

Dealing with damage at a rental property

It's interesting how model rental property tenants often morph into nightmare tenants when they move out. Sadly, the combination of damage left to the property with unpaid utility bills and rent is often enough to completely wipe out any returns the owner might have hoped to make for the year.

PayProp CEO Louw Liebenberg says that most damage cases arise as a result of tenants leaving the property earlier than the lease-period.

In addition, in most cases, the damage is accompanied by non-payment of the last month's rent.

"This kind of situation is the sad reality of managing a portfolio of rental properties -but the good news is that there are ways to avoid landing up in this predicament," says Liebenberg.

As the creators of DepositGuarantee, an insurance product designed in collaboration with Rand Merchant Bank Structured Insurance, PayProp has first-hand experience in decisively dealing with damage claims when tenants move out.

The product provides landlords with 2.5 times the value of the rent as cover for unpaid rent, utilities and damage, and rewards tenants who look after the property with a no-claim bonus of 40% of premiums paid under the policy.

Here are a couple pointers from PayProp when it comes to dealing with damages:

1. Selection is crucial

In 75% of cases, tenants who sign up for the DepositGuarantee leave the property in the condition they found it and meet all their financial obligations. A crucial part of this success is the stringent selection test we use to find tenants who qualify for the product: Just over 45% of tenants who apply are selected.

2. Tenants who leave early often create the most problems

Most claims result from tenants leaving the property earlier than the agreed-upon lease termination date. Shockingly, in 56% of such cases, tenants don't pay the last month's rent.

Our advice when tenants signal that they want to move out early is to pay special attention to their payment patterns, and not to allow the use of deposits in lieu of paying rental.

3. One month's deposit is not enough

On average, a non-performing tenant leaves with R6,781 in unpaid rent, R2,168 in unpaid utility bills, and R3,894 in damage to the property.

That is a total claim of R12,843 - 1.9 times the average rent. Had the landlord opted to take a damage deposit of one to one-and-a-half times the contractual rent, there would have been a problem.

By contrast, the DepositGuarantee cover in this instance is R16,952, leaving the landlord with plenty of manoeuvring space to ensure they do not suffer a loss.

4. Interim inspections are important

While most leases make explicit provision for an interim inspection, very few landlords or agents follow through on this. We find that in cases where tenants terminate their leases early, they have been in the property less than 9 months.

This need not come as a surprise. An interim inspection mid-way into the lease can provide the landlord with early warning signs as to how well the property is being looked after.

5. Incoming and outgoing inspections are crucial

The Rental Housing Act is clear: you cannot charge a tenant for damage if you did not do an incoming and outgoing inspection. It is done in fairness to the tenant and ensures that there are no disputes later about what was damaged before and after a tenant moved in.

Be very specific when doing inspections, and include as many photos as possible for easy reference later. It's just as important to ensure that both parties sign the inspection - otherwise either side may argue they were never at the inspection!

PayProp Press Release