



8 Costly Mistakes

Landlords Make When It Come To
Their Investment Property

'An Investment In Knowledge Always Pays The Best Interest'
Benjamin Franklin

Tip 1: Inadequate Background Checks On Potential Tenant.

1. Background checks are a must, you need to make sure your prospective tenant can afford your property and that they will look after it. You will need to get the magnifying glass out to check income details, employment details and references. A DIY landlord or a managing agents who don't do the right checks and screening process can lead to an unsuitable tenant being accepted. This is a very important step as this can reduce stress and costs in the long run.

Tip 2: Not having back up funds – Time between tenancy's, letting 2 costs OR not having funds available for maintenance & repairs.

Before you start investing you need to understand the ins and outs of the income and expenses. In other words you need to do your due diligence and ensure that you can pay the mortgage in the event that your tenant stops paying rent, or you need to replace a hot water service or air conditioner, or you have a period of time that your property isn't being rented (plus the letting fees in this process). Maybe put some money aside to allow of these times. It is amazing what a coat of paint, clean up of yard or a quick makeover of a kitchen or bathroom can do. It can make a big difference to the value of your asset and also it can increase the yield of your property. These types of improvements can help your property to be rented quicker, attract a more favorable tenant and possibly at a higher rent.

In our view you should always attend to repairs quickly and to a professional standard, even if they are only minor because a happier tenant will generally look after the property better than grumpy one.

"Do something today that your future self will thank you for"

Tip 3: Not having specialised Landlord Insurance.

Sadly there is always a risk when renting out your property to other people. Unfortunately, circumstances change in a tenant's life, just like they might do in yours (loss of job, death in the family, breakup etc). Your managing agent should be there to help minimise and manage the risk plus also manage the problem with as little inconvenience as possible.

Not all landlord insurances are the same so it is a good idea to take a close look at the small print.

Here are a few things to look for in your policy:

- **Liability** If your tenant (or anyone else) has an accident or is injured at your property, you can be sued. Opt for a policy with the highest cover possible, a good policy will offer \$20million at least.
- **Excess** Look for a policy with minimal excess for claims. Many landlord specialist insurance companies have free excesses, but some bank insurance policies have very pricey excesses – up to one months' rent!
- **Accidental damage** whilst most policies cover malicious damage, it's been our experience that accidental damage is much more common in rental properties. Most tenants don't deliberately cause damage to a property, so it's important to be covered for this!
- **Contents** Of course, you can't take insurance for your tenant's contents, but you may need to check if your building insurance policy covers items like carpets, blinds, kitchen appliances, etc. In some cases, you need to take out contents insurance to cover these items.
- **Pet damage** some policies don't cover damage caused by pets, so be sure to check your policy. State tribunals don't always support landlords as much as we feel they ought to, so we highly recommend that you make sure that your investment property is adequately insured at all time.

Connect with us today and we can send you some information about some specialised landlord insurance covers

Tip 4: Property Investment is not a Hobby.

Think about it, we don't know everything! Even if we think we do, you can't always keep on top of family, life, work and legislation.

Some private landlords think they have a different set of rules to managing agents but they don't. The Residential Tenancies Act is a very complex document and is there to protect the landlord and the tenant. Unless you have a very good understanding of the Act you could be making a big mistake. If the Act isn't followed you could end up out of pocket in a big way.

Your investment property is worth a lot of money so you want to make sure you have a plan and the right team around you. Would you buy a business worth \$300,000 + without a plan or insurances? Unfortunately, too many people go out and buy a property and then treat it like a hobby and subsequently don't achieve its maximum potential.

“Successful investing is about managing risk, not avoiding it.” – Benjamin Graham

Tip 5: Have a "She'll Be Right" attitude

Another mistake for investors is to put friends or family in to their property or form a direct relationship with tenants. Although this can be very rewarding and make things flow nicely it can also sometimes make it difficult to make the right “business” decisions.

It is human nature for people to be kind and let something go and sometimes the tenant unwittingly takes advantage of people who know them.

What happens when the tenant is late paying the rent? This can make the situation stressful and awkward because we all know you have a mortgage to pay. If the tenant knows you and perhaps they think you won't mind. This is where the relationship can turn not so nice. The same applies in situations such as rent increases and bond claims at the end of the tenancy agreement. Having a good managing agent will help get these situations back on track and proceeded in line with the Act.

The “She’ll be right” attitude to repairs and maintenance doesn’t always cut it. Small maintenance concerns can lead to big and expensive one later on a good managing agent will help get these situations back on track and proceeded in line with the Act..

Tip 6: Not having a complete ingoing report or adequate photos

When a tenancy commences an ingoing condition report is a very important document, along with quality photos of the property. This record is evidence of the condition of the premises at the time the tenancy begins and it may be used as evidence if there is a dispute particularly about of any damage to the premises. It is important to complete the condition report accurately and in detail. A condition report must be completed whether or not a security bond is paid or not paid.

At the end of a tenancy the premises must be inspected and an outgoing condition report completed and compared to the ingoing condition report and photos. A tenant is not responsible for fair wear and tear to the premises. Fair wear and tear is a general term for anything that occurs through ordinary use such as carpet becoming worn in frequently used areas. Willful and intentional damage or negligence is not fair wear and tear.

Tip 7: No depreciation schedule

A depreciation schedule is the schedule of items that can be depreciated at a certain rate allowing you to claim a tax deduction against your taxable income. As an investor, you want to ensure that your investment is returning every dollar that it possibly can. It is amazing how many people don’t have one or only think this is only beneficial for new properties. Too many accountants just rely on what the client tells them rather than encouraging their clients to get one professionally done.

The reality is that an investment of a few hundred dollars can literally save you many thousands of dollars in tax, even for an older property you have just purchased.

Ensuring that your property manager has the right tenant at the right price is one component of this, but it's also important to check that you are able to claim maximum deductions when it comes to tax time. We strongly recommend that all landlords organise a tax depreciation report when they purchase property, regardless of the age of the property. It is always an added bonus to receive extra money in their pocket once you include the tax depreciation report in your tax return. We also recommend that you include your accountant in the decision process before purchasing a property and have one of the many discussions to be around depreciation.

Tip 8: Not seeking the services of a licenced experienced property manager

One of the first reasons to consider hiring a real estate agent that specialises in property management is that they help provide a buffer between you and your tenant. If there are any problems with late payments or damaged property, the agent deals with these issues so that you can avoid any unpleasant confrontations.

Finding the right specialised property manager who will provide a complete management service, to help you avoid wasting your own time and money.

Management fees are tax deductible. For a couple of dollars a day, your property manager should be proactive in finding you a tenant, keeping vacancy periods low, marketing your property a market rate.

A good real estate agent does far more than just rent your home and collect your money for you. They also facilitate mediation in the event of late payments, organise emergency repairs, organise maintenance and even handle the payment of various property expenses, prepare end of month and financial year statements so your accountant can prepare your tax return cost effectively.

If you prefer to take care of some of these tasks yourself, you can write this into your agreement. A property manager will give you as much or as little involvement with the daily management of your rental property as you like. They are specialists at multi-tasking and are highly qualified to prioritise and perform any or all of these duties.

Cheapest is not always best, many landlords will sign with an agent that offers cheaper fees. If the management fee is cheap please look at the other fees they charge and compare apples with apples not apples and lemons beware of the hidden costs.

Ensure your agent is a good negotiator and has experience, if they are willing to discount their fees and offer a free offer what will they be like with trying to negotiate the highest rent for you.

We encourage you to do your homework and find the right managing agent that has you and your property at heart. If you have a bad feeling about the agent DON'T go with them, trust your gut and trust your agent. They are here to support you and your property. Make sure you have a guarantee of the service and you know what they are offering upfront.

These tips are all very important so please take them seriously and please seek professional advice where necessary to make the right decisions and get the right protection. Connect with us if your not sure about any of the above.

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