

Ask the experts

Our panel of experts advise on what to do if your tenants keep changing some of your property's features and how to make good purchasing decisions when investing interstate without all the plane trips

Tenant too good to be true

Q I've noticed over the months some of the stories in your magazine of disastrous tenants, but I've got something of the opposite problem. I worry if my tenant is perhaps a little too good.

He and his wife have been staying in the property for just over a year now and have kept the place in immaculate condition. They pay on time and have never kicked up a fuss over anything.

On her inspections to the property, my property manager has noticed they've also installed new lighting fittings across the house and have improved the kitchen cupboards. They've repainted rooms (the same colour) and shampooed the carpets – all out of their own pocket and without permission.

Now I'm curious what will happen if they one day want to leave. Can they claim back any of these unauthorised "enhancements"? The lease does state they have to get permission to make any changes.

Also, what should I do if they want to make more changes down the line? This does seem rather convenient for me that they're improving the value of the property.

A It's great you have a good tenant. As with many things in life, we hear only about the problems, not the good things. Sometimes this can leave the impression that owning an investment property is difficult. RUN manages \$10bn worth of investment property and most landlords also have good tenants. It is only a small minority that have any great issues.

For your situation, communication will be the key. It's fantastic your tenants are obviously willing to do the right thing, but they need to know what that is and the proper process. In this case, the tenant needs to be informed that if

they wish to make any changes to the property, they need to discuss this with the property manager. They need to put their plans in writing so you can consider them before any changes are made.

Done this way, you would then be able to reply, in writing, with your position and any conditions that may apply as part of your approval. It is really important this occurs so everyone understands exactly what is agreed.

Sometimes a dispute can happen years after improvement works have been done and documentation clearly outlining what was agreed upon becomes extremely important. A tenant may be liable to restore the property to its previous condition at their own cost if they do not seek written approval.

The need for housekeeping

As a landlord, it is important to monitor these types of issues carefully. For example, if a tenant paints a property or conducts a repair that is not of a professional standard, it can be expensive to rectify. It is for this reason that an experienced property manager or tradesperson should inspect the works to ensure they have been done correctly.

I would also recommend you get your property manager to ask the tenants what else they would like to do to the property. This could open the door to renovations, which could end up benefitting both you and the tenants. If these improvements help the tenant feel more attached to the property, it could lead to them becoming long-term tenants. This of course will be a major bonus for you.

– Rob Farmer

Buying property far away

Q I live in Melbourne but I think Perth will be a better bet over the next 10 years. I've never been to the city and don't want to fly there three or four times to check out properties, attend auctions or chat with real estate agents, so I'm wondering what is the best way to do all your research? Can you really do sufficient research just through websites and property data, to the point that you're educated enough in a purchase to phone up an agent and make a bid?

A I love this question – it's actually three questions in one. The first question is the big one – what sort of performance will Perth exhibit over the next 10 years? The next question is – can you pick a good investment without seeing it? And the final question is the overarching one – is there a better way to do the hands-on part?

Looking at Perth

First, let's address the Perth question. Whenever an investor asks me whether they should invest in a particular city, I tend to have about 30 questions that follow their question. It is such a broad question because, if answered simply, I can only talk about median house price data. The simple answer is yes, Perth's median house price growth will be attractive over the next 10 years and will potentially outperform Melbourne's median house price growth. But as I say to buyers in Melbourne – I can select an asset in a great location that features all the essential fundamental growth drivers and I know I will come up against strong buyer competition.

The experts



Rob Farmer

Rob Farmer is the chief executive of RUN Property, one of Australia's largest metropolitan real estate agencies and a leading authority on property management, managing property valued at more than \$10bn.



Cate Bakos

Cate is head of Empower Wealth's property advisory division. She is a qualified real estate agent and mortgage broker, and an experienced property investor with 18 properties in her portfolio. Visit empowerwealth.com.au

To answer such a macro-market question though is not putting my expertise to the test. You will need to consider your budget (borrowing capacity or desired spend), out-of-pocket expenses and potential cash flow, and which areas offer the tightest rental vacancies and most attractive rental returns. You will also need to select an asset that won't have big problems or any undesirable traits that could hinder its growth performance in the future.

Buying sight unseen

This leads me to the next question, which is whether an investor can undertake enough research and due diligence to buy a property, sight unseen. The short answer is no, in my opinion. There are too many elements involved in selecting a good property to be able to buy it unseen. What you can see from Google Earth is limited and there is only so much a building inspector can tell you about the asset overall. Advice from the selling agent will never be impartial either – however nice and well-meaning the agent is.

With micro-markets not always conforming to wider market trends, another problem is that demographic and growth data for a suburb don't always give an accurate picture of the overall performance of an asset.

If you're seriously considering purchasing sight unseen to save on travel and hotel costs, I'd say you should rethink your situation. A trip that would cost you up to \$2,000 could potentially save you tens (if not hundreds) of thousands of dollars in the long run if you get the asset selection right.

After all, growth could be adversely impacted by:

- bad neighbours
- poor orientation
- stigmatised social pocket
- poor floor planning
- bad quality renovations
- shoddy repair work

There are many other negatives, but it is hard to pinpoint these elements from desktop research.

Refining your skills

Finally, have you considered getting someone to help you? When I conduct searches for clients I reject just over 98% of all listings. I wonder if an inexperienced person would have the know-how to be able to do the same thing.

What you must realise is that people such as buyer's agents deal with sales agents around the clock and they negotiate every day. Not many people have this level of skill and experience in residential property. If you are concerned about the level of 'hands-on' research and education you may forego in utilising specialist help, talk to a few buyer's agents in Perth about their approach and find out which ones offer you an education-focused service so you also get to enjoy the adventure.

– Cate Bakos

Got a property question you need answered?
Email your questions to editor@yipmag.com.au