

INVESTING IN RESIDENTIAL PROPERTY

18 Key guidelines to help you improve your bottom line



What do tenants want from a property? Which features will they pay more for? What improvements can you make to increase rent?

In a competitive market, your property should offer the type of features that appeal to tenants so that it generates as much income as possible.

That's why we've created these guidelines. Drawing on 25-plus years' experience, we've used our insights to help you achieve your return-on-investment aspirations.

As well as helping you assess what features tenants look for in a property so you can decide whether it's a suitable investment, these guidelines give you ideas of where you should spend your money if investing in improvements. Presentation is also a very important consideration, so we've also included tips to help you ensure that your property is presented in the best possible way.

Whether you're looking to buy your first rental property, or you're an investor looking to add to your portfolio, you should find these guidelines useful. Please also contact us before purchasing a property so that we can give you a comprehensive rental appraisal with tips on improving the property to help you maximise your returns.

1. BEDROOMS

The number of bedrooms is generally the main factor in determining how much a property will rent for – the more bedrooms, the higher the rent. This rule especially applies to properties in a lower price range, where students or younger people are your most likely tenants. The more bedrooms, the more tenants, and the more rent they can collectively afford. Bedroom size is also important – they should all be big enough to accommodate a double or queen-sized bed.

The best way to increase the value of a residential property is to add a bedroom. Sometimes this can be done within the existing floor area either by converting rooms, like a laundry that is bigger than necessary, or by shifting wall partitions to maximise bedroom space. Get a builder to calculate the cost of adding an extra bedroom and do the sums to make sure the outlay will improve your rental returns.

2. LIVING AREAS

The number of living rooms should be in proportion to the number of bedrooms. In general if there are four or more bedrooms, there should be more than one living area. Living areas are areas that can be used for general living – a space that can fit, for example, a lounge, coffee table and TV – and are far enough apart so that noise isn't an issue. For instance, a house that has a combined lounge/dining upstairs and a rumpus room downstairs is considered to have two living areas.

3. BATHROOMS

The number of bathrooms should also be in proportion to the number of bedrooms. Two bathrooms are preferred for a three bedroom house, and a property with four or more bedrooms needs at least two bathrooms. A shower is essential and there should be plenty of cupboard and bench space.

4. OUTDOOR ENTERTAINING AREAS

Properties with an outdoor living area are easier to rent than those without. Raised back decks are preferred and should include room for a barbecue and seating for 4-8 people.

5. SUN

Houses that get little sun can be difficult to let, especially in winter. One solution is to install skylights or additional strategically-placed windows. A light, white painted interior can also help. More sunlight will reduce the incidence of mildew, helping to keep redecoration costs down.

6. LOCATION

A property's location is important, but is not a top priority for tenants. The desirability of a particular location depends on a tenant's needs. For example, medical professionals may prefer to be near a hospital, while families might seek specific school zones. There are some rules of thumb, however, and being nearer to public transport routes makes a property easier to let. Properties with five bedrooms or more that are suitable for students should be within walking distance of universities, and city suburbs generally have higher tenant demand than outer suburbs.

7. FLOOR COVERINGS

Warmth is a priority for most tenants, and carpet ensures a warmer home than wooden or tiled floors. Choose a hard wearing carpet and use tiles for kitchens and bathrooms as they are harder wearing than wooden floorboards. If laying new tiles in the bathrooms consider under-floor heating as it's attractive to tenants and also helps to reduce damage from mould.

8. VIEWS

Views can increase the weekly rent and make a property easier to let, but the additional cost of a property with a view can mean the "yield" on the view is not great. Other considerations, such as potential capital gain may factor more than rental yield.

9. PRESENTATION

Presentation is a very important factor in achieving high weekly rental income. While unrenovated properties provide owners with an opportunity to add value and to maximise capital growth, they do not rent well. The more recently a property has been renovated or built, the higher the weekly rental return will be.

Modern kitchens and bathrooms are the most important consideration in presentation, and tenants look for a tidy, low maintenance yard for houses and clean common areas for units and townhouses.

Ironically, a tidy, well kept, extensive garden helps rent a property but often during the tenancy it falls into disrepair. This increases the time to re-tenant the property when it becomes vacant, so think about changing high maintenance gardens to a lower maintenance design, with regular garden maintenance included in the tenancy agreement.

Consider what areas could be lifted with some painting. You should only paint those areas that really need it, however, unless you plan on doing the lot. New paint may only make those areas that are left unpainted look even shabbier. Avoid bright colours such as red, blues and greens – light earthy colours like whites and off-whites appeal to more people.

Tenants can be irritated by leaking taps, sticking doors, broken lights, loose door handles, rotten floorboards, leaky gutters and the like. These things can give the impression that the owner doesn't care about the property, so it pays to fix them.

Before the property is advertised for let, tend to the gardens, mow the lawns and clean the windows, paths, gutters and outside paintwork. These are all things that are seen from the street, and you don't want prospective tenants to dismiss the property before reaching the front door. Presenting the property well from day one also sets the standard of care and upkeep that is expected from the tenants. A property manager can organise this for you for a modest sum.

10. HEATING

Heating is becoming increasingly important to tenants, and properties with heat pumps are at a distinct advantage over those without. In-home ventilation systems such as DVS or HRV have a dual benefit – they not only make the house feel warmer, but also reduce condensation and mould, saving on maintenance costs. Tenants often ask if the house has any form of central heating.

11. BUSY ROADS

If a property is on a busy road, tenants are more likely to be concerned about ease of access than traffic noise, so a property with back access but which fronts onto a busy road will be easier to tenant than a property on the same street with difficult access. Off-street parking and outdoor entertaining areas that are shielded from passing traffic are also important.

12. ACCESS TO FACILITIES

Properties close to universities attract greater interest at the start of the year and again at the change of semester in June/July. In inner city areas, easy access to cafés and shopping precincts also increases demand. Easy access to schools, parks, hospitals and other community facilities does not really increase demand in inner city areas, as almost all properties are relatively close to these sorts of facilities.

13. WHITEWARE

Tenants usually prefer properties with dishwashers and modern gas hobs. Stainless steel appliances are more appealing than traditional white appliances. It pays to provide quality appliances because any normal wear and tear maintenance costs are the property owner's responsibility so will reduce net rental income. Premium appliances tend to attract premium tenants. The yield on the cost of installing a dishwasher is high, and it can be a very simple way of making the property more appealing.

14. SECURITY

In the lower rental bracket of up to \$450 a week, security alarms add very little value to tenants but they're an advantage in the higher price range of over \$800 per week. Security window stays are a distinct advantage in all price ranges and they also mean that tenants are more likely to open windows for ventilation.

15. FURNITURE

While furnishing a property can increase the rental income, you need to consider the property type and likely tenant pool before making this decision. You may get more rent if it is fully furnished but could end up with longer vacancies as it will appeal to fewer tenants. The only exception to this are inner city apartments where the demand is high for fully

furnished apartments. In most cases, other than apartments, the overall return will be better for an unfurnished property.

16. BUILT-IN WARDROBES

With space at a premium everywhere, built-in wardrobes are advantageous. They are much more common in units and townhouses, and are often expected by tenants.

17. STREET APPEAL

First impressions are critical when a prospective tenant inspects your property. While some tenants want to save money and are happy to live in a property that is not in first class condition, others, such as professional people, are happy to pay top rent but expect the property to look immaculate. There is no doubt that a well presented property will achieve top market rent and will usually attract the best quality tenants. This adds up to a higher investment return, together with fewer and shorter vacancy periods.

A good property manager will insist that your property is very clean and in its best possible condition before it is shown to tenants and before letting tenants move in.

18. PROFESSIONAL PHOTOGRAPHS

Once the property has been tidied and is well presented, having it professionally photographed can make a substantial difference to the amount of interest shown by potential tenants and can reduce the number of “no shows” to property viewings. The photos can be used over and over, so they are very cost-effective.

BUYING INVESTMENT PROPERTY

Be sure to consider these guidelines when buying investment property. If you research the market and develop a working relationship with real estate agents, you could find that there are more bargains out there than first appears. Before making any investment decisions, however, we recommend you consult a financial expert.

We also invite you to talk to us about any property you're interested in, ideally before you commit yourself to a purchase, so that we can inspect it and provide an appraisal from a rental perspective. This comprehensive rental appraisal will include tips and recommendations for improvements to assist you in maximising the rental returns. That way you can be sure that you're buying a rental property that will deliver the financial returns you're aiming for.

It takes time to buy well but that's how you make the big gains. If you buy properties that tenants like, you'll find them easy to let, have lower vacancies and enjoy greater capital gains. Good luck!

TALK TO THE EXPERTS IN PROPERTY CARE AND RETURN

If you have any questions about the tenancing of your property or anything else to do with property investment, contact your local Quinovic office or visit www.quinovic.co.nz



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