

Mitigate risks when renting out property

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One of the major attractions to investing in property is capital growth, in addition to ongoing rental income.



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For that to be true, investors need to ensure that the property is well maintained and cared for. A bad tenant can do significant damage that you may have to repair, eroding much of your capital growth.

Whilst there is never any 100% guarantee that a tenant will care for your property and pay on time, there are a number of steps you can take to mitigate your risks.

Firstly, there is much to be said for employing a professional rentals agency to secure a suitable tenant and manage your rental. Before you incur this cost though, ensure the agency undertakes to perform the precautions suggested.

Credit check

A tenant needs to have their credit-worthiness established. To that end, and with their consent, a full credit check is performed. In addition to this, there are property management platforms that also record the payment history and conduct of tenants when they rent through other rental companies that subscribe to the system.

The result is that a tenant is checked against their ITC and previous rental history. In many cases, they are graded to represent the risk they pose. If you rent to a high-risk tenant you are almost always asking for trouble. Tenant behaviour very seldom improves. Even when a high-risk tenant offers to pay a higher rental you are often setting yourself up for significant problems later.

In addition to this, a professional rentals company should be performing an affordability test. They will obtain the tenants recent bank statements to confirm they can afford the rental, much the same way as a bank will do this when qualifying someone for finance.

There is much to be said for a telephonic reference from their previous landlord or rental company. Systems provide much information - but a verbal reference check may reveal other problems.

Deposit guarantee products

Once you have selected a suitable tenant there are also other measures you can take to reduce your risk. Rental and deposit guarantee products are available which can cover you in the event of non-payment, property damage, and legal costs. But beware, not all of these products are created equal, and their costs vary greatly. So be sure you know what you are purchasing.

Lastly, ensure your rental company does regular maintenance inspections. If there are problems with your tenant these can be detected early and you can act on them - rather than trying to deal with a crisis as their lease comes to an end.

Landlords also send a strong message when they maintain their property well. When a tenant is valued and fairly treated they usually treat your property with the respect it deserves. Make the most of your investment growth by selecting a low-risk tenant and ensuring your asset is professionally managed, thus maximising your rental return and capital growth.

ABOUT STEVE CARADOC-DAVIES

Steve Caradoc-Davies is Harcourts Platinum Principal. He has 25 years of real estate experience. Featuring in the Top 20 agents in the Group in South Africa for eight consecutive years, Caradoc-Davies now coaches and manages his team and has received international training. In July 2009 he was awarded the Property Association Young Lion Award - in recognition of his outstanding contribution to the property industry and acknowledgement as a future industry leader.
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