Secure your financial future through property investment
independent
PROPERTY GROUP

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What's your
home worth?

Worried about retirement? You're not alone. Most of us have watched as someone in the supermarket queue carefully counts out coins from their purse, hoping there'll be enough for the week's groceries. Perhaps you're one of the one-in-ten Australians who financially support their elderly parents as they enter retirement without enough money to manage on their own. Either way, the fear of poverty in our old age is one that keeps a lot of us up at night.

Planning now for the future can help you sleep better. The sooner you develop an investment strategy, the more secure your future will be. With a financial goal of security, you can also feel more confident about helping your children get a leg up as they become young adults, and enjoy peace of mind that you won't become a burden on them in your old age.

But as anyone who remembers the GFC knows, investing carries its own risks. If you're caught between the fear that you'll fall short at retirement and the fear that you'll make a mistake, the good news is that property investment offers a low risk approach to long term wealth.

In turbulent times, people turn to bricks and mortar. There's a reason why you've heard the phrase "as safe as houses". With a buy-and-hold strategy, you can minimise the risks and set yourself up for a comfortable retirement.

Reliable investments offer security. You can enjoy comfort and independence in your golden years or just relax in the knowledge that you have an income stream even if you're laid off from your job.

The best part? You'll barely have to lift a finger!

How much money do you need in retirement?

The Association of Superannuation Funds Australia (ASFA) estimates:

To live a **comfortable lifestyle**, a couple who own their own house outright will need $62,269 per year in after-tax income.

To live a **modest lifestyle**, the same couple will need $40,540.

The **age pension** is $23, 421 per person annually ($35,048 per couple) in 2022.

Alternatively, calculate **two-thirds of your current income.** That's how much you'll need to maintain the same standard of living in retirement.

How does the buy-and-hold strategy work

Property investment makes you money through capital growth and rental returns. The most powerful tool, though, is time in market. The sooner you buy, the greater your opportunities of making money.

Does property investment advice overwhelm you? If the idea of ‘timing the market’ or ‘leveraging your equity’ sounds exhausting, relax. There's one simple concept you need to know which will make everything else a lot easier.

Time in market.

Time in market means the amount of time you own an investment for. And it's the single biggest factor in making a profit. Simply put, a property you buy now will make you more money than the one you buy in five years time, thanks to compounding returns.

With a buy-and-hold strategy, you're letting time-in-market do the work for you. You choose a quality property to invest in, rent it out, and then…keep doing that. You don't have to renovate and flip, or buy at the bottom of a cycle, or take on a development. You just have to buy and hold.

A long term approach also means you’re less susceptible to temporary dips in the market. By choosing properties that deliver a solid rental return, and which don’t put too much pressure on your own budget, you can wait out the peaks and troughs. If prices dip, you’re safe because your in-vestment property is still delivering rental returns. If they rise, you can choose to sell up or keep holding.

So how does property make you money? The beauty of real estate investment is that it delivers in-come in two ways — and if you already own your own home, it does so with you putting little to no cash down.

Those two ways are rental income and capital growth.

Rental income is the money you receive for renting out your property. Often the rental income may not cover all of your costs. If this is the case, it will likely be temporary. Over time, the rent naturally goes up in line with inflation and market increases. Since your mortgage decreases over time (or stays the same if you choose an interest-only loan), you will start to see a surplus that provides you with income.

Capital growth is the increase in market value of your property. If you buy a house for $400,000 and it goes up by 10 per cent over the next couple of years, it's now worth $440,000 and you have made $40,000. If you put down a 10 per cent deposit in the first place, you've doubled your money in two years. Even better: property investors can use the equity in an existing property to fund the deposit for a new one. You don't have to provide any cash out of pocket at all to make a profit.

For both rental income and capital growth, the longer you hold the property the more you can make. Rents and real estate prices are subject to peaks and troughs, but always go up over time. In ten years, both should be worth substantially more than they are in five years, or two years, or now.

“My parents struggled after they retired. They had the pension, but they had to watch every cent. I’d try and drop in with a nice bottle of wine or some fancy crackers and cheese just so that they’d have a bit of a treat. I don’t want that for my retirement. I’ve planned it out: if I can buy two more apartments, I should be able to have enough money to splurge a bit when I give up work. I want to know that I’ll be able to buy new clothes when I need them, or to take a beach holiday in the summer, and not worry about paying the bills.”

- Susan, executive assistant

Pros and cons of a buy-and-hold strategy

Pros	Cons
Low risk	Some types of property are high risk
Use cash flow to accumulate investment	Lower capital growth
Tax depreciation: claiming wear and tear on your tax	Interest rates can affect cash flow
Ability to derive an income	

The appeal of a buy-and-hold strategy is pretty clear. It's relatively low risk, and in the hands of a good property manager, even lower effort. No investment strategy is without its pros and cons, though. Here's what you should be aware of.

PROS

- **Low effort.** Most property, chosen wisely, appreciates in value over time. You don't need to carefully monitor the market or grab a small window of opportunity. Time does the work for you.

- **Build a solid foundation for wealth.** Once you have an investment property, the equity from that property can be used to buy a second property, and then a third. At the same time, rental income goes up to provide you with a steady income and increased security for the future.

- **Long term sustainability.** A buy-and-hold strategy allows you to meet the costs of the property without being significantly out of pocket, while allowing the property to appreciate and rents to rise. Because this strategy doesn't require you to over-extend yourself, it's easy to maintain the property over the years.

- **Tax depreciation.** As a building gets older, its structure and the assets contained within it wear out, also known as depreciation. Owners of income producing properties can claim this depreciation as a tax deduction. There are over 6,000 different depreciable as-sets recognised by the ATO, including carpet, blinds, air conditioners, hot water systems, smoke alarms and ceiling fans.

CONS

- **Out of pocket costs.** In the early years of owning a property, you may have to make up the difference between the costs and your rental income. Make sure you budget in the cost for this. If your income dips, you don't want to be forced to sell your investment property and lose out on the profits.

- **Long term strategy.** By its very nature, a buy-and-hold strategy requires a long term view. That means that it might not be ideal for people looking for a quick profit, or who are nearing retirement and need to generate income sooner rather than later.

- **Vacancy rates are a risk.** The sustainability of this strategy rests on your investment covering its own costs — or close to it. If vacancy rates rise, you might find that you need to meet the entire mortgage payment yourself for a period of time. However, Canberra vacancy rate has always been low and fell below 1 per cent in 2022. Further minimize any vacancy risk by looking for properties in high demand areas such as inner suburbs and the CBD.

How to choose property for the long term

Look for high demand properties in central locations. Advantages include:

- **Higher rental demand**
- **Versatility of use**
- **Greater security**
- **Strong growth potential**

When it's all about security, you don't want to rush into a purchasing decision. An investment property should be sustainable for you to hold onto for several years and ideally at least a decade.

Look for somewhere that:

- Is affordable for you to own when rental income is taken into account
- Is in a high demand location with low rental vacancy rates
- Needs little to no maintenance when you first buy it (accepting that all properties need upkeep as they age) such as a new build
- Is in an area with good infrastructure and a diversified economy so that it isn't vulnerable to market conditions

Some types of property and some locations are lower risk than others. By choosing wisely, you'll increase your chances of finding a great tenant so you can hold for the long term.

As Independent Property Group Sales Consultant Phil Smith says, "people will always want to live near where they work and study. Properties in the city and inner suburbs always have huge numbers of tenant applications. Canberra as a whole enjoys really high demand for rentals because so many people come here to work and study, so it's a great choice for investors who want security."

It's also important to make sure that the property is well built and has been well maintained. If it's a new build, do your research on the construction.

"If you're buying off plan, ask for the names of the builder and developer first," Independent Property Group Director Chris Uren advises.
"A good builder will have a good reputation, and you'll have peace of mind that you're buying a quality property that will last the distance."

“It’s so tough for young adults these days and it’s not getting any easier. My kids are only in primary school now, but they’ll want to move out eventually. Finding rental accommodation as a university student is so hard, and we want them to be able to focus on their studies. We bought two two-bedroom units near the city, which we’re renting out. When the kids are ready to move out, they can live in them instead. I’m proud that we’re able to do that for them and give them a bit of a leg up.”

- Jacob & Maria, nurses

How to calculate the true cost of your investment

Of course, you need to make sure that you can afford to both buy the property in the first place and maintain it. Most properties make a small loss in the first few years, and the extra will need to come out of your household budget. For a successful long term strategy, it is crucial that you can afford to maintain the investment without too much sacrifice to your own lifestyle.

To check how much a potential property will cost you to run, calculate:

Step 1. - Calculate

i). Rental income:
Most sales agents will be able to provide you with a rental appraisal that will tell you what the property is likely to rent for. You can also ask a property manager. Monika Minko, General Manager of Independent Property Management, says it pays to have experts in your corner.

“Our property managers keep a very close eye on the current market as well as future trends,” Monika says. “We’ll let you know what comparable properties are asking for and what the local demand currently is. That will give you a fairly accurate picture of what your new investment property might rent for and whether it’s a good investment.”

Once you have the figure, multiply it by 51 weeks to get the annual income (allowing for one weeks’ vacancy per year)

ii). Loan repayments:
For an investment loan, you can often finance the total cost of the property plus purchasing costs such as stamp duty and professional fees. If you’re doing this, make sure you calculate repayments on the total loan value, not just on the property price.

iii). Property management fees.
When seeking a rental appraisal, find out what these are and add a bit to cover things like letting fees and other contingencies. For example, if the management fee is 10 per cent, run your calculations based on 12 per cent.

iv). Additional costs.
These include landlord insurance, strata and utility fees, rates and emergency services levy. You can find out how much these will be from the sales agent. Don't forget to add an amount for unexpected repairs. If you're buying an off plan property, maintenance to the common property is covered in your strata fees, but you will still have some maintenance and re-pairs to do inside—although this is considerably less for a new property than an established one.

Add the numbers at 2, 3 and 4 and deduct the total from the rental income. This will give you the cash flow before tax. Divide it by 52 to find out how much you'll need to pay per week from your pocket.

That amount isn't the 'true' cost, though. Because property investment attracts tax deductions, you can end up with most or all of that outlay back in your pocket at tax time. To find out how much your property will cost you overall, do these subsequent steps.

Step 2.

Add up numbers two to four from the list above and deduct the total from the figure at number one. This gives you cash flow before tax. Unless you have bought a positively geared property, this will be a negative figure.

Step 3.

Deduct depreciation from that amount. To find out how much you can depreciate, talk to a quantity surveyor like BMT Tax Depreciation.

Step 4.

Calculate the resulting amount by your marginal tax rate. If you're earning between $90,000 and $180,000 this will be 37 per cent. You will now have a rough estimate of how much you will either owe in tax or be refunded.

Step 5.

Add the number from Step 4 to your total cash flow before tax (the number you got in Step 2) to see your final cash flow.

Confused? Tax depreciation specialists can do this calculation for you. You can also seek advice from your accountant or financial advisor.

Purchase price (inc closing costs)	$950,000
Pre-tax cash flow	
Annual rental income at $480/week, vacancy rate at 1 week per year	$35,700
Less annual expenses (loan interest and rental expenses)	$25,000
Total loss before depreciation	**$10,700**
Less depreciation	$9,000
Total loss after depreciation (tax deduction)	$1,700
Post-tax cash flow	
Tax refund (37% tax rate)	$629
Net cost to own property per annum	$10,071
Net cost to own property per week	$194

How to choose a rental property

Choose a rental property with:

- a great location
- a nice kitchen and bathroom
- amenities like a pool or gym in the complex
- low maintenance finishes and grounds

1. Focus on location

If you want to attract tenants, location is key.

The perfect location depends on the type of property and type of tenant you're looking for. A stylish new off-plan apartment for young professionals, for example, will be more attractive if it's close to the city, good restaurants and/or entertainment. If your purchase is a four-bedroom house in the suburbs, attract families by choosing somewhere close to schools, parks and public transport.

Wayne Harriden, Managing Director of Independent Project Marketing, explains. "The tenant demographic in Canberra is so diverse that every property will appeal to someone. Still, if you're looking to buy, it's worth thinking about what the property is going to lend itself to. If you want to attract families, do you need to be in particular school zones? If it's a one bedroom apartment that will appeal to young professionals, is it easy to commute to the CBD?"

2. Put yourself in the tenants' shoes

Once you've got the location down, think about what the property has to offer.

Before you buy, ask yourself what you'd want if you were a tenant. Remember that most tenants don't plan on staying somewhere forever, and don't have the same attachment to the property as a live-in owner.

"There are definitely things that tenants look for when they're choosing a property," says Wayne. "A nice kitchen and bathroom are a huge plus. But as long as it's fairly modern and presents well, there's no need to go overboard. Air conditioning and good heating are practically mandatory these days. Nobody wants to shiver through a Canberra winter!"

Complexes with a swimming pool or a gym are also in high demand since they give tenants access to extra amenities without the upkeep.
"Parking is also a consideration," adds Wayne. "A lot of people rent as a couple and own two cars, but their apartment might have only one parking spot, or none at all, so it's an important aspect to consider."

3. Look for something low maintenance

You don't want to spend every weekend over at your investment property doing repairs and your tenant doesn't want you there either. A property that needs a lot of maintenance can eat into your bank balance, your time and your peace of mind.

"A brand new property is ideal for investors," Phil says. "It's new and ready to move into, plus everything inside it will be under warranty for the first few years."

If you do have a higher maintenance property, though, there are things that can be done.

"When we deal with properties that are higher maintenance, we often negotiate with tenants to help meet their needs," Wayne explains.
"For example, a property with a large garden or a pool. Those are technically the tenant's responsibility, but if they don't want the hassle, we can negotiate a little bit extra in the rent to pay for a gardener or cleaner to come in.
"That way the property remains in good condition and the tenant gets the benefit of the extra amenities without the hassle."

4. Don’t jump in feet first

Do your due diligence before putting in an offer, every single time. It does not matter if you’ve fallen in love with a particular property, or you made a promise to yourself to buy before the end of the financial year. The extra time and care taken will always reward you. Some things you should do before signing on the dotted line include:

Reading your building reports carefully. In the ACT it is mandatory for the person selling you a property to provide you with a building report, pest report, compliance report and energy efficiency report. It’s a lot of paperwork but it’s worth reading carefully. Those reports will give you a lot of insight into whether the building needs attention or if there could be problems down the track.

Checking for other developments in the area. That lovely view might be under threat from a huge new shopping centre, or there might be planned infrastructure that can really help your property value. You can ask your selling agent for this information or check your local government webpage. In Canberra, you can start with City Services. Local council websites also have an abundance of information about planning in their area.

Check the neighbours. “The property might be lovely, but if next door looks like a junk yard it may put potential tenants off,” Wayne cautions.
“Also, make sure that there are no ongoing disputes.”

The seller may not have to disclose a bad neighbour situation unless it’s progressed to the courts, but it’s worth asking the real estate agent — and your friendly local search engine — what they know.

“We’ve got a broad view of what’s out there and what’s coming up,” Chris explains.
“If there are plans for a new shopping centre, or that eyesore next door is about to get knocked down and rebuilt, we’ll know about it before anyone else does.”

5. Be prepared to negotiate

“The problem for investors is that they’re up against live-in owners in a tight market,” Phil says. “People who are buying a property to live in are often prepared to pay more. They see the property and form an emotional attachment to it. That’s worth some money to them, so they make a higher offer. Investors, on the other hand, want a good deal so that they can make a profit right off the bat.”

What does that mean for you? You can always prepare yourself for paying more. But Phil’s advice is to look for properties that don’t come with the same emotional investment. “An off plan property always attracts investors,” he says. “They appeal to a wide range of people and you can make customisations.”

6. Get loan pre-approval

Loan pre-approval puts you in a far stronger position. Especially if you’re buying at auction, where the contract is unconditional, you need to make sure that you’re not promising money you can’t really pay. Get the paperwork done ahead of time and you can raise your hand with confidence.

In the market for a positive cash flow property? Take our checklist with you:

- Is there strong economic growth in the area?
- Is the vacancy rate under 3 per cent?
- Do surrounding suburbs have higher prices?
- Is the rental return 5 per cent or higher?
- Is the property new and/or off plan?

Long leases and short: what are the benefits?

Security means knowing you can rely on your rental income. Whether it supplements your salary or bolsters your retirement, you want to know it will always be there.

A long lease can help, but short stay could be a good fit too.

A traditional lease is generally for either six or 12 months, anything over. A lease for two or more years is known as a long lease. As the landlord, you can choose whether to offer a two, three or even five year lease.

There are pros and cons to both long and short leases.

The big advantage for both you and your tenant with a long lease is certainty. You don't have to worry about your property standing vacant, and your tenant has the security of knowing they won't have to move.

However, a long lease also means you might be limiting your rental income. You can build rental in-creases into the lease, but you can't change the agreement once it's signed. If the market takes off dramatically, you might lag behind.

Short-stay, on the other hand, provides more opportunity to make higher returns, as your nightly rate can be higher, but there is less certainty in how often the property will be vacant.

Here are some things to consider that might help you make the decision.

1. What is the rental demand like in your area?

When rental vacancies are low, there is less incentive to offer a long lease. Rental demand in Canberra is notoriously high, with rates staying under 1 per cent for the past few years. As a landlord, that means that you can be fairly confident in finding a new tenant quickly when a lease ends.

In other areas, demand can be more volatile. When you're looking at rental demand, consider whether there are seasonal spikes and troughs. Also think about whether global events may impact rental demand.

If you are enjoying high demand, will that demand endure into the future? If it's likely that demand will drop in the next year, just when you'll be looking for the next tenant, a long lease might be ideal. If demand is likely to stay strong, short stay could be your answer.

2. Will the tenant agree to a rental increase in the lease?

In the ACT, you can't raise the rent during a lease if the lease is for 12 months or fewer. However if both parties agree, you can add it as an additional term. “You mostly see this with long leases,” Monika says.
“By writing in a term that the rent will go up by a set amount every twelve months, you aren't missing out on the rent increases that you'd get if you rented out the property for shorter periods. Tenants understand that and are usually happy to agree.”

Make sure that your prospective tenant is willing to agree before you sign. If you sign a long lease without an agreed increase, you won't be able to raise the rent at the end of the first year. That could mean you're receiving lower than market rates for your property.

When it comes to short stay, you are under no such obligation. You can raise or lower your nightly rate based on the changing market conditions and guests can either choose the property at that rate or not.

3. How important is a steady income?

Can you afford to cover a period in which your investment property is vacant, or do you need a constant income stream to cover your expenses? If you have borrowed up to or close to your limit, you might have put your budget under pressure. In that case, a reliable income stream, courtesy of a long lease, might be preferable. If you have more flexibility, you might choose to stick to shorter leases and keep your options open.

4. What are your plans for the property?

While you can sell a property with a resident tenant, it can be harder to do. If you think you might want to sell in the next couple of years, a long lease might not be the right way to go.

“Some investors might like to buy a property with an existing tenant for the guaranteed cash flow, but people who want to live in it themselves can be put off,” Chris says.
“It’s also a lot harder to present the property for sale. You’ll have to photograph it with the tenant’s furniture in place, and they have no incentive to declutter or style it the way you would as the owner. The tenant can also make it difficult to get access to the property for inspections.”

If you’re planning to sell, avoid long leases.

“When we upgraded to the house we live in now, we decided to keep our first apartment as an investment. It was pretty tight there for a year or two, but it’s been so worth it. The value went up a lot, so we could borrow against the equity and buy a second apartment a couple of years later. At this rate we’ll have seven or eight properties by the time we retire, which will make a huge difference to our lifestyle. We won’t need to rely on the government pension, or our kids, and we’ll be able to leave them a bit of a nest egg to help them on their way. Those little sacrifices back then, like not eating out as often, have been so worth it.”
- Caroline, cafe owner

Why stop at one?

The most recent data from the Australian Taxation Office shows 71 per cent of property investors only own one property. Another 19 per cent own two properties, and less than 1 per cent have six or more.

Will one investment property give you the security you're looking for? Probably not. If you've paid it off by the time you retire, the rental income could supplement your superannuation by a few hundred dollars a week. And it's nice to know that you can sell it if things get tight.

For real security, though, you need to build a more extensive portfolio. To run the numbers, sit down and work out how much you want to live on in retirement. Now work out what rental income you'll need to achieve to get to that number, remembering to subtract ongoing costs like mortgage and upkeep fees.

Knowing the numbers is important for motivation. Next time you want to book a Bali get-away or upgrade your smartwatch, look at your goals. Will you be able to enjoy a comfort-able retirement or leave a legacy for the kids? A few small sacrifices now can make all the difference in the future.

If you choose your first property wisely, you should be able to build enough equity in the first two or three years to fund a second purchase.
The more properties you have, the faster you build equity for the next one. So what's really holding people back? For some it's overconfidence or the opposite — not knowing where to start.

1. Liking your luxuries.
Planning for future security means being willing to give up a few Uber Eats orders now.

2. Worrying about bad tenants.
We've all heard the horror stories, but bad tenants are few and far between.

3. Being unsure what to buy.
Get advice from a professional if you're worried about buying a bad investment.

4. Thinking you've got more time.
The sooner you buy, the easier it is to make a profit and gain future security.

5. Lacking motivation.
If it all seems too hard, focus on your goals. A comfortable retirement and future security is worth the effort.

Common landlord questions

Not sure what being a landlord really involves? Monika shares the answers to the questions she gets most often.

What's the difference between a fixed lease and a periodic lease?

A fixed lease is a lease for a set period of time. That can be six months, 12 months or longer. To end a fixed lease, you need to give your tenant two months notice. Your tenant can-not leave before the end of the lease — if they do, they might be liable for the rent until you can find a replacement tenant.

A periodic lease is a lease that renews every time a rental payment is made — usually fortnightly. It gives tenants more flexibility because it can be ended at the end of a rental period. Landlords need to give their tenant three weeks' notice in the ACT — the amount varies in other states and territories, so always check with your property manager.

How can I attract the right tenants?

Think about who your property will appeal to. Is it suited for young professionals, families or people moving temporarily for work? Tailor your marketing to that demographic. Presentation matters, so are sure the property is sparkling clean and well photographed to show it at its best.

Any tenant is better than none, right?
Not always. A tenant who doesn't pay rent, or damages the property, can be a huge problem. It's time consuming and costly to evict a tenant, so make sure you get the right one, right away. You or your property manager should undergo a thorough vetting process, including reference checks and rental payment history.

What happens if there's damage to the property?

"It's important for landlords to carry insurance," Monika explains.
"While our vetting processes mean you're unlikely to get anyone deliberately damaging the property, accidents happen. A leaking tap that your tenant doesn't notice can cause a lot of damage if it's not fixed promptly. Landlord insurance guards against accidental and deliberate damage to your property.
And it's tax deductible."

“We were really worried about investing. It’s such a huge purchase, and we weren’t sure how to choose the right place. But Canberra is a great place to buy property. We looked at the rental demand, which is so low, and talked to a property manager to see what tenants are looking for. Since we bought that first place, we’ve barely had a day when it’s been vacant. It only took two years to buy the second place, and then 18 months for the third. Now we’re in the middle of something really exciting: we’re buying an old place on a large block and turning it into a set of townhouses. It’s been really fun and rewarding: I can’t remember what we were worried about!”

- Jason, luxury car salesman

What is short stay Property Management and how does it work?

Platforms like Guested take the guesswork and stress out of managing a short-stay rental property. The team handles everything, from styling and photography, through listing and guest communication, to cleaning and maintenance. This option allows you to list your property when it suits you, adapt the nightly rate to meet market demand and use your property when you need to.

Short stay management companies like Guested can handle all the work if you prefer to be hands off. From advertising to vetting guests, organising key handovers, cleaning between guests and day-to-day repairs, they'll do the lot.

If you do choose to take on the day-to-day management, be aware that short stay rentals take more work than long term rentals. You will need to organise cleaning between each stay as well as periodic deep cleans, respond to enquiries, organise key handovers, replenish toiletries and other supplies, deal with maintenance requests and handle all the administration and finances. If you don't have time to do the job well, you risk negative reviews. These can put off potential guests and lower your returns.

The good news is that you can save yourself the headache of managing your short stay property and instead leave it to the experts. Guested offers an app which allows owners to monitor their property and income in real time and has property managers on the ground in Canberra to assist with any guest queries or issues.

You will also need to stay up to date with legislation. Short term rentals are a fast-growing segment of the property market. In fact, the occupancy rate for short stay accommodation using platforms like Airbnb and MadeComfy in the Capital has held steady at 78 per cent over a 12 month average to March 2022. However, the concept is still newer than traditional lease arrangements, which means that the legislation is constantly changing as governments play catch up. You'll need to make sure you're up to date with your rights and responsibilities as a short stay landlord.

Monika Minko
General Manager,
Property Management

How to increase your cash flow with depreciation

Claiming depreciation deductions can save you thousands of dollars each year. New builds including off plan purchases generally attract higher deductions than established property

Most positive cash flow properties only return money after tax. To maximise your deductions and improve your bottom line, you need to appreciate the power of depreciation.

What is depreciation?

Property depreciation is the natural wear and tear of a building and the assets within it over time. The Australian Tax Office (ATO) recognises that these assets lose value over their natural life and allows owners of income producing properties to claim this as a tax deduction. It has predetermined rules on just how much a property and the assets within it decrease in value.

There are two types of depreciation you can claim. Generally, for both types, owners of new properties will find they can claim more than established homes.

1. Capital works deductions (Division 43)

Capital works (Division 43) is the building itself and items considered to be permanently fixed to the property. It includes:

- Building materials like tiles and timber
- External additions like an outdoor entertaining area, carport or balcony
- Internal improvements like a new bathroom or renovated kitchen

Capital works can be claimed at a rate of 2.5 per cent over the life of the property (forty years). As a rule, any residential property in which construction commenced prior to the 15th of September 1987 will not qualify with exceptions when a substantial renovation is completed. Buy a brand new off plan property, however, and you will still be claiming deductions in your dotage.

Capital works deductions in action:

Sarah is a patent lawyer in her late 30's. She exchanged on an off-plan apartment in Turner three years ago. The apartment cost $400,000 and was completed two years later. Sarah has used the apartment as a rental property continuously since then.
Sarah's annual capital works deduction is calculated at $290,0000 (cost of the capital works component) with a claimable rate of 2.5 per cent. That gives her an annual deduction of $7250, which reduces her taxable income by the same amount.

2. Plant and equipment depreciation (Division 40)

Plant and equipment deprecation (Division 40) are the items which are easily removable from the property or mechanical in nature. These assets are claimed a rate based on the diminishing value or prime cost method and the effective life of the asset which varies depending on the asset and type of use.

Examples include:

- Carpet
- Split system air conditioners
- Hot water systems
- Curtains and blinds
- Ovens

There's more good news for purchasers of off plan properties here.

Legislative changes made in 2017 meant that investors could no longer claim depreciation on second hand plant and equipment assets. That means if you purchase a property which has previously been owned, the carpets, appliances and fittings that were already there are second hand and not claimable. Your brand new off plan property, however, is filled with brand new items so you can claim the lot if you have only used it for rental purposes.

Plant and equipment depreciation in action:
Charlie, a consultant with the Department of Defence, has been renting out his recently finished townhouse for the last year. In addition to claiming the capital works deductions, Charlie is also keen to claim depreciation on the carpet in the property. According to the ATO carpet has an effective life of eight years. Since the carpet cost Charlie $5,000, he can use the diminishing value method, which nets him a deduction of $1250 in the first year, then $938 in the second year and dropping down to $297 by year 6. As a new owner, this helps him maximise deductions at the point where his costs are likely to be highest.

Alternatively, using the prime cost method, under which he can claim a deduction of $625 a year over eight years.
Whichever method he chooses, depreciation offers a significant saving.

Tracking depreciation through a depreciation schedule is a crucial part of your wealth building strategy. Talk to a trusted quantity surveyor to access and assess your property and even deduct the surveyor's fees from your rental income.

Since quantity surveyors can generally find deductions that total more than their fees, this service is literally putting extra money in your pocket and the cost of a tax depreciation schedule is also 100 per cent tax deductible.

Bradley Beer, a qualified quantity surveyor and the Chief Executive Officer of BMT Tax Depreciation, Australia's leading provider of tax depreciation schedules.
Bradley is actively involved in educating property investors and property-related organisations about the importance of tax depreciation. Bradley's experience as CEO of BMT, and personally as a successful property investor, has led him to become a regular keynote speaker and presenter covering property depreciation services on television, radio, at conferences and exhibitions Australia-wide.

Bradley Beer (B. Con. Mgt, AAIQS, MRICS, AVAA) is the Chief Executive Officer of BMT Tax Depreciation. Please contact 1300 728 726 or visit bmtqs.com.au for Australia-wide service.

Why you need a good property manager

A property manager can help you improve your investment by:

- **Keeping up to date with market rates**
- **Being proactive with maintenance**
- **Developing relationships with trades**
- **Keeping up to date with tenancy legislation**

A good property manager is more than just a person to pay the bills and collect rent. Done right, property management is an essential part of your wealth building strategy. Their skills and knowledge can help you increase cash flow and contribute to the financial freedom you're seeking by:

Keeping up to date with market rates.

Price your property too high and you won't get any interest. Price it too low and you're leaving money on the table.

"If you already have a tenant, it's in your interests to keep on top of market trends because legislation stops you from raising rents too much at once," Monika advises. "Gradual increases are important so that you don't get left behind."

Engaging in proactive maintenance.

"It's not difficult to call up a plumber when your tap needs a washer replaced or to call in a handy-man to fix a squeaky door. What is hard is being aware of potential problems and preempting them before they escalate," Monika says

"At routine inspections we ensure tenants are taking care of the property but also look for what improvements owners can do to save money in the long term through preventative maintenance. We can prevent more costly repairs down the track by taking a proactive approach before the property declines."

Developing relationships with trusted tradespeople.

The best way to ensure repairs are carried out thoroughly is to hire the right person for the job. This means building relationships with honest, reliable and skilled tradespeople. "Asking a friend or relative for a referral is always a good place to start," Monika says.

"If you engage one of our property managers to look after your rental property, they can also recommend a tradesperson from their pool of trusted contractors."

Keeping up to date with changes in tenancy legislation.

"There is a lot of legislation around property in Canberra that affects owners and landlords, so being up to date with changes to the law is crucial. When selling or leasing out property, most people don't really know what they are getting themselves into and how much baseline knowledge is required," Monika says.

For example, recent proposed changes in the Residential Property Act mean that landlords cannot unreasonably deny a tenant's request for a pet or a request to make minor reversible changes to the property. Although great for tenants, these changes reduce your autonomy over the property as an owner.

As Monika points out: 'It is literally our job to know the legal side of things and we make it a priority to educate our staff whenever legislative changes occur that will affect tenant or landlord rights. Our staff then educate and advise our clients on these changes."

Choosing the right property manager

Look for a property manager with:

- Knowledge of the local market
- Good reviews
- Competitive management fees
- Great communication skills

The right property manager can increase your return and offer peace of mind that your asset is in the hands of a professional. But what should you look for?

1. Local knowledge.

"A property manager should know your local market," Monika explains.
"They'll understand what price you can ask because they're familiar with comparable properties and what the demand is like.
If they're managing other units in the same development, they will also be able to give you advice on proactive maintenance.
If we've been asked to replace a hot water system, for example, we can probably guess that the other hot water systems in the building are also due to be replaced.
So we can give the owners a heads' up about that."

2. Good reviews.

Word of mouth is the best information out there. Ask your prospective property manager to refer you to some of their current owners so you can see what they think. Online reviews are also a great tool, although you should bear in mind that disgruntled people are far more likely to bother writing a review than their happy counterparts!

3. Competitive management fees.

Be careful here: not all property managers offer the same services, so make sure you're comparing apples with apples. Property management fees are generally divided into a few categories. There is the:

- ongoing management fee
- property management leasing fee
- a range of miscellaneous fees and charges.

"Some companies will offer an all-inclusive fee," Monika says "That means that they're bundling the cost, often including a letting fee into the monthly charge, instead of charging for it separately as it arises

4. Good communication.

A good property manager should be able to effectively communicate with you at all times. Make sure you find someone who will keep you up to date on repairs and maintenance, let you know when there are potential tenants interested and if there are any energies to be attended up.

Six questions to ask a property manager

1. What are your qualifications?
2. How many properties do you manage as a company?
3. How many properties does each manager handle?
4. What are your fees and what is included in them?
5. How do you communicate with clients and how often?
6. What marketing strategies do you use to attract tenants?

Bringing 60 years of real estate knowledge to work for your investment property

- Comprehensive tenancy agreements
- Investment property health checks and rental appraisals
- Regular and long leases offer flexibility and housing stability
- Proactive management and maintenance solutions
- Detailed guides for landlords and tenants
- Electronic record keeping
- After hours emergency line

How to choose an off-plan property

Developers use display suites and 3D renders to show you what your off plan property will look like when it's built. Choose from different floor plans and finishes to get the home you want

Interested in buying an off-plan investment property but not sure how it all works? You wouldn't be the first buyer to wonder how on earth you can choose a property that doesn't exist yet.

When you buy an off-plan property, you are signing a contract to purchase a property that hasn't yet been built. Therefore, of course, there is no physical property to inspect.

That's where display suites come in. A developer will create a model, or demonstration property, that gives you an ideal of what the final build will look like. The display suite is large enough to walk into, but not an exact replica of the apartment or townhouse they're trying to sell you.
The developer also uses floor plans and 3D renders to showcase all the options. You'll get to see a variety of layout options, finishes and apartment sizes so you can choose the one that's best suited to your investment needs.

Book a display suite appointment here to see some of the great developments on offer in Canberra today or check out our video series explaining the process here.

Key questions to ask when visting a display suite

It's easy to get overwhelmed when you visit a display suite; these beautifully styled spaces offer an enticing look into what the future could hold. And while it's an experience that should definitely be enjoyed, you need to go in with a clear agenda to help you decide if this is the off-plan purchase for you.

So step away from the suite's perfectly styled cushions and shiny appliances and ask the agent the following questions.

Get to know the team behind the development

1. Who is the
   - » developer
   - » architect
   - » landscape architect
   - » builder
2. Can you tell me about other developments that this developer has finished?
3. Who will be my main point of contact throughout the buying process? How often will I hear from them?

Understand the options for the specific apartment or townhouse

7. Are there any fixture and fitting upgrade options?
8. Where does this specific property sit within the development site?
9. What colour schemes can I choose from?

Learn about the building as a whole

4. What communal amenities will be included?
5. Is there a restricted-access carpark and what is the street parking like?
6. Are the lifts, lobby and any other common areas restricted access?

"You can visit a display suite as many times as you need to get an understanding of the project and make sure it's going to be the right fit for you.

There's always the option to book a private viewing, as the agent can sometimes be quite busy during inspection times."

Nicholas Jacob,
Sales Consultant

"At times there will be incentives a developer will offer for that specific project, such as part deposit repayments, gift cards, furniture packages or blinds packages. Always ask the agent if there are any offers in addition to government incentives."

Wayne Harriden,
Executive Director, Project Marketing

Understand the financial aspect

10 At which stage will I pay my deposit?

11 How much is the initial deposit and can it be invested?

12 If I pay a deposit, is it secure if something happens to the developer?

13 Is the developer offering any incentives or discounts?

14 How much are the strata fees?

Know what the development timeline is

15 Is this development DA approved?

16 When is this development slated for commencement and completion?

17 When I move in, will the development be 100% completed or will construction continue?

18 What happens if my apartment isn't completed on time/when is the sunset clause?

19 What happens if I don't settle on time?

Notes:

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