

SKYLINE REAL ESTATE NEWSLETTER

May 2009



Determine weekly rent based on evidence

If a letting agent says they can get \$50 above the weekly rent that any other agent suggests AND that they can get a further \$50 increase in six months time, they're the automatic choice to manage your investment property – right?

Wrong! What you want to see is evidence of research and market knowledge to back up these claims.

You need the honest, up-front and professional property manager who is focussed on renting your property at a true market rate to quality tenants in the quickest possible time to avoid vacancy periods.

“What rent can I get for my property?” is one of the most popular questions asked by owners.

How is this determined? To work out a viable weekly rate, the property manager uses a similar process to that of the agent appraising a property for sale.

This involves factors such as:

- The features of the property and its location
- Comparative analysis with like properties on the rental market
- The make up of the tenant market
- Supply and demand.

Ultimately the most appropriate weekly rent to ask will be influenced by supply and demand, and what the tenant is prepared to pay.

An honest property manager will not 'guess' the weekly rental by pulling a rental figure off the top of their head, especially an attractive figure simply to get your business.



You should expect to discuss the rental appraisal with the property manager and feel confident that you understand how they determined the achievable rent.

Renters tend to do their research as much as buyers these days despite what we hear of rental frenzy and even rental auctions; and might not stick around if they discover the rent is excessive by comparison to the market.

All this should be factored in at the time of rent review and when setting the initial rental price. Although most of us would like that extra \$50, work with your property manager in reviewing the rent, basing any increase on market facts not hip pocket dreams.

What is your biggest risk as an investor?

What is your biggest risk as a property investor? Reading the newspapers, you might be concerned about violence or even drug manufacturing on your premises. Yes, that happens, but your biggest risk, as it turns out, is much less complicated: it is tenants who don't pay the rent.

By far the majority of claims involve issues around the non-payment of rent or rent arrears by tenants, and there are countless cases of houses being left damaged or unclean.

Many standard insurance policies do not cover such risks. The ones that do are specifically designed for owners of residential rental properties managed by a licensed real estate agent and should provide comprehensive cover for your property including:

- loss of rent as a result of various tenants' actions
- malicious damage and theft to their building (limited cover)
- loss or damage to the contents of their premises (usually a maximum of \$45,000 unless otherwise agreed)
- legal liabilities for occurrences on their property causing death or bodily injury to other people, or damage to other people's property (usually a \$20,000,000 indemnity limit).

What is the difference between a fixed tenancy and a periodic tenancy?

There are two types of tenancy agreements a tenant can enter into: a fixed term agreement and a periodic tenancy agreement. A fixed term tenancy has a definite commencement date and expiry date. A periodic agreement has a commencement date but no expiry date.

The preferred type of tenancy is a fixed term agreement where a tenant will enter into a six or 12 month agreement to give both parties security of tenancy and income for a set period of time. Tenancy agreements do not necessarily have to be for a six or 12 month term. Under some circumstances, there may be reasons where a varied term is desirable. This may be, for example, a five, eight or 10 month tenancy.

A CASE FOR THE TRIBUNAL

The following is a summary of a legal judgement arising from a tenancy dispute. It is important to remember that this is a summary and for a full account the entire judgement should be read. We do not recommend you rely on this summary in any decision making about your investment property.

The tenants produced a copy of the Building Inspector's Report, which listed 6 items that the applicants had complained about. Of those 6, item 1, which was "moisture penetration through front patio tiles and compressed fibre cement sheeting affecting 100 x 50 hardwood floor joists", remains a problem.

The tenants provided two reports by P.B. and A.M. Frazer, Building Contractors in relation to the defects. The tenant gave oral evidence that the patio was leaking through the joints causing dampness in the sub-floor area. This had resulted in wet rot to the timber supports. The situation was exacerbated by the fact that the underfloor area was enclosed. It was simply not acceptable that a floor should leak the way it did, regardless of the fact that it was an outdoor area, with an underfloor area that was not for habitation.

Mr Frazer estimated that the cost of repair/rectification to \$8,640, for removing all tiles from the patio, waterproof surface and relay tiles.

The owner stated that the existing hardwood timbers were no longer structural and had been replaced. The replacement timbers had been damp proofed, which was required by the Building Inspector.

He stated that there was no requirement under the Building Code that areas that were not for habitation should be dry.

The Tribunal was satisfied that there was water penetration which should not have been present. The evidence of the tenant's expert had some problems however. Nonetheless, the only evidence regarding the method of rectification was that provided by that expert, and the Tribunal accepted it. The owner was therefore required to fix the water penetration.