October 2015

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REAL ESTATE

PROPERTY NEWS

Storm Season is Upon us Again!

South East Queensland has already been hit by a couple of severe early summer storms which have caused significant damage in the areas worst hit.
Hail and freakishly strong winds and very heavy rainfalls can cause more damage than necessary if we are not suitably prepared. Over the coming months, our Property Management Team will be paying extra attention to trees overhanging buildings, guttering filled with plant debris, block downpipes and clogged drains to ensure that our managed properties are as well prepared as possible to manage these seasonal events.
We also ask that recommendations for maintenance of this nature are given prompt attention so that we can mitigate risk as much as possible. Hopefully we won't encounter anything too severe, but our sub tropical climate is very capable of serving up a spectacular event at any time.
While on this subject, our insurance audit has brought to our attention that we have not yet received updated insurance information for all properties.
As well as this being a compliance requirement, it is also a timely check to ensure that our managed properties have appropriate cover at all times. We would appreciate your assistance by forwarding this essential information when it is requested.

Interest Rate Curve Ball From the Banks

While the Reserve Bank has done its bit to keep our property market sparking, and buyer sentiment remains upbeat, it seems that others are bent on adding in speed bumps.
As if the tough new *APRA regulations for investors have not been enough, now the major banks themselves are increasing interest rates supposedly to bolster their equity as required by the government to ensure they are not over-exposed.

Whilst the health of our banks is essential to the overall stability of the economy, raising this equity could have been shared among other stakeholders and not just the poor old mortgage belt. Shareholders, for example have benefited from some very handsome profits (e.g. ANZ $7.2 billion for 2015 and CBA $9.06 billion).
Fortunately, so far we haven't seen these moves yet dampen buyer demand in our area, although it is sure to have an effect eventually, unless the good old Reserve throws us another lifeline with a further interest rate reduction.

**APRA is the prudential regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies.*

AUCTION RESULTS

1 Oct – 31 Oct SUMMARY RESULTS REPORT

TOTAL SOLD	743 (45%)
TOTAL PASSED IN	928 (55%)
TOTAL NO. AUCTIONS	1671

Some Landlords Fearful of Increasing the Rent

As your Managing Agent, it is our duty of care to ensure that we are maximising your income and optimising capital growth. Our team is trained and skilled in working in the best interests of our Client's 'landlords'.
There has been talk in the media that in some areas property managers are trying to win tenancies with rent reductions and free rent periods, which we believe could be better managed by spending money on things that will increase the rent, improve the property and attract tenants.
Landlords can also be fearful of increasing the rent to retain a current tenant. While this can be seen as kind-hearted, the focus should always be on maximising the income while taking into consideration secondary issues such as vacancy periods and the quality of the tenant.
There are some common elements with the type of properties that are being discounted and no rent increases imposed, which are often the presentation and quality of the property. As the property ages the rental return can lessen if care is not taken.
We understand the concept of valuing our tenants and that our clients want stable, good paying, quality tenants. However, if you want to value your tenants while maximising your income you may like to offer them some extras as a thank you for their loyalty, instead of discounting and avoiding rent increases. Many services increase every year, it is business! As an offset for the regular rent increases, consider:
Maintaining the property well
Offering a new dishwasher
The installation of cooling/heating
A free carpet steam clean
A free house clean: or
A free external pressure clean of the property… to name a few.
If you maintain the property and look after your tenant, they will see value in the rent increase as you are helping them to live more comfortably. Even if the tenant objects to the rent increase and moves out, you will have a well-cared-for property to attract future quality tenants.

What causes big investors to lose it all?

Have you 'made it' as a property investor? Do you own 10, 20 or 200 properties?

Firstly, well done! You probably don't hear that enough. Secondly, watch out! When investors get to this stage, they tend to feel invincible. This is actually the time when you could be most vulnerable.

The banks know that you are a higher risk In fact, they have special lending policies specifically for investors who own half the monopoly board. They don't make it easier for you to borrow money, they make it harder.
Let's have a look at what those risks are and how you can take them into account when you choose how to invest.

Borrowing power The way that banks calculate serviceability varies quite a lot. For investors with lots of properties, it becomes particularly important as many of your loans are interest only yet the banks assess your loans using a higher assessment rate and principal and interest repayments.

They are stress testing your portfolio in the event that rates increase. We can just apply with a lender that assesses your existing loans using your actual repayments and you can borrow as much as you need. But that doesn't change the actual risk to your situation.

Rates can and will go up one day. While we recommend that you play it safe, if you are maxing yourself out then you must have funds on standby and you must be willing to sell properties quickly if you get into trouble.
The bigger your debt, the better your serviceability must be.

LVRs The LVR or percentage of the property value that you are borrowing should be lowered as your portfolio grows.
Borrowing high LVRs works well to get started, but with a big property portfolio it is a death wish.
As a rough guide Investors should limit themselves to 80 per cent LVR if they owe over $3 million, 70 per cent if they owe $5 million and 60 per cent or less if they owe over $10 million. That's the limit, lower is better for most people.

Exposure The banks worry about their total exposure with you as a client. Particularly if you are borrowing more than 80 per cent LVR.
You should also worry about your exposure to just one bank!
Ideally you should spread some of your debt between several lenders or if you do put all of your loans with one lender then don't cross securitise your properties and make sure that you wear the pants in that relationship. Make sure that if you need to walk that you can.

Concentration risk If you own several units in one complex, or a lot of properties in one suburb, then the banks will worry about your concentration risk. That's a fancy way of saying 'you have all of your eggs in one basket'.
Spread out your properties and you'll lower your risk.

Rental reliance If you rely heavily on your rental income to service your debts, then some banks will be hesitant to lend to you.
In particular if you have commercial properties and they become vacant then you need to have a plan B. Keep in mind that banks can often pick which property that they sell… and it is easier to sell your residential home than a vacant commercial property.

Having cash on standby in an offset account is the best insurance of all.

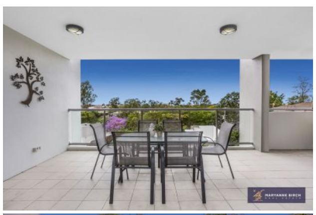
Relying on capital gains to make repayments Are you increasing your loans, releasing the equity and then using this money to make repayments? Don't. No really.
Properties don't always go up and, unless you have a significant amount of equity, this is just too risky!

Risk versus reward When you were starting out as an investor you may have taken more risks. When you are bigger you should shift your focus and play it safe. Professional property investors are in it for the long term and manage the risk of their investments rather than ignoring them.

Source: SmartPropertyInvestment.com.au

PROPERTY OF THE MONTH!

304/20 Paradise St, Highgate Hill



Stylish living has never been so easy! This modern inner-city apartment has all that you need, with three well-sized bedrooms, two bathrooms, double lock up garage and a huge balcony perfect for entertaining. Location is everything and this home doesn't disappoint! You're only a short walk from all that West End has to offer, including fantastic restaurants, bars, cafes, weekend markets and specialty stores. Paradise Street is ideal for public transport too, with the CityCat and multiple buses only a stroll away.

$660,000+