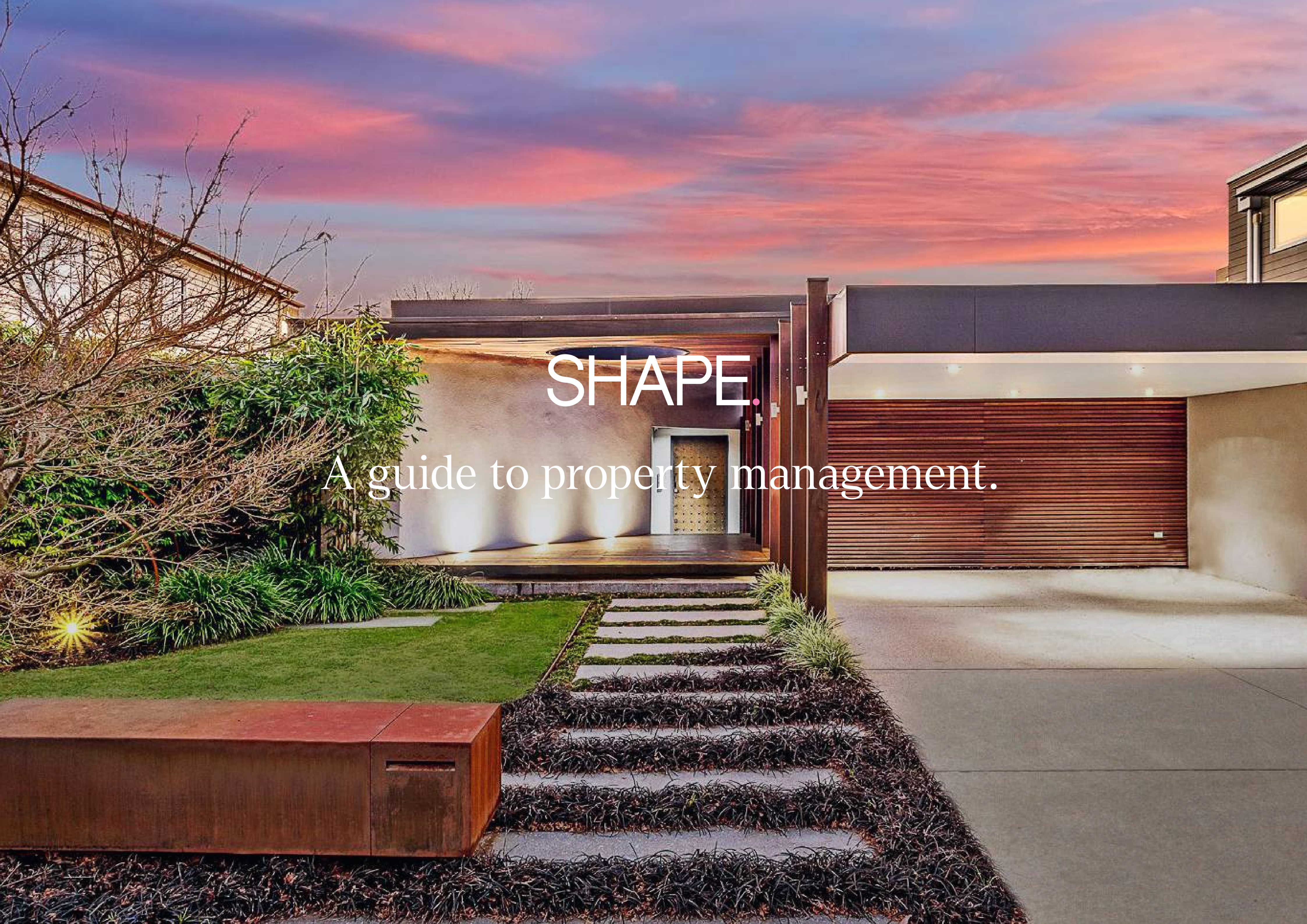

SHAPE.

A guide to property management.

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Our guide to property investment success.

Many Australians look to property investment as an opportunity to build wealth. In fact, 20% of Australian households own a property investment (according to CoreLogic).

Why? Because it enables investors to develop equity in an asset that can be leveraged over time. It gives investors the ability to keep up with repayments and deliver rental income, and in many cases enables them to accumulate wealth over time as the property value increases.

However, successful property investment is all about good management rather than good luck. To help you maximise the potential of your investment property, we have created this guide.

We hope you find it useful.


Let us help you shape your property goals.

What is your property investment strategy?

Before we get into the details, let’s define what a property investment is. It is a property purchased with the intention of making a return on investment, via rental income or future re-sale, or both.

There are several different types of investment properties and understanding your options is a good first step.

Commercial property investment.

Covers any type of property that a business operation would use, whether it is an office, retail, or industrial space.

Mixed use.

A mixed use property can be used for both residential and commercial purposes. For example, an apartment building may have retail on the ground floor with residential apartments above.

Residential property.

By far the most common within Australia. These properties can be single family homes, apartments, townhouses or other types of residential structures.

What are my investment strategy options?

When it comes to real estate investing, you'll often choose from two main strategies; invest for capital growth or positive cash flow.

Capital growth.

The idea behind this strategy is that you purchase a property with high growth potential, so when you sell the property down the track you make a sizable profit. These properties will normally come with a higher purchase price and will most likely have a negative cash flow, or in other words the cost of owning the property outweighs the income it generates each year.

While in the short term you'll need to cover costs out of your pocket, over the longer term you can take advantage of the negative gearing tax benefits and offset your taxable loss against other income to produce tax savings.

Doing your research and understanding areas with high growth potential is key here.

Positive cash flow.

An investment is positively geared (or has positive cash flow) if it earns more in rental income each year than it costs in loan repayments, strata fees and other expenses associated with ownership. Positively geared properties provide a passive income, offer less cash flow risk, and can be easier to secure a loan.

Maximising your rental return is key here. Talking to one of our portfolio managers about how to add value and increase your rental yield is highly recommended. Do keep in mind that the income you earn from your investment is taxable.

A good real estate investment strategy considers the investors personal situation, their goals, risk tolerance and future income requirements. Discussing your options with your accountant or financial planner is essential.

What are the different ways to invest in property?

Buying a residential apartment.

Depending on where you buy, an apartment is generally cheaper to purchase than a house and normally comes with lower ongoing maintenance costs as the owner's corporation will take care of building maintenance. However, these normally attract strata management fees, and you have less control over alterations as a result of the owner's corporation.

Demand is also in favour of apartments as 68% of tenants in Victoria rent apartments. Although COVID led to higher vacancy rates for inner city apartments, this has now come full circle and, generally speaking, apartments are quicker to find an appropriate candidate for than houses. However, they often don't generate as much capital growth, but of course every property is different.

Buying a house.

Houses traditionally are more expensive to buy but have greater capital growth potential than apartments. Not being restricted by strata management laws, they generally have more flexibility than an apartment when it comes to making changes and enhancements.

Houses are normally on larger blocks of land, attract longer tenancies, and if in a high growth suburb, can deliver strong long term capital growth. However, houses are normally more expensive to purchase, they often generate lower rental yields, and cost more to upkeep.

Buying a new property.

A key bonus when buying a new property as an investment is the ability to claim full depreciation on both the ‘plant and equipment’ and the ‘capital works’. From an investors perspective, it provides a higher total base tax deduction entitlement, plus, new properties normally come with lower maintenance costs.

Renovations and house flipping.

For investors who don’t mind getting their hands dirty, investing in properties to renovate and sell is common, particularly amongst Millennials. In this instance, an investor will purchase a property that needs a renovation, then make some careful value-adding changes without overcapitalising, and sell with the intention of making a profit on the sale.

Renovate and hold.

This is similar to house flipping but is a longer-term strategy. After the purchase of a property, the investor will renovate and hold onto it for a period until the asset increases in capital growth. When renovating, it is important to ensure you add features that buyers are willing to pay more for.

Talk to Shape about what features would be valuable for longer term capital growth.

Shape Website

Real estate investment trusts.

Rather than investing in a single property, investment trusts combine funds from multiple people and invest in a range of different assets on your behalf. This type of investment offers a more diversified strategy and doesn't rely on a single property to generate returns. However, you generally don't have control over which properties are purchased and where.

Buying an investment property with your superannuation.

Buying an investment property using your superannuation is possible, but it comes with several strict regulations. For instance:

1. You can only purchase a property investment via a self-managed super fund.
2. The investment property must meet the 'sole purpose' test of providing benefits to the fund member(s).
3. It cannot be acquired from a relative.
4. It cannot be inhabited by a fund member or any relative of the fund member(s).
5. It cannot be rented by a fund member or any relative of the fund member(s).
6. If you invest in a commercial property, you can lease it to a fund member, but it must be at the market rate. There are additional rules to adhere to in the case of member rented commercial properties.

There are also a variety of fees involved when buying a real estate investment property using your superannuation including legal fees, bank fees, upfront fees, and advice fees.

Additionally, there is the stamp duty to consider and the ongoing cost of property management and maintenance.


Shape your search.
Great properties and reliable service,
custom fit for you.

How to research the property market to buy a real estate investment.

Understanding supply and demand, economic and demographic trends as well as planned infrastructure and developments for the areas you are looking to invest in can help you make smarter investment decisions.

The following websites can help provide insight into a range of market indicators including average property price and capital growth, market cycles, property types, community profiles, vacancy rates, rental yields and loads more:

CoreLogic
Australian Property Monitors
Australian Bureau of Statistics
SQM Research

Most importantly, talk to the local real estate agent, property developers and property managers. They live and breathe property in the area and can give insights into the local market, expected rental yields, and growth potential.

It's also a good idea to visit the area yourself so you can get a feel for the suburb, the type of people who live there, and access to sought after location features.

Connect with your local expert at Shape here

What location features should property investors look for?

Location is a key feature of property investment success. By purchasing the right property in the right location, you take care of one of the biggest pieces of the property investment puzzle.

Consider what type of tenant you are targeting and what location will help you attract this tenant pool.

Here are some key location features to consider when looking for a property investment:

- Quiet location but with easy access to public transport or main roads/arterials
- Proximity to public transport, cafes, entertainment venues or other sought-after amenities
- School catchment area
- Access to parks, beaches and other recreation and lifestyle options
- Safe neighbourhood with a low crime rate
- A neighbourhood that is experiencing growth, development, expansion, or new infrastructure
- A neighbourhood with historical charm and mature streetscapes
- Within 10km radius of a major city
- Parking is popular with professional tenants, so is worth considering if this is your target audience
- Outdoor area such as a balcony
- Abundance of light coming into the property

How to determine the right rental price for your property.

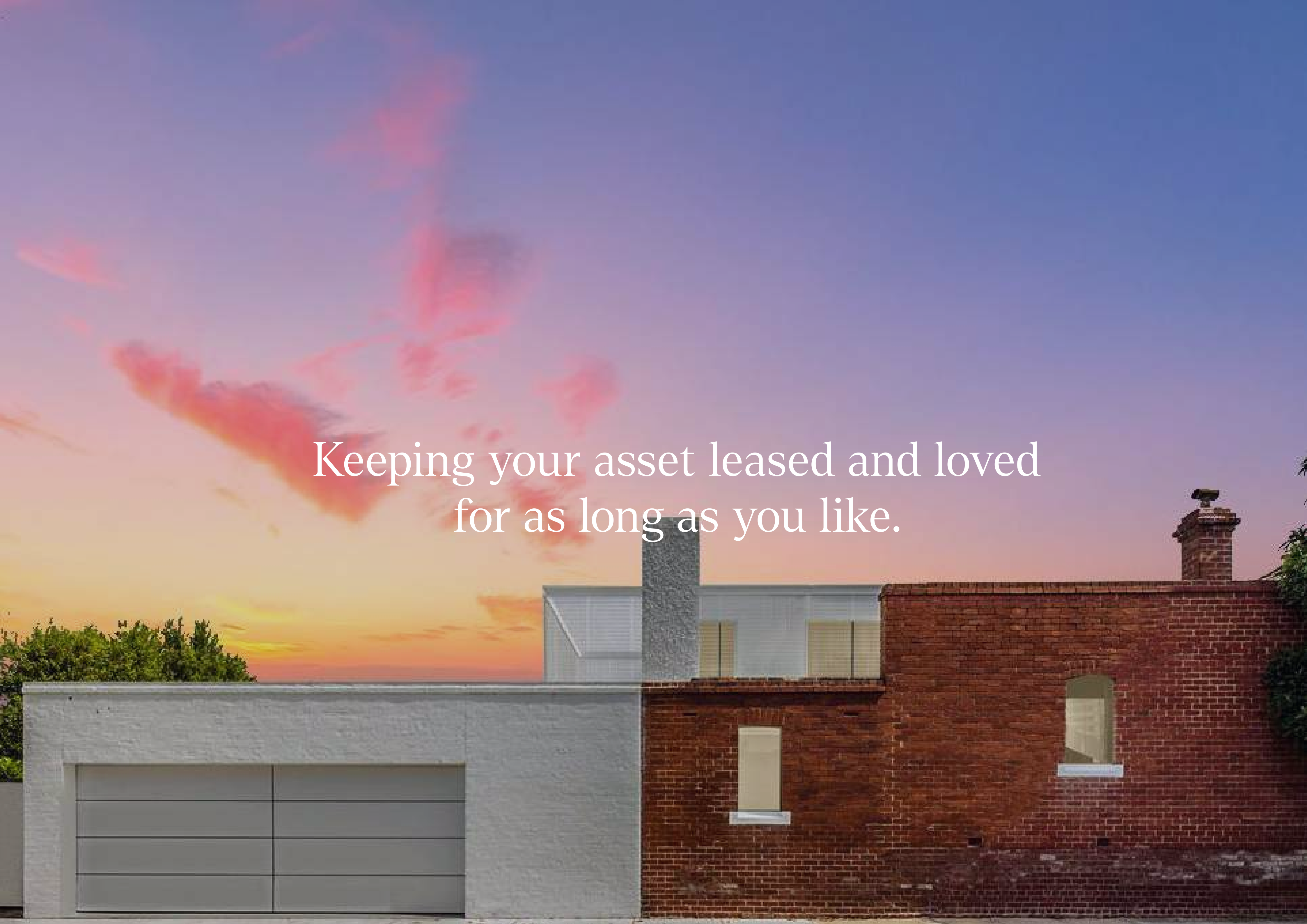
Setting the property's rental rate will impact your investment's performance and viability. While you want to maximise income, you also need to remain competitive to ensure you attract high quality tenants.

In order to work out the right rent:

- Have a rental appraisal with your local property manager. They have a wealth of knowledge; they know how much similar properties are renting for and what you could do to either add value to the property, or appeal to a higher paying tenant.
- Look at the median rental prices in the area. Review the type of property, as well as the features.
- Understand the rental demand for the area.
- Consider your associated expenses. While the decision shouldn't be solely based on this, they are important because they directly impact your investment's viability.

Keep in mind rents fluctuate each year, so it is always wise to have a rental appraisal with your portfolio manager annually to ensure your property is working as hard as possible for you.

Contact Shape to determine how much rent would be appropriate to charge


Keeping your asset leased and loved
for as long as you like.

What are rental yields and how to improve them?

Rental yield is the amount of money you make on an investment property. This is calculated by measuring the gap between your rental income and your expenses.

To determine your rental yield, you divide the weekly rent by seven, multiply this daily figure by 365 and divide by the purchase price.

Whilst improving your rental yields is not an exact science, talk to your portfolio manager to see if making any of these changes could help improve your yield:

- Paint the walls
- Create an outdoor living space
- Tidy up the garden
- Fix the flooring
- Update the kitchen
- Refresh the bathroom
- Add extra features that tenants love like an air conditioner, dishwasher, internal laundry or shutters
- Add built ins or storage
- Add a parking space
- Ensure good property security

Talk to a Shape portfolio manager

Portfolio managers are a great resource for information on how you can improve your yield on investment via property tax deductions.

The ATO offers property investors several tax benefits which is why this type of investment is popular with many Australians.

For example, you can normally claim the following expenses:

- Property management fees.
- Landlord insurance.
- Advertising expenses.
- Interest on your investment loan. You cannot claim principal sum repayments or refinanced loans.
- Land tax and council rate deductions (when the home was inhabited).
- If your property was settled after September 16, 1987, you can claim building depreciation and depreciation on some installed appliances.
- Maintenance and repair costs directly related to wear and tear.

Importantly, talk to your accountant about your property to ensure you are claiming all the right deductions come tax time.

What do tenants like and how to keep them happy?

Finding and keeping tenants who look after your property like it's their own, pay their rent on time, and only contact you when there is an issue, are incredibly valuable traits for a landlord. Tenant turnover comes with additional and unwanted expenses that can impact the profitability of your asset and if the property isn't cared for, it can impact your capital growth. In other words, keeping good tenants happy is important.

Here are some ways to keep tenants happy:

- Address any maintenance issues quickly and be proactive.
- Offer longer leases.
- Add amenities such as air conditioning and built-in storage.
- Create an outdoor space. Everyone loves a private outdoor area and even more so now having come through COVID lockdowns.
- If needed, give every room a fresh coat of paint and opt for modern light fixtures.
- Ensure the kitchen is in good condition with modern working appliances.
- Ensure the bathroom is fresh and clean.
- Good cable and internet connection and plenty of power points throughout.
- Consider making your property pet-friendly because pet owners tend to stay longer and are often prepared to pay a bit extra.

What is the role of a portfolio manager?

At Shape, portfolio managers play a critical role in the success of your investment. They are highly skilled and trained professionals who are responsible for helping ensure your investment runs smoothly.

A portfolio manager (with the assistance of our specialist leasing team) will:

- Coordinate and create strategic marketing campaigns to attract quality tenants
- Schedule and host open home viewings
- Interview and screen tenants
- Negotiate leases, and general tenant management, condition reports, move-outs and move-ins
- They also manage rent, including collecting rent, setting the rates, and dealing with late fees
- Manage repairs and maintenance issues
- Set, manage, and keep track of the budget

Ultimately, portfolio managers act as the intermediary between you and the tenants, allowing you to enjoy the benefits of property ownership without the day-to-day hassle and headaches.

How can a portfolio manager add value to your investment?

In addition to managing your property a high-quality portfolio manager also understands how to add value to your investment.

1. They'll help find quality renters who are more likely to stick around for the entire lease and keep the property in good condition throughout. This will save you the financial strain of having to continually relist your property.
2. They'll also ensure the property is well-maintained through frequent inspections and by managing any requests for repairs or maintenance, which will in turn lead to higher quality tenants.
3. They are aware of the local market and how much other properties are earning. They can help ensure you are charging the right rent and maximising your rental yield.
4. They can help guide you on features to add or areas to improve to your property, in order for you to charge a higher rent or to improve your long-term capital growth.
5. By conducting regular inspections, they can address any potential maintenance issues before they become a bigger problem, therefore saving you money over the longer term.

Talk to Shape today about how we could add value to your property investment

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