ASK THE EXPERTS

I own my primary place of residence (in Sydney) and a one bedroom investment unit in Melbourne, which is only achieving a gross rental yield of 3.8 per cent. I want to purchase a third property this year. Should I be looking at regional areas?

Having a balance between negatively geared capital growth properties and positive cash flow properties when building a property portfolio leaves you in good stead with the financial institutions. They view this balanced approach to investing as low risk.

Purchasing a high positive cash flow property of around nine per cent plus will help to balance your portfolio and you will not have to rely so heavily on your income to support the mortgages.

Consider making the most of Australia's resources boom by researching regional areas that are benefiting from the high demand for minerals. Many of these towns offer investors a strong cash flow as well as solid capital growth.

In relation to your Melbourne unit, a common mistake investors make is not increasing their rents regularly. Reviewing your rents annually helps you to quickly place your investment into a neutral position rather than being so heavily negatively geared.

Remember, property investing is about maximising all that you have while building on it. And your cash flow is what allows you to maintain your portfolio while you wait for capital growth to occur. Injecting a cash flow property into your portfolio will help to support the short fall from your Melbourne unit as well as put you in a good position to borrow more from the banks for your next property purchase.

Helen Collier-Kogtevs, founder,
Real Wealth Australia

I have a two bedroom unit in Sydney's Inner West. When would it be appropriate to increase the rent and how should I go about it?

Firstly, is the tenant on a lease or on a month-to-month or rolling lease?

The best case scenario is if the tenant is on a lease and has approximately 10 weeks until the lease expires.

- Inspect the property to make sure the tenant is looking after your investment. If not, decide if you want to give them a termination [notice] to vacate at the end of the lease.
- Assess the comparable rentals by checking similar properties available for rent.
- Contact the tenant via email or telephone to advise that the rent will increase by an amount that brings it up to market rent or just below. Discuss signing a new lease.
- Arrange to sign a new lease with the tenant that incorporates the rent increase. You can't force them to sign, but it is in everyone's best interests to know how long the tenancy will be.
- Send a letter giving the tenant 60 days' notice of the increase (this must be a letter – an email is not sufficient) and allow four days for postage. This will mean the rent increase should start just after the lease expires.
- If the tenant is on a rolling lease, still follow the above procedure. However, the best time to process a rent increase is when it is easiest to relet the property. Guess what: not all tenants will stay on when you process an increase in the rent!

Lisa Indge, founder and managing director
Let's Rent

GOT A QUESTION FOR ONE OF OUR EXPERTS?

Then send it to - **editor@spionline.com.au** (50 words max)

I'm looking at buying an investment property and am yet to decide whether to buy new or old. What are the depreciation benefits with older units?

This is one of the age-old property investor questions: new versus old, along with apartment versus stand alone house. Despite what some may say, older properties can have depreciation benefits.

Properties constructed before 1985 contain no original capital depreciation. I use the word 'original' as properties of this age tend to have been renovated or require renovations. They also tend to include items that are depreciable.

Even if these works were undertaken prior to your purchase, a qualified quantity surveyor should pick them up during their inspection and include the costs within their Tax Depreciation Schedule. It's now common to see inner city renovations exceed the cost of some new build properties, especially where the aim is to maintain the integrity of the original building.

In addition, older properties still have what the ATO classifies as 'Plant And Articles', such as hot water systems, blinds, etc, all of which depreciate from the time the property became an investment for yourself and based upon their condition at that time.

We are also tending to see better quality fittings and fixtures introduced into renovated properties than those contained within new stock builders' homes as people try to reintroduce the 'wow factor' to an older property. Again, these will contain a larger amount of depreciation.

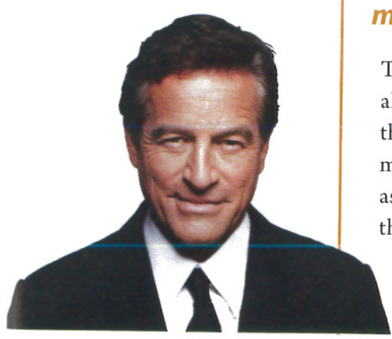
Although important, however, depreciation should form only one part of your considerations when buying an investment property.

Tracey Lunniss, chartered quantity surveyor and associate director,
TSL Pty Ltd

> **"IF PROPERTY PRICES INCREASE, THE RISK CAN BE IN WAITING"**

It has taken me three years to save $30,000 for a 10 per cent deposit on a $300,000 property. Should I save for a few more years to get a lower loan to value ratio (LVR), or buy now and run the risk of paying lender's mortgage insurance (LMI)?

Mark Bouris, chairman,
Yellow Brick Road



This is a question that borrowers we speak to face almost every day. LMI is protection for a lender that will allow a borrower to enter the property market sooner rather than later. There is no 'risk' associated with mortgage insurance; it is a cost that should be quoted to you well before you enter into the contract. The end cost to the borrower depends on a number of factors, including the state in which they are purchasing the property and the mortgage insurance firm your lender uses as well as a number of other variables. As a rough guide, the cost for a $270,000 loan against a $300,000 property would be around $3,000 to $3,400.

The risk with the question of whether to buy now or later really comes down to what you think will happen to property prices between now and when you could buy with a larger deposit. Say it will take you another three years to save a 20 per cent deposit, what could happen to property prices in the meantime may well make the $3,000 look like a relatively small cost. Most people enter the property market not thinking it will go backwards, so let's assume property prices increase by five per cent per year for the next three years. That means the property that is worth $300,000 now would be worth almost $350,000 in three years time, an additional cost of almost $50,000 based on reasonably conservative price growth assumptions.

Yes, mortgage insurance is an additional cost, and I do not believe in people purchasing beyond their means. However, if property prices increase, the risk can be in waiting.