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PROPERTY MANAGEMENT FOCUS.

Bringing you the latest news from the world of Australian property management.

MANAGING THE RISK OF YOUR PROPERTY INVESTMENT EARNINGS ABROAD

When investing in property abroad, you should take care to manage your exchange rate risk appropriately, since currency fluctuations can have a significant impact on the overall success of your real estate investment.

Not only is it important to get a great deal on the initial exchange rate that you transfer your local currency at in order to purchase the foreign property, but subsequent exchange rate changes often require management or hedging in order to minimise risks and maximise returns.

The following sections cover some straightforward methods for managing your property investment currency risk efficiently.

SHOP AROUND FOR THE BEST EXCHANGE RATE WHEN BUYING PROPERTY ABROAD

A key thing to remember when making the initial currency transfer for an overseas property purchase is that you are generally not locked into using your local bank for foreign exchange transactions.

This means that you can shop around among various banks for the best exchange rate, which can often save you as much as 1-4% on your currency transfers. You can also use reputable currency transfer providers like OzForex, who work hard to make sure that all of your currency transfers will be both cost effective and straight forward to perform.

Furthermore, not only can you shop around for the best exchange rate on your large initial property deposit, but you can also get better exchange rates on your regular currency transfers if you plan on making periodic mortgage payments in a foreign currency.

PLACING CURRENCY LIMIT ORDERS

Placing a Limit Order with your foreign exchange provider is another way to help you get the best exchange rate on your property-related currency transfers.

When you enter a limit order, you will need to specify an exchange rate level, a currency pair, an amount of one currency and whether you wish to buy or sell that amount at that level.

If the market exchange rate subsequently fluctuates to your specified level, then your foreign exchange provider will buy or sell the specified amount of currency for you automatically based on your instructions.

Limit orders are especially helpful because people cannot be watching the actively fluctuating foreign exchange market all of the time, and so they might miss out on a short lived exchange rate improvement. Although limit orders are often used when dealing through stock brokers, this useful ability is rarer among foreign exchange providers. Be sure to ask whether your currency transfer provider offers limit orders if you think you might wish to use them.

MANAGING CURRENCY RISKS WITH FORWARDS EXCHANGE CONTRACTS

Most real estate investments have a fairly long time horizon. As a result, people who invest in property abroad typically tend to manage their long term currency risk by using Forward Exchange Contracts as a hedge against adverse exchange rate movements.

These contracts permit you to lock in a market-determined exchange rate for a certain amount of currency and a given future delivery date. The Forward Exchange rate you receive is related mathematically to the prevailing spot rate and the current interest rate differential between deposits in the two currencies involved in the transaction.

Forward contracts can be used as much as 12 months in advance of when you anticipate actually needing the foreign currency to make payments related to your foreign investment property.

It could sound like a complicated process, but if you're contemplating investing in an overseas investment property, or have one currently and are thinking of exploring some of the options above, talk to foreign exchange service provider who can walk you through your options.

This article is brought to you by OzForex Foreign Exchange Services. For more information on foreign exchange visit, http://harcourtscomplete.com.au/services/foreign-exchange/.

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Foreign Exchange Services

WHEN DOESN'T IT PAY TO RENOVATE AN INVESTMENT PROPERTY?

If your investment property is in need of repair or you're even considering a few renovation projects to get it ready for sale, there are a few things you need to consider first. Whilst well planned, cost-effective renovations can certainly add value to a property, there is always the risk of over-capitalising. That's why it pays to look into the types of renovations that really add value to your investment and appeal to potential buyers.

Remember, renovating for your own personal use and renovating to attract a wide range of potential buyers can really be two different things. It all comes down to your return on investment or ROI. Basically, you'll want to ensure the amount you invest in the renovation is less than the value you're adding to the property, and the sale price you're likely to achieve.

Here are a few situations where I wouldn't recommend renovating if you're looking to maximise your sale price.

IF MARGINS ARE THIN

If you're property isn't in desperate need of repair, and you're confident you have quite a bit of equity existing in the property, then renovations may not be necessary. Especially if after crunching the numbers, you're not confident you would be increasing the sale price by that much, and remember a return on investment can never be guaranteed.

IF YOU NEED TO SELL QUICKLY

Renovations take time, both to plan and budget for as well as to be completed. So if you're looking to sell in the near future, renovations may simply not be possible. Remember that renovations often go over budget and can take longer than first anticipated so factor both of this considerations into your decision.

IF THE RENOVATION WILL PERSONALISE THE PROPERTY TOO MUCH

Some renovations appeal to most buyers, like upgrading kitchens and bathrooms, but others can be quite personal to your taste and style and therefore won't appeal to the largest number of potential buyers and should be avoided.

This can include adding extensions like granny flats, converting bedrooms into specific-purpose rooms like a media room or library, and separating rooms by adding additional internal walls.

IF THE RENOVATIONS WILL COST MORE THAN 10% OF THE PROPERTY'S VALUE

A general rule of thumb when it comes to renovating a property for profit, is to spend no more than 10% of the property's value on the renovations. So the first step would be to ensure you have an up-to-date valuation of the property, performed by a professional. The next step would be to work out a budget, and ensure you add a buffer in case of unforeseen additional expenses. Using the 10% rule, this means a home valued at $500,000 would have a total renovation budget of $50,000. Any more than this, and you risk over-capitalising.

IF THE RENOVATIONS WON'T SUIT YOUR TARGET MARKET

This is why doing your research is key. What is the demographic of your property's neighbourhood? Mostly singles and couples? Mostly retirees or mostly families? Finding out who the neighbourhood is likely to attract will help you determine suitable renovations.

For instance, if your local market is likely to attract families, think carefully before adding stylish but potentially hazardous staircases, or ornate glass features.

ASK IF YOU'RE UNSURE

When planning a renovation, don't shy away from asking your local real estate sales consultant their opinion on the condition of the property, the type of buyer the home is likely to attract and any renovations they would recommend. You may be surprised, if the property isn't in need of massive renovations your sales consultant will tell you and you may save yourself a lot of hassle, time and money.