

How landlords can mitigate risks in this economy

By [Antionette McClean](#)

21 Jan 2021

The tightening of the lockdown restrictions amid the second wave of the Covid-19 pandemic once again highlights the risks of rental property ownership. Pressure on employment and household finances naturally impacts the ability of tenants to pay their monthly rents.



Image supplied

A rental property investment is significant and the risks to the ability to earn sustained rental returns and keep costs contained, especially around maintenance and damage, is substantial.

We have seen over the last year that landlords are facing an increase in late payments, reduced payments, and non-payments. Although this should improve, landlords should take important action to mitigate the risks associated with their investment.

Ways in which to mitigate risk include:

Opening a separate account for the monthly rental

Open a separate account for receipt of the rental income and do not operate debit or stop orders off it. The risk is that should a tenant pay late or default and the debit and stop orders are rejected, there is a cost to the landlord.

Creating a reserve fund

Put a reserve aside to create a financial buffer should there be a default on the monthly rent. Remember, you cannot use the tenant's deposit until the lease terminates. Ensure you are able to cover the property-related expenses such as the mortgage bond payment in the event that the tenant defaults or pays late so that your credit standing is not impacted.





Conducting ongoing maintenance is vital

Set aside at least one month's rental to do maintenance on your property annually.

There is a wide misconception that the deposit held by the landlord, on behalf of the tenant, will cover all and every damage to the property. Only damage over and above the ingoing inspection report can be claimed. The landlord remains liable for fair wear and tear which all property owners experience in maintaining the condition of their property.

Take immediate action when a tenant defaults

As soon as a tenant breaches the lease in any form, they must immediately be informed through the required process of such breach. Many landlords run their properties with their "hearts" and then get frustrated when verbal agreements with the tenant are not met. Remember that multiple breaches allow for cancellation of the lease agreement.

Ingoing and outgoing inspections are vital

A professional in-going inspection is vital, and it could be a risk for the landlord to do their own inspection to save costs. I have been to many Rental Housing Tribunal arbitrations where, if not for the detailed in-going inspection, the landlord would have had no claim for damages.

The law is clear. If the in-going inspection was not done, then the landlord must prove that the damages did not exist at commencement of the lease. The cost of a professional inspection is like an insurance premium to protect the landlord's property for damages and to claim for such.

Ensure all compliance certificates for the property are valid

In terms of the tenant's safety, under law, the landlord has an obligation to ensure the property remains compliant with all regulations. An obvious one is the electrical compliance certificate which often results in issues. In case of a claim, the landlord must prove that all the necessary was in place to prevent claims arising against the landlord.



Are landlords obligated to pay tenant utilities that are in arrears?

22 Dec 2020



Proactively manage the property

Ensure that you do regular interim inspections to ensure there are no surprises at the end of the lease term. Pro-active management of the property by both landlord and the tenant are critical. Landlords should not rely solely on the ingoing and outgoing inspections. After a year, many problems that could have been prevented might now take time to resolve and not necessarily to everyone's satisfaction.

Landlords should have an annual maintenance plan to keep the value of the property and ensure that they can achieve the maximum rental for the property.

The landlord may, with reasonable notice, inspect the property to ensure that all is in order. The lease agreement usually states that the tenant must keep the property in the condition they received it at all times and that the landlord can insist, on discovery of an issue, that such issue is remedied immediately.

Personal liability insurance is vital to cover any eventuality that might arise out of the tenancy

Should something happen to a tenant that is a direct result of the landlord not ensuring that the property was compliant in terms of regulations, then the landlord will be liable for damages that arise out of such a claim. As a landlord, you should ensure that you always have the necessary personal liability insurance in place when renting out your property.

ABOUT THE AUTHOR

Antionette McClean, rental administrator for Seeff False Bay and South Eastern Suburbs

For more, visit: <https://www.bizcommunity.com>