



THE LANDLORD'S GUIDE TO SURVIVING THE PANDEMIC!

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The **government's ban on tenant eviction for up to six months** has rattled landlords who are worried about the prospect of facing financial hardship as rental incomes dry up.

While the federal government has indicated it is working on another assistance package for rental distress, there has been no clear legislation or industry guidelines on what landlords should do if tenants stop paying rent.

So here are the top tips on how to navigate the confusing landscape.

What should landlords do now?

Property Investors Council of Australia chairman Ben Kingsley says landlords should hold off reducing or foregoing any rent until the government releases more details on rental relief.

"We're telling investors that any landlord who decides to reduce rent is potentially impacting their claim if rent is unpaid in the first instance, and also potentially putting at risk how much they will receive if there is a tenancy relief package announced by the federal government in the coming days or weeks or months," he says.

Landlords should wait for further guidance from the government, it's a good idea to do a budget to see how much it will cost them to hold the property with reduced or no rent over the next six months.

"Speak to your accountant about how this will impact your tax position," she says.

Cate Bakos, president of Real Estate Buyers Agents Association of Australia (REBAA), says investors need to realise that the moratorium doesn't allow tenants to simply walk away from their obligations.

"Tenants who are in genuine financial distress are still obliged to pay their rent, whether it be at a mutually agreed reduced amount or after the moratorium date range," she says.

"Tenants are also required to demonstrate loss of income and that they are endeavouring to seek Centrelink assistance during this time."

Should landlords pause mortgage repayments?

Banks have agreed to offer landlords a mortgage repayment reprieve for up to six months. But RateCity research director Sally Tindall says landlords need to understand the long-term implications of a repayment pause and think about how they can minimise the fallout.

"A lot of people will have to resort to putting their mortgage on hold during this crisis. If that's you, try to come up with a plan to pay the money back as quickly as possible after the pause to get your mortgage back on track," she adds.

"Repayment pauses should only be used when other avenues have been exhausted. Talk to your bank about what other options you might have, including a rate reduction or reduced repayments for a limited time."

A mortgage repayment holiday results in bigger repayments after the holiday period ends because the interest charges get added to the loan amount.

CBA recently announced that it would not charge interest on interest for mortgage holders who took up its offer to defer home loan repayments for up to six months. But the other banks are yet to follow suit.

How should landlords communicate with tenants?

Your Property Manager needs to approach the discussion from "a human to human" perspective.

Find out what the problem is and see if you can help. "It might be a simple telephone conference with their accountant and yourself. This shows that you're trying to help their business and not just saying no without hearing their situation."

Be prepared to push back politely if you think the tenant is simply taking advantage of the pandemic to get a cheaper rent.

Talk to your tenants about the government grants and send them through updated government incentives, keep checking australia.gov.au for the latest announcements.

What's the process between landlord and tenant on rent relief?

There is an expectation that tenants will pay the rent if they are on a JobKeeper or JobSeeker scheme.

The JobKeeper scheme will pay \$1500 a fortnight to businesses for each eligible employee, which will be passed on through their existing payroll systems. Casuals and part-time workers will get the full \$1500 regardless of whether they usually earn less than that.

Existing and new recipients of JobSeeker (formerly Newstart) will receive an additional \$550 a fortnight for the next six months.

Until the legislation is enacted, residential landlords and property managers need to follow the process of the law.

Property managers and landlords must continue to follow the normal process regarding non-payment of rent by providing a notice to remedy breach of tenancy agreement being in rental arrears.

This will ensure owners can obtain their insurance coverage. As soon as owners agree to rental concessions, insurance will not cover them.

For commercial landlords, it's about looking at the tenant's business to see if it's viable.

If you can clearly see that their revenue has dropped off and they can prove it, like a gym shutting down because of the government's restrictions, then work out some form of rental relief. You just have to be confident that the business is solid.

We recommends looking at giving tenants rental relief in return for a longer lease.

Some tenants may ask for their rent to be waived for the next three months. For example, a gym business can't operate and generate an income over the next few months, so paying rent isn't fair, in our opinion.

Rather than just giving the tenant a break in rent, discount their rent to zero for three months and give them the option to sign a longer lease – at least three to six months longer. The tenants will still have to pay the deferred rent later on.

This will increase the strength of your lease and increase your long-term income security. More importantly, your tenant will remain in business.

What evidence should you ask for?

In the absence of government guidelines, landlords/ property managers are advised to get evidence of a reduction in, or loss of, a tenant's income in writing from the employer. This could also be in the form of a payslip.

Until there is a clear guideline from the government, our policy is to request a letter of termination or confirmation of suspension of employment.

REBAA's Bakos says landlords can ask for evidence of applications for Centrelink and unemployment assistance due to COVID-19 to establish whether the tenant's claims are authentic.

"Simply saying 'we cannot pay the rent' is not enough to be protected," she says. "Tenants need to demonstrate loss of income and efforts taken to seek government assistance."

For commercial tenants, O'Neill says landlords can ask for their books to see a clear drop in revenue.

"Commercial leases are negotiated individually and it varies depending on the sector, so landlords can use their common sense to determine if the business is indeed suffering losses due to COVID-19," he says.

What tax incentives would help?

The government is considering a range of tax relief measures including land tax and negative gearing, but details are yet to be announced.

While tax incentives for landlords would be welcome, they're not really valued by investors.

The majority of landlords, ourselves included, invest in property for long-term capital growth, not for negative gearing or to simply reduce tax bills.

If landlords are undergoing financial stress, future tax concessions do nothing to help investors with their need for cash flow. But the wage subsidy will certainly help many renters and landlords.

Does landlord insurance pay for lost rent due to COVID-19?

Depending on the policy, landlord insurance could cover loss of rent or rental defaults. But you'll need to check with your insurer.

On the ground, we're seeing that many policies state a claim will only be paid if the tenant is evicted or terminated by the tribunal or they leave without notice and default on payments after vacating with no warning.

However, the issue is that if tenants can't be evicted for falling into arrears as a result of COVID-19, then many landlords won't be able to lean on the rental default provisions in their policies, assuming they even have a rental default in the policy.

Landlords need to talk to their insurance brokers or insurers urgently to check whether they are covered.

If you already own an investment property and you're looking to maximize your investment property further, or if you're actively looking to purchase an investment property, be sure to contact us for expert advice on making your investment property irresistible to a tenant.

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