



## Property Management News

August 2019

# MARKET FORCES CAN IMPACT RENT INCREASES

Part of being a landlord means rental increases are something you need to give some thought to when the time comes to offer a lease renewal to your current tenants.

While it can be tempting to increase the weekly rent for your tenants, there are forces within the market you should consider when determining if it's suitable to increase the rental price for your properties.

### Specific property costs don't count

If you've had to spend money on your property in recent months, this isn't a strong reason to increase your rental prices. This is because property-specific costs don't reflect the wider market which is what creates the basis for raising prices in the first place. For example, an expensive repair to plumbing or structural elements of the property isn't a wider market factor such as vacancy rates. This is when it's essential to make sure you have a cash buffer for repairs and maintenance.

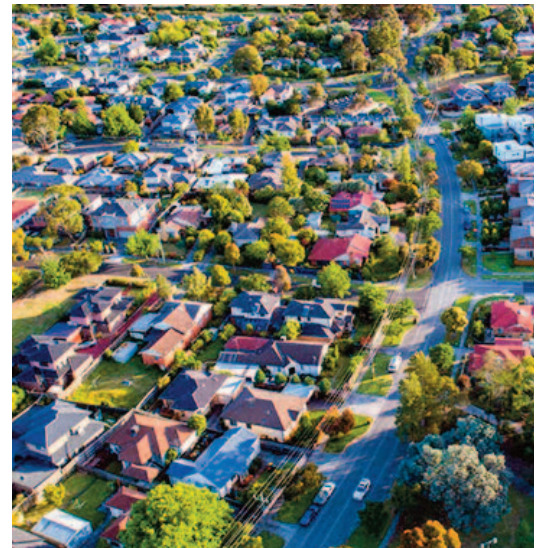
### Vacancy rates

The warmer months in Australia are the most popular time for tenants to look for a new property. The new year, in particular, is popular so if you're listing one of your properties for rent, this could be an excellent time to increase the weekly rental price for your properties. Just beware if you're increasing the rent with current tenants, be prepared for the possibility they may find another property.

### Market performance

Beyond vacancy rates, you should also take market performance into account when you're deciding whether to increase the rental price for your properties. To do this, do some research on the property's suburb and surrounding areas. You'll need to look at factors such as the median rent, median house price and average rental yield.

Finally, when you decide on increasing the rental price of your property, weigh up the cost of vacancy against the rental increase. For example, if your property is



currently rented at \$750 per week to rent and you're considering a \$10 increase to \$760 per week with the current tenants, do your calculations. Just one week of vacancy will eliminate the potential gains from a rent increase and leave you out of pocket by \$230 compared to if you'd kept the rental price the same.

There are a lot of factors you need to consider when you're deciding whether to increase the rental price of your property. The most important factors to consider are market factors such as vacancy rates and market performance as these are things that other landlords will consider too.

## WHAT DOES RENTAL YIELD MEAN?

Rental Yield is a measure of how much cash [or rent] your property produces each year, as a percentage of the property value.

The property investor dream is to secure a high rental yield property, in a location that delivers large capital gains, combined with low management and maintenance costs.

This means, rental yields are not the only consideration when purchasing an investment property – but a very important one.

By calculating rental yield, we can compare properties and help provide an overall assessment of the best place to purchase.

### Calculation:

Rental yield is calculated as a gross percentage and generally calculated before expenses are deducted. Gross rental yield is commonly used. It is simple to calculate and allows you to easily compare properties with different values and rental returns.

Gross rental yield = Annual rental income (weekly rental income x 52) / property value\* x 100

\* Either purchase price or current market value

### Let's work with an example:

Property purchase price = \$400,000, Weekly rent = \$350 (350 x 52) / 400,000 x 100 = 4.55%

While the gross rental yield is a simple calculation, it's important to note that it doesn't take expenses into account. A property may have a high rental yield, but may also have high expenses, making the rental return low when these are taken into consideration.

If you do want a more precise calculation, you will need to know [or estimate] the total expenses of property including both purchase and transaction costs [property purchase price, stamp duty, legal fees, pest and building inspections, any startup loan fees, etc.] and annual costs such as vacancy costs [lost rent and advertising], repairs and maintenance, managing real estate agent fees, home and contents insurance, strata levies [if applicable], rates and charges etc.

Net rental yield = (Annual rental income – Annual expenses) / (Total property costs) x 100

A high yield means good cashflow for investors – which helps to improve your return on investment.

## WHEN FIXTURES AND FITTINGS SHOULD BE UPDATED

Some of the things that start to show their age quickly in property are fixtures and fittings. While some fixtures and fittings may need to be updated due to damage or a fault in the item, knowing when to update things in your home is important. This keeps your home in excellent condition before you need to make major updates.

Firstly, if you're unsure about all of the fixtures and fittings in your property, take a look at the entry condition reports for your property or the sales contract. These documents may include notes on items you may have forgotten about. Some examples of common fixtures and fittings include electric sockets, security systems, smoke alarm systems, kitchen appliances, laundry appliances, built-in wardrobes, heating and cooling systems, carpet, mirrors, and furniture (if applicable).

### Appliances

If you've included appliances like fridges, a washing machine, dryer and dishwasher in your property, make sure you know when the warranty ends. The lifespan for household appliances can vary greatly depending on the brand of appliances in your property and how often they are used. Generally speaking, most appliances will reach the end of their lifespan anywhere between 5 years and 15 years. For items such as electric and gas cooktops, expect to get up to 15 years of use. For other appliances like washing machines and fridges, you're likely to get closer to 10 years of use out of the appliance.

### Carpet and light fittings

The condition of carpets and light fittings in your property will largely depend on how old the property is and how well it has been looked after. If the carpet is beginning to look worn or showing other signs it needs to be replaced, investigate the cost of replacing the carpet against having it professionally cleaned (though cleaning should be completed at the end of each tenancy). Expect to get between 5 and 15 years out of your carpet depending on the quality of the carpet and how much foot traffic goes through the property.

Light fittings can last many years in a property. It's when light fittings get broken or stop working that they need to be replaced. If possible, keep light fittings simple and easy for your tenants to reach for changing light globes.

### Heating and Cooling

If your property has heating and cooling systems make sure you understand how often it needs to be serviced. Most central heating and cooling systems need to be serviced once per year. Paying this annual cost for service could also save you more money down the track as the contractor may be able to pick up issues before they arise.

Owning an investment property comes with many tasks that need to be remembered. By keeping in regular contact with your property manager, you'll be able to remain proactive about keeping your property in great condition.

# R&W

This month we have seen the current rental market still on the soft end with rentals slightly dropping, and the supply much higher than the demand. It is recommended landlords renovate the older



properties to attract more interest.

**Hendra Wijaya**  
Principal

## RECENT RENTALS

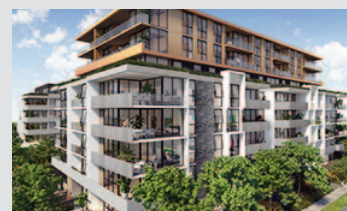
604/108 Maroubra Rd, Maroubra  
2 bed 2 bath 2 parking \$650

3/76 Yorktown Parade Maroubra  
2 bed 1 bath 1 parking \$600

N516/659 Gardeners Rd Mascot  
2 bed 2 bath 1 parking \$720

19 Royal Street Maroubra  
4 bed 2 bath 1 parking \$ 900

## RECENT SALES



305/2 Oscar Place, Eastgardens  
\$850,000.00  
2 Beds, 2 Baths, 2 Cars



405/2 Oscar Place, Eastgardens  
\$860,000.00  
2 Beds, 2 Baths, 2 Cars



29/235-237 Anzac Pde, Kensington  
\$685,000.00  
2 Beds, 1 Bath, 1 Car

## The best reputation in real estate

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