.

You might decide to try to manage your own investment and save the fees paid to a managing agent, usually about 7% to 10% of the rental. If you have the time, meaning you may be retired or working only part time, and are very organised, it's possible you may succeed.

But the real difficulty some people find with DIY managing is choosing sound tenants.

The good news is some managing agents will provide this service as a stand-alone. For example, Victoria-based Australian Property Investor will find you a tenant and then hand over the property for you to manage. The fee is one month's rent. A letting fee of one to two weeks' rent is more usual if finding a tenant is provided as part of an overall management service.

"The hardest part of owning an investment property is actually finding the best tenant," says the API website. "When researching prospective tenants, we check them all through the National Tenancy Database, which is not available to the general public." The NTD lists people who have a history of not paying rent, plus details of bankruptcy reports and tenant dispute tribunal hearings.

API will also advertise the property extensively and get prospective tenants to fill out comprehensive application forms, so their suitability can be judged and checked with previous landlords and agents and with employers (see www.propertyinvestment.net.au).

After you have your tenant in place there is still a lot more to DIY management than just collecting the rent – or having it paid into your account. The list is long and includes routine inspections, dealing with repairs and maintenance issues, rental reviews and lease renegotiations.

You should be across relevant residential tenancy legislation, have an understanding of the vacancy and rental movements in the area where your property is located, and have a bank of reliable tradespeople to call out.

But, of course, all the checking in the world does not eliminate the possibility that your tenant or their relative (as in *Trash Protection*, next page), will damage your property. Protecting yourself with adequate insurance, including landlord protection insurance, is a wise move.

This applies even if you take the easier route of using a managing agent. It's important to find a good managing agent who is accountable to you and your tenant(s). You do not want to lose a good tenant because your agent is sloppy about responding to requests for repairs, or wants to charge a rent that is over the odds for the area.

Property investor Jane Slack-Smith, who has a portfolio of eight properties (see also in the cover story), always uses agents to manage her properties, but she chooses them carefully. "I don't want to be called at 10pm on a Saturday night with someone wanting a fuse changed, nor do I want to miss something in an application that others who see these every day would see as a warning sign," she says.

"For the tax-deductible fee I pay for a professional managing my property, I am confident that I can rest easy and my property is being well maintained and managed. Having said that, choosing a property manager who is a professional can be somewhat of a science."

> "The **hardest part** of owning an investment property is **finding the best tenant**"

Slack-Smith steers clear of agencies which use juniors as property managers. She demands that all her managers be very experienced and not responsible for hundreds of properties.

"I know them and can ring them direct. They are focused on their clients and their client's interests, they do biannual property reviews and keep up to date with movements in rentals. They are quick to follow up issues and have competent and reliable tradespeople who can quickly fix any issues.

"In essence they do everything I don't want to. I do all my upfront work when I buy a property and they are my caretakers until I need to sell that property."

Another thing any good managing agent will advise on is when it's time to update some aspects of your property so it will continue to produce strong rental income.

Even just a tidy-up, a paint job and a few cosmetic changes inside and out can make a big difference to the attractiveness, and therefore the rentability, of a property.

Of course sometimes more substantial work, such as upgrading the kitchen and bathroom, is needed if the property is to realise its rental potential.

No matter what level of work you undertake you need to be across the tax breaks available – quantity surveyors are the best source of specific information. Straight repairs and maintenance are a tax-deductible against the rental received from an investment property, but upgrading does not always provide immediate deductions, says Tyron Hyde, director of quantity surveyor Washington Brown.

The difference? If part of your fence falls and you replace it you can claim an immediate deduction. But if you pull down the entire fence and build a new one, you can only claim this as capital works over time, says Hyde.

If you do completely redo your kitchen or bathroom, it's likely you will be able to write off the residual value of the room(s) as long as the property was built after 1985, says Hyde. For example, if the home was built 20 years ago the residual value of the kitchen and bathroom will be half their original value (because capital depreciation is over 40 years at 2.5% a year).

So if the original room(s) cost a total of $32,000 the residual value is $16,000, which can be claimed as an immediate deduction, says Hyde. To get this right, it's vital to get the services of a quantity surveyor before you undertake the work.

LANDLORD INSURANCE

Trash protection

If the property you rent out is trashed, you'll regret not taking out landlord protection insurance

While your investment property can be a tidy little earner, you don't want to see that cash whittled away paying for unforeseen events such as theft, unpaid rent or vandalism. Just ask Luciano Dominici from Erskine Park, NSW. As landlord of a two-bedroom unit in Kingswood, NSW, he saw his investment property torn apart by the delinquent grandson of a previously model tenant.

Doors were kicked in, holes punched in walls, the kitchen demolished, bathroom smashed, carpet cut up, blinds wrecked. The place was scattered with old furniture and clothes left behind.

"It looked like they'd gone through the place with a sledgehammer," says Luciano. "Then they walked out, saying 'The bond should cover the mess. See ya'. In fact, the bond was just under $1000. Total cost of the damage came to $30,000. The bond would barely have paid for the new door."

Luckily for Luciano, he'd taken out a landlord protection insurance policy beforehand and was able to claim the whole amount, plus an extra $3000 in rent lost during the repairs.

"Put simply, there are particular risks covered in landlord protection insurance that may not be covered in traditional home and contents insurance or strata title policies," says Insurance Council of Australia spokeswoman, Sandra Van Dijk.

Standard examples of these risks include malicious or intentional damage to the property by tenants or guests, theft, loss of rent if a tenant defaults on payment, and liability – including a claim made against you by a tenant and legal expenses incurred in taking action against a tenant.

Some policies may charge for additional cover for "accidental" damage, lock replacement, natural disasters or water damage. Van Dijk advises that "some insurers will combine building and contents insurance with landlord protection". This can be important if you rent out a partly or fully furnished property.

Go through policies online with a fine-tooth comb to see what's covered and what excesses you might have to pay. And always check product disclosure forms carefully.

The cost of cover tends to differ among insurers based on property type, state and cover options. But as an example, our case study Luciano pays roughly $300 a year per property with Terri Scheer Insurance.

Get online to compare features and obtain quotes (some insurers even offer a discount for buying a policy online).

You'll find building value calculators online too. Type in your building details including construction type, year built, number of levels and bedrooms.

You should also assess how much it will cost to replace your contents new for old.

Limits on how much you can claim differ based on the situation. For example, some insurers might pay you up to $5000 for loss of rent due to rent default, yet only $1000 for loss of rent due to death of the sole tenant.

Payouts for malicious damage are usually based on insurance cover on the contents. Usually insurance taken out to cover a residential investment property may be claimed as a tax deduction. See your tax specialist for further information.

Obviously it's vital to carefully screen all potential tenants, especially if your property is self-managed. Be sure to verify all references and pay details thoroughly, particularly previous tenant references.

But accidents can still occur even if you use a managing agent. "Even the most fastidious tenant is able to damage a property, whether accidentally or otherwise," says Terri Scheer Insurance head Carolyn Majda.

"Uninsured landlords really need to think about how they would manage financially if they were faced with thousands of dollars worth of damage to their rental property. And a suitable policy can help provide peace of mind if the unforeseen should occur."

RICHARD SCOTT

> "The bond was just under $1000 – **total damage cost $30,000**"