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15 WAYS TO IMPROVE AN UNDERPERFORMING PROPERTY

PRACTICAL IDEAS TO IMPROVE THE RETURN ON INVESTMENT OF YOUR PROPERTY

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15 Way To Improve An Underperforming Property

Not every investment property that you purchase is going to be a runaway success. Some of the properties that you purchase are going to be under performing properties that don't generate you the income or the equity growth that you predicted.

How can you take a property that was a dog of an investment and turn it around into an investment that you're proud of?

Even financial and investment gurus like Robert Kiyosaki (the author Rich Dad Poor Dad) or Dolf De Roos (who is famous property investor) say that when you invest in property you are going to have some properties that are home runs. You are going to have a lot in the middle that is just tick away and then you going to have a few dogs that are just these under performing properties.

One option is to sell the property but what else can we do to under performing properties to make them better or at least make you sleep better at night?

1. Get Your Facts Straight

First to get your facts straight. By that I mean doing a financial analysis of your investment.

We may think that it is not a great performing property because it hasn't gone up in value or it hasn't performed as we expected. But first it's important to sit down and to go through the figures and work out exactly how your property is performing and predict what it's going to do in the future.

Look at cash flow and how is the property going in terms of cash flow.

<u>Is it positively geared? If so by how much?</u>

Compare the annual passive income to the money you invested in the property and work out your annual return on investment. Is it more than you would get from the bank?

Is it negatively geared? If so how much is it costing you each year?

If your property is losing money it is helpful to look at how much money you are losing per year and whether or not the property is increasing in value more than the money you are spending to hold it.

Has your property increased or decreased in value?

Look into getting your property refinanced or get a revaluation of the property to find out whether it has that gone up in value.

And be careful when you are getting bank revaluations because they tend to be very cautious and "value" properties under their true market value.

It would be worth going to your local real estate agent just asking them for advice or getting a professional valuation done which can cost you around $300. That will give you an idea whether your property has gone up in value.

Even though the bank's value of might say "no it hasn't gone up". If you pay for an independent valuation you may find that the property has actually increased in value if you were to go and sell the property today.

Get a valuation done, work out if you have any growth at all

Have you had any rental growth?

Rental growth is a sign that the return on investment of your property (from a cash flow standpoint) is increasing.

For example: You may be positive cash flow only $1,000/year today but rental increases of an extra $20/week equates to an extra $1,040 in extra income, nearly doubling your return on investment after management expenses.

If you're interested in seeing what your rental growth may be for the future why not start by looking at the vacancy rates in the area?

Vacancy rates that are extremely low may be an indicator that rental rates might be on the rise in the future. Too many tenants and not enough properties means tenants need to pay more to live in that area. Simple supply and demand.

So firstly do your analysis, get your facts straight and workout whether this is actually under performing property or whether it is performing and you are happy with its performance.

2. Find Out What People Want

Find out what people in the area want from a property. People often will go ahead and will purchase a property without actually thinking about the demographics of the area and what the area wants.

An area that is predominately young families will have different needs to an area that houses mainly single professionals. By optimising your property for the area you can increase your rental income (as your property becomes more desirable to your target demographic) and also increase the value of your property.

There's a few tips on how you can do this.

Find Out The Demographics For The Area

Head over to the Census Quickstats, type in your suburb address and then have a look at the demographics of the area.

Look specifically at:

What type of properties people live in - Is that one bedroom? Is it two bedroom? Is it 3 bedroom or 4 bedroom?

You may find is that your underperforming property is actually outside of what the majority of the people in the area are living in.

Maybe you have a two bedroom property but you can see that 80% of the population lives in three or four bedroom properties.

So maybe an extension to add an extra bedroom might move your property up into that mass market appeal.

Search Online At Properties With A Similar Value As Yours

Then go on to search on real estate websites and have a look at the characteristics of properties in a similar price bracket to your property have in common.

Consider features like:
- Number of bedrooms
- Number of bathrooms
- Quality of the property
- Parking spaces or garages
- Street appeal
- Backyards and outside space
- Decks and outside living areas
- Quality and size of the kitchen
- Property layout

Then go and look at properties that are a bit more expensive than your property and find out what features they have that your property doesn't have.

Is it an extra bedroom, is it more privacy, is that having air conditioning, is it having a double lock up garage or a nicer kitchen or bathroom?

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<u>Speak To A Local Real Estate Agent</u>

Lastly speak to your local real estate agent. Firstly speak to your rental manager because you're dealing with them anyway.

Ask them questions to find out what are people in the area looking for and what you can do to improve your property and raise its rental value.

3. Do A Renovation

Tip number three is to look at doing a renovation. This could be a cheap cosmetic renovation (which is probably the best place to start) or it could be a serious renovation where you are extending the house.

One of the easiest things to do to improve a property is simply give it a fresh coat of NEUTRAL paint.

If you have a property with bold (ugly) colours then replace them with neutral colours. Often this involves painting the majority of the house white (Antique White USA is a very popular colour in Australia).

Your goal is the make your property attractive to the broadest possible market. The more people looking at your property the greater your chance of getting a higher rental return.

Get rid of those pink bedrooms and blue kitchens and stick with neutral colours everyone will be happy with.

Look at putting in new carpet or new floor boards or something like that. You can get floating floorboards really cheaply that you can install yourself.

4. Build A Granny Flat

From the day you decide to build a granny flat to having a tenant moved in can be done in as little as 5 months and in some areas of Sydney two bedroom granny flats are renting for as much as $600 per week.

Building a granny flat (which is a lower-cost building)could increase your rental yield and put you into a positive cash flow situation. It could be the thing that turns your dog of a property into an investment are you proud to have…and one that gives you a good financial return.

Granny flats will generally cost around $100,000 to build in Australia and are only allowed in some states/councils. Check with your local council to see if you are allowed to build and rent out a granny flat.

5. Look At Larger Scale Developments

Maybe granny flats don't work for you. Maybe you are in a more rural area or you're in an area where it's just not feasible for you. You could then potentially look at a larger scale development.

That might be adding a property at the back of the house, maybe a whole new property. Or it could be subdividing your land or adding townhouses

There are many different development opportunities that you could do. Looking at doing a larger scale development may be a way to access that portion of the market that you might be missing and could just turn that underperforming property around.

6. Spring Clean The Property

Tenants do not maintain a property the same as an owner does. Tenants are not going to go out and invest in a carpet cleaner to get the carpets clean. They're not going to go around scrubbing the walls to get off all the dirt and the grime that comes from living in a property for many years.

They're not going to give a property a fresh coat of paint. They are just not going to take as good care of a property as an owner.

So when you tenants move out why not consider giving the property a spring clean? Go in there, maybe get some friends over the course of a weekend, really clean up that property and make it look great.

Those overgrown bushes that the tenants haven't tended to for years…rip them out put some new low-maintenance plants in there with some colour, something that looks beautiful.

Inside the property fix-up just those little things that are broken, putty up those cracks in the walls and those holes that have come when some kid shut a door too quickly.

Spring clean your property and just fix those little things because even though they are little things, it all adds up. And if you can tackle that and you can spring clean your property, you may be out to increase the rental return and the value of the property as well.

7. Consider Renting Room By Room

This work specifically well in areas with a large density of uni students and younger people, people who are happy to live in a house with someone that they don't necessarily know.

If you're in an area that's predominantly families well that might be a bit hard. But if it involves a single person going to uni who wanted to save money by not having to commit to an entire lease this strategy should definitely be something to consider.

There are rental managers out there who are willing to manage this for an increased fee (generally 8-15% instead of 6-8%) or you might need to manage it yourself.

This means more work for you but it could mean the difference between having a underperforming property and a property that's performing extremely well.

Desperate times called for desperate measures so don't be afraid of putting in some work to improve your return on investment. You can always change back to a normal rental once the market picks up.

8. Rent Your Property Furnished

Rather than having an unfurnished property you might be able to increase your rental return by renting the property fully furnished.

This means going out and buying some furniture or maybe it means taking the furniture from your home or maybe you've got some extra furniture that you can find. It doesn't have to be extremely expensive.

All of this stuff can be done super cheap now. If you can invest a few thousand dollars to furnish a property and it's going to increase your rental income you might be able to make back the prices of those furnishings within your first year.

You also get to depreciate them as well which can be great come tax time.

Before implementing this strategy talk to your local real estate agent. Find out if that's going to suit the area or not before you go ahead and do it.

9. Become A Pet-friendly Property

There aren't a lot of properties who are happy for people to have pets and if you become a pet-friendly property you open the door to renters who may not have access to other properties. This means you may be able to charge a higher price for your property without necessarily doing much work to it.

If you've got pets in the property there is probably going to be more maintenance that you need to do in between tenants. More cleaning, more garden maintenance and stuff like that but hopefully the increased rental return will more than pay for this.

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By going pet-friendly it could be a good way to increase your rental return and improve your underperforming property.

10. Add Privacy Or Noise Reduction

If you live on a main road or if you live in an area or your property is designed in such a way that there's not really any privacy then adding privacy elements to a property can make a huge difference, or noise reduction elements as well.

If you're on a main road, noise is something that's going to turn away a lot of tenants and turn away potential buyers.

But by adding a fence or hedges or anything that is going to reduce that noise will help raise the potential value and rental price of your property.

When people come to the property and they view it and then realise that "hey it's not as loud as I thought it was. I'de actually be happy to live here."

Add privacy and noise reduction if you can.

11. Consider Refinancing Your Property

A friend of mine recently did this last year. He had purchased a property five years ago and it was an under performing property for him.

It didn't deliver the return that he wanted or the rental growth that he expected. On top of all that he was paying to own this property every single month because it was negatively geared.

He went out and refinanced his property and did it in such a way that he was saving money on his loan. In fact he turned his negatively geared property into a positive cash flow property!

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The biggest things that reduced his costs was securing a lower interest rate and changing from a principal and interest loan to an interest only loan. While he isn't paying down his mortgage at the moment he can now afford to hold the property and wait for it to increase in value without it costing him anything. In fact it is putting money into his pocket every month.

He can now bide his time and sit and wait for that property to increase in value because it's not costing him anything.

12. Get A New Rental Manager

Simply changing a rental manager can make a big difference to your property.

The same friend that I talked about in the last chapter changed his rental manager at the same time he refinanced. He was having trouble renting his property and wasn't getting market value rents for the property. It was staying vacant for a number of weeks in between tenants and all in all he was missing out on a large chunk of potential income.

So he decided to get a new rental manager.

What he did was he interviewed a bunch of different rental managers in the area and ended up choosing a rental manager that he was happy with. The rental manager that he chose charged a lower fee (6% instead 8%) so he was saving money on his rental manager fees.

But the rental manager was actually better at the job as well! He was able to get tenants into his property quickly and for market rate rents.

A Little tip - whenever you sign up a rental manager try to get the clause removed that says you need to give your rental a manager three months' notice before you terminate the agreement.

Giving someone three months' notice that you are going to terminate gives you a three-month window when they're not willing to do anything for you because they know they getting the sack. By removing that, it means you can move on to a new rental manager quicker if you're having issues with your rental manager.

13. Cut Your Losses

If it is under performing and you've looked at the growth, done your analysis and have considered these ways of increasing the value of the property but none of them seem viable then maybe it's time sell.

Maybe it's time to cut your losses and to sell that property.

Can you take your money that you invested in that property and invest that money somewhere else? Potentially you could take the lessons you have learned and invest in another property that's going to deliver a better rate of return?

Buy-and-hold property investing doesn't mean that you need to buy a property and never sell it.

Rather than just looking at the property and trying to get it to perform, consider where your money could be invested elsewhere. Compare the return on investment you will get from your underperforming property in the next 5 years compared to what you make be able to achieve if you sold the property and used the money to invest in something better.

It might be time to cut your losses and sell.

14. Be Patient For Growth

Sometimes a property or area will underperform and you simply need to wait for the market to pick up again. Property investing in a long term strategy and sometimes this means properties will underperform in the short term.

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It is extremely helpful if you can finance your property in such a way that it is neutrally geared or it is positively geared. This means that you're not putting money into the property every single month in or not to keep that property alive.

You might get to this position by increasing rents or by doing some of the renovations that we talked about or maybe through refinancing. By getting into a positive cash flow position and being patient this makes it much easier for you to bide your time and hold the property so you can take advantage of growth in the future.

I was recently at a real estate seminar where they talked about investing and they were talking about two brothers that had bought properties in the same building.

They had both owned their properties for about seven years. The property hadn't really going up in value and one of brothers went and sold his property because he wanted to cut his losses and go somewhere else. But then within the next 12 to 18 months that property went up significantly in value. The brother who kept his property made a great fortune while brother who sold it, lost out because he just missed window of time where the growth happened.

If you can be patient and you could hold on and hopefully finance in such a way that it's not costing you significant amounts of money maybe being patient might pay off in the long run.

15. Consider Selling Property Using Owner Finance

Years ago an investor had purchased a property in Sydney that was negatively geared and they went through some personal situations where they couldn't afford to continue paying for that property.

What they did was they sold their property for the price they paid for it, but they sold it using owner finance. What this means is they didn't ask for cash for the property, they provided the loan themselves to the buyout to the property.

This is great because it means that you can charge a high interest rate than the banks are charging you and you can generally command a higher price for the property because you're appealing to purchases who couldn't necessarily buy a property otherwise.

This investor turned their situation around, went from a negatively geared property to a property that was delivering them over $500 a month in positive cash flow.

Owner finance can be a great way to offload an underperforming property for a great price, and secure some positive cash flow at the same time.

Here the investor's story in her own words:

I've made mistakes, big ones and small ones, a few to mention.... but I'll relate one to you. If I tell all of them, you'd never hear the end of it.

The Unit, bow. Yes, a unit at Hunters Hill. I mentioned this to you guys in one of the threads.

Backstory: One year after divorce and just recovering from my seeming bankruptcy, I decided to plunge back into the market. Bad. Bad. Bad. To go back into the market so soon was bad but that's not the half of it.

Making emotional decisions is BAD. Newbies, don't invest when you're depressed or in recovery. DON'T. In hindsight, I was making myself feel better for my failure to hold on to my marriage. Losing three properties through divorce was hard so I looked to compensate it with another. It was also probably true that there was an element of pride in it, "Look what I got." Silly. Stupid.

Hard truths to swallow but if I mince words, it would be like I never learned from it.

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Anyway, in hindsight, it wasn't just an emotional decision, it was also "mathematically" stupid.

Back then, I was working as a mortgage broker, supporting four kids. Although ex-husband does not provide financial support we have split custody and he really does look after them when they're with him. God bless him. So, straight away, child support was, and still is, a non-event. This was mutual agreement though, not his fault.

Secondly, mortgage broking means one month you're rich and the next you're just about ready to Q at Centrelink. It didn't get that bad but close.

Thirdly, the property was heamorraging money. Trust me, I'm not exaggerating. It was heamorraging $1,000 a month. The quarterly strata fees were so high that I was paying equal to 14 months repayment.

There was a saving grace though because I always found fantastic tenants. Being Hunters Hill, you only got the cream of society as tenants. One repainted my unit, 3 X coating. Three!!! He was obsessive with perfection. And, believe you me, he ripped up the carpet and laid floorboards. He called me from Ikea and said, "I'm out of here, these floorboards are disgusting." Went away and bought the most expensive floating floor boards in the market. He said he's used to a certain lifestyle and must meet that standard. I only paid for the labour.

Anyway, negatively geared it was. I learned the lesson that you can't eat negative gearing or depreciation. And when the kids wants something besides the basic survival needs- (food, water, housing… thank God for public schools or my kids would have had to consider schooling optional to their survival) you just have to say, "NO."

Every time I despaired, I'd go for a walk at Hunters Hill. It's such a beautiful place. I'd come home feeling better but my kids and I can't eat the views.

Enter panic mode again. But no! Don't panic. Think. After investigating all options, I found that vendor financing was the ideal solution. In 2006, I went in *that direction and found myself making $580 a month, from negative $1,000 pm. So for three years, I was making a little money, instead of bleeding to a slow death.*

I've had to "sell" for 0 capital gains as GFC hit. So folks, this is the kicker — after the "buyer" bought "refinanced" last year via bank loan, the capital growth sky-rocketted. Soon after RBA dropped the interest rate, the unit went up $110,000.

If you can hold on to your property it will eventually make you money BUT this strategy only works if you have the means to hold on to it. Clearly, negative gearing is, in itself, NOT a strategy. It is a BONUS. Holding to an asset only works if there's "meat on the bone." In my case, there were just tendons. :)

I tell you what though, I have no regrets. It was bought from me by a young man who was almost like a son to me. Secondly, by letting go of it, I got to fight another day. Look where I am now. Still standing and carrying on.

So you see, long-term investors make mistakes, too.

Hope this has enlightened someone.

Angel

Conclusion

An underperforming property shouldn't be ignore and shoved to the back of your property closet and forgotten about.

If you simply leave an underperforming property the chance that it will all of a sudden start performing well is extremely slim.

Keeping it in the current state it is in negatively impacts your borrowing capacity and your ability to grow your portfolio and it takes away from your mental resources. Rather than thinking about how you can grow your portfolio you'll be thinking about your underperforming property.

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So decide to take action to either sell the property or improve it's performance by using one of the strategies we have talked about in this ebook. Be an active investor and turn your property around!

I wish you the absolute best in your property journey.

Other Resources

For More Information On Buying A Property

If you want more helpful information on buying a property check out my other products.

The Essential Guide To Buying Your First Property In Australia (ebook)

In this ebook I identified the 21 major steps you need to take if you want to buy a property in Australia. Minimise overwhelm by knowing exactly what the next step in your property journey is and focus on completing that step. You don't have to be in the dark any longer, this ebook will give you clarify into the buying process.

30 Day Property Journey

The 30 Day Property Journey provides you with 30 daily activities you can complete to boost you confidence in property investing and to move you closer towards your goal of buying a property. Each activity pushes you out of your comfort zone just a little bit and helps you become a more knowledgable investor.

Property Tools (online software)

Before you purchase a property it is important to understand how it will affect your bottom line. Will it be positively cash flowed and put money in your pocket every month or will it cost you money every month (and how much). This online tool will help you calculation the estimated cash flow of any property in seconds.

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Simply enter the purchase price and rental income of a property and get an instant estimate. You can then enter more details to get a more accurate result. A must have tool for property investors.

On Property Plus (membership site)

If you are interested in investing in positive cash flow property in Australia but don't know where to start then this is the resource for you.

Lessons on how to find positive cash flow properties yourself and a new positive cash flow property listed (with full details) every single day. It's the easiest way to find positive cash flow properties.

Plus I have many more ebooks and courses in the pipeline so stay tuned to OnProperty.com.au for details about those.