

## Skyline Real Estate Newsletter for Landlords August 2006

# Strategy for Success

The strategy used by many successful property investors can be summarized in three steps. The first step is always the hardest- preparing to build a property portfolio by working towards your very first home. The second step of buying and accumulating properties takes at least 10 years and covers your working life. The third step is organising and managing your retirement and enjoying the fruits of your labour.

### Step 1- Preparation for a property portfolio

- **Adopt sound financial principals:** This involves objectives such as buying luxuries only after financial commitments are met.
- **Get an income:** You will need an income to support your borrowings, but it doesn't have to be high at this stage.
- **Set a goal:** Set goals for your starting date and identify how many properties you will need to provide the income you desire.
- **Buy your first home:** Keep in mind to buy when prices are low, be realistic and within budget.
- **Establish equity on your own home:** The equity you build in your place of residence will be the stepping stone to acquiring a property portfolio.
- **Be confident:** Few people have the confidence to change their way of thinking and take risks in making the next step.

### Step 2- Building the property portfolio

- **Prepare a budget:** Work out with a financial adviser how much investment property you can afford.
- **Borrow against your equity:** Many investors use the built up equity in their own home as a 'deposit' to borrow for their first investment property.
- **Buy your first investment property:** Purchase in the bottom quarter of the market when prices are affordable. You should also consider purchasing in an area which you are familiar with and retains the amenities that attracts tenants.
- **Lease the property:** This can be handled by an experienced Property Manager.
- **Be patient:** This is vital and probably the most difficult task. Your strategy is long-term

so don't fall into the trap of selling when prices are high.

- **Purchase more properties:** How quickly you accumulate property depends not only on the property growth, but mostly on the rate of increase in cash flow from both rents and your own salary.




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### Step 3- Managing your property portfolio

- **Decision time:** Once you have attained a collection of property investments, you have the ability to sell, hold, or continue to buy more. At this point you will need to consider when you are going to retire, a decision that may cause you to rely on this income.
- **Reduce debt:** Whatever your decision, you can manipulate the debt levels by selling a property or two to reduce the loan. This reduces the interest payments and may provide a positive cash flow from your properties.
- **Live on rental income:** At this stage, most property investors hope that their property portfolio will become their prime source of income. But always remember that whatever decision you make, first consult your Property Manager and financial adviser to avoid putting your properties at any risk.

## A Case for the Tribunal....

*The following is a summary of a legal judgement arising from a tenancy dispute. It is important to remember that this is a summary and for a full account the entire judgement should be read. We do not recommend you rely on this summary in any decision making about your investment property.*

### **Department of Housing v Cao [2002] NSWRT 20 (30 January 2002)**

In this case the tenant had given notice that he would vacate the premises by 31 August 2001. The notice was in writing and signed by the tenant. The Department received the notice in July and relied on this notice, however the date passed and Mr Cao had not left.

The Department lodged an application on 9 November 2001 seeking termination of the tenancy and possession. As at the date of the hearing, 30 January 2002, the tenant had not vacated the premises.

The Tribunal found that under s. 59 of the Act the tenant can issue a notice to terminate to the landlord, and Mr. Cao's letter to the department met all the requirements for such a notice. Under subsection 64 (1) of the Act a landlord can rely on a tenant's notice of termination to make application to the tribunal to end a tenancy, however this application must be made within 30 days after the vacation date specified in the tenant's notice. The Department made their application on 9 November, some time after the 30 day period.

The Department gave evidence that they did not make application earlier, or issue its own notice to terminate as it relied on the tenant's notices that he wanted to end the tenancy. The Tribunal considered whether it should extend time, but found that the circumstances of the case were not appropriate. Accordingly the application for termination and possession was dismissed.

**Meeting the requirements of tenancy legislation can be difficult if you are not dealing with it on a regular basis. A professional Property Manager will ensure that if circumstances arise where you need to make application to a Tenancy Tribunal all the 'i's' are dotted and the 't's' crossed.**

## **STOP THE PRESS!**

The fear that another hike in interest rates may cause buyers to shy away from the market is a concern for many vendors. However, buyers are far from scarce; in fact they are rivalling for good quality property.

The Reserve Bank has decided to raise interest rates by a quarter of a per cent for the second time in three months.

According to RBA governor Ian Macfarlane, with economic activity strong across Australia and inflation pressures increased, an interest rate rise was expected.

Not surprisingly the rise has not only received a negative response from buyers and current home owners, vendors are also concerned. Higher interest rates will undoubtedly see buyers attempt to market down property values. But this should not cause issues for sellers if they prepare themselves well in advance.

The current market conditions are exceptional for buyers. If they are keen on purchasing property, interest rate rises will be accounted for in the budget.

The lack of stock that is currently available for sale is also proving to be a positive for sellers. With less competition, buyers have limited opportunities to negotiate and shop around. This amplified competition is causing property prices to rise in some areas.

Current home owners will also need to rearrange their lifestyle to accommodate for the rate increase. Cutting petrol costs, avoiding buying luxurious goods or perhaps downsizing their property, are some ways that home owners can reduce the impact of the rise on their mortgage repayments.