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12 ways to squeeze more cash from your investment property



by **Duncan Hughes**

Rising costs, increased competition for new dwellings and falling returns means landlords need to find new ways of attracting – and retaining – tenants for their investment properties.

There is continued strong growth in numbers of investment properties thanks to generous negative gearing tax breaks, heavy promotion by property seminars and asset diversification by investors.

For example, more than 1.5 million households own an investment property, the number owning four has increased by six per cent and those owning six or more properties has jumped by 4 per cent, according to analysis by investment bank Morgan Stanley.

Strategies for **boosting returns** can make it less of a financial burden, expedite repayments and mean the difference between a financial milestone or millstone.

The following 11 strategies, recommended by agents, developers, architects and financiers, cover a range of budgets.

1. Cosmetic changes

Louise Lucas, mortgage broker and chief executive of the Property Education Company, recommends cosmetic changes that improve the appearance and liveability of the property.

Owners of houses with a back, or front, yard should plant trees or add a low maintenance garden to make it more attractive, she suggests, particularly for families.

Lucas says a new letterbox, steam-cleaning concrete surfaces, a lick of paint or a cat flap in the back door can secure – and retain – tenants.

"It's the little things that make the difference," she says. Lucas also suggests making the property pet-friendly.

Kate McMahon, an architect with McMahon and Nerlich, says replacing cabinet and door handles is a cheap way to revive tired interiors.

2. Renovation

Budget for between \$2000 and \$4000 per square metre, says Phil O'Dwyer, national president of Builders Collective of Australia, an independent lobby group to improve industry standards.

Steve Lusi, director of Melbourne real estate agency Direct Property Group, says a recent cheap renovation of a three-bedroom house in Brunswick, four kilometres north of Melbourne's CBD, cost only about \$19,000.

This included a new kitchen (using recycled cabinets), painting, landscaping and guttering. The renovated property rented at \$2390 a month, an annual rental improvement of \$5280 plus \$1354 in tax savings on depreciation.

3. Add a room

Dwyer says most bedrooms are about 12 square metres and would cost around \$2200 per square metre (or \$26,400) to build. An additional bedroom should generate about 10 per cent additional rent.

4. Attic conversion

Depending on your roof space, this sometimes can be achieved within an existing building, says Dwyer. "It can be a very cost-effective means to creating more space."

5. Granny flat

Rental returns range between \$200 and \$400 a week depending on quality and location. Landlords need to check whether local council rules allow rental to non-family members.

Nearly 100 granny flats are being completed each week in Sydney alone, a three-fold growth in five years, according to state government figures.

Budget for between \$15,000 and \$30,000 in building costs.

6. Add a garage or shed

A double garage of between 36 to 40 square metres will cost about \$1800 per square metre, or \$64,000, says O'Dwyer. Costs could be reduced by building a carport. Many tenants want off-street parking or additional space for storage, he adds.

7. Specialist tenants

Australia is the third most popular global destination for overseas students, particularly from China and other Asian countries, according to Savills Australia.

Student digs clustered around major universities and colleges are generating about 8 per cent, compared to average rental returns of about 5 per cent.

In Melbourne, for example, the gap between the number of international students and places on offer in purpose-built student accommodation is more than 84,000, according to JLL, a professional services and investment company.

Stephen Fitzsimon, head of business development for Melbourne Real Estate, says "every" specialist student residence in Melbourne is full and that weekly rents for "average" single-bedroom apartments have increased from \$440 to \$500 in the past 12 months – \$550 with a car park.

8. Renegotiate loan

The big four banks, which account for about 70 per cent of loans, have increased their rates on average for interest-only investors by 54 basis points during the past 18 months since regulators imposed caps on lending to cool over-heating markets, says research house and comparison site Canstar.

Other lenders have increased rates by between 20 and 27 basis points, its analysis shows.

Lenders are offering their best deals for buyers with big deposits and steady income. They rely on the inertia of existing borrowers not to compare rates and switch.

9. Allow pets

"Good tenants with pets will respect the property," says Lucas. "Bad tenants will sneak in a pet and not tell you. You might as well allow them."

Landlords need to check local rules. For example, companion animals are much more likely to be permitted rather than banned.

10. Sub-divide

Basic construction costs for a new property are usually between \$2000 and \$4000 per square metre, according to O'Dwyer.

From July 1 owners face GST liabilities in undertaking major renovations that include the demolition, removal or replacement of all or most of a building, according to the Australian Taxation Office.

11. Craft or study space

McMahon says clever joinery can be used to portion off a small area for a study space. "It can look very cool and trendy," she adds.

12. Invest in styling

Use high-quality photographs to market a property online. "Invest in styling and present the apartment as a premium product," says McMahon.

Consultants can help you choose furniture, cushions and artwork. Costs vary according to the package but start at around \$2500 to \$3000 for a two- to three-bedroom apartment.

Those considering builders, designers or consultants should insist on a written contract that covers the complete job, including all materials and additional tradespeople engaged for specialist jobs, says O'Dwyer.

"Get personal references from someone you know or whose story can be verified," he says. Also set a date for completion, including penalties for time delays, and retain some of the payments until completion.

For major work an accountant or lawyer should be considered to review the terms and funding.