

Comments from Carolyn

What's so scary about landlord insurance?

Flying home from Sydney during the week, the man sitting next to me struck up a conversation which of course led to him asking what I do. I explained that I work in insurance, with Terri Scheer and that we specialise in landlord insurance.

"Landlord insurance", he said, "I've never heard of that, what does it cover?" I proceeded to tell him how we protect against loss of rent and damage caused by tenants. He then said, "I'm surprised my property manager hasn't told me about it".

I'm surprised too. Instead of you being out of pocket in the event of a claim, you can transfer the risk of that loss to an insurance policy, and be assured that you're protected and saved the stress of trying to find money to carry out any necessary repairs before you can re-let your property.

How many people would give a perfect stranger the keys to their car, especially if it was not insured? I suspect no one would. Yet many landlords hand the keys to a house worth far in excess of a car to perfect strangers and don't think about insuring the risk that poses. Strange. Even stranger given that the annual premium for a landlord insurance policy is often less than the cost of one week's rent and is a tax deduction.

If your Real Estate Agent is a Terri Scheer Distributor, they can arrange cover for you as soon as you've signed the managing agreement. In fact that's the best time to take out the cover because you face a risk as soon as the property is advertised and tenants are being shown through.

Our **15 4 12** promotion has been extended, so there's never been a better time to purchase landlord insurance. Every landlord that purchases a Terri Scheer policy with the effective date prior to 31 August 2008 will receive a bonus 3 months cover—that's **15 4 12!!**

Simply contact your local Terri Scheer office, Real Estate Agent or arrange cover at www.terrisheer.com.au

Carolyn

General Manager—Insurance Services

Accidental Damage vs Wear and Tear

Some landlords have unrealistic expectations that their property will remain in exactly the same condition at the end of the lease as when tenants first move in. The reality is though, that wear and tear on a rental property will occur over time.

Landlords should expect a level of wear and tear on their rental property while it is being tenanted.

It is important to understand the difference between accidental damage and wear and tear. While tailored landlord insurance may cover claims for accidental damage, wear and tear is generally excluded and cannot be claimed.

Accidental damage is defined as being caused by a sudden and unexpected event, this might include spilling red wine on the carpet. In contrast, wear and tear accumulates over time.

An example might be carpets. Depending on the quality of the carpet, its life span could be five to seven years. This means that if a tenant has been in the property for a number of years, you can expect there to be signs of foot traffic and flattened or bare patches.

In insurance terms the carpet has not been damaged accidentally or maliciously, but may be in a reasonable condition given the tenant's time in the property.

It's like living in your own home – over time there will be signs you have lived there, but this wear and tear cannot be claimed on insurance.

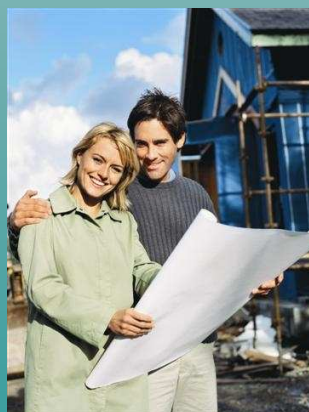
One of the main reasons landlords confuse wear and tear for accidental damage is because after leasing their property they often don't see it again until the end of the rental agreement. This is why it is important for your Property Manager to carry out regular inspections and advise you on the property's upkeep.

Examples of accidental damage

- ◆ Spilling red wine on carpet
- ◆ Hole in the wall caused by tenant moving furniture
- ◆ Cracked floor tiles after a heavy saucepan is dropped

Examples of wear and tear

- ◆ Foot traffic marks on carpets
- ◆ Scuff marks on floor coverings
- ◆ Minor scratches/scuff marks on paintwork
- ◆ Dirty hand marks on curtains/blinds



Landlord Insurance, it's sheer simplicity!

Good tenants are too good to lose

Carolyn Majda, General Manager—Insurance Services

Landlords who raise their rents too high risk losing good long-term tenants. Terri Scheer is cautioning landlords and agents not to take tenants for granted in the current interest rate environment.

Following recent interest rate rises and in line with current low rental vacancy rates, some landlords may be tempted to increase rents. Rising interest rates are likely to be taken into consideration by landlords when leases on their properties come up for renewal so it is understandable that landlords may need to raise their rents to keep pace with rising costs. However, financial considerations should be balanced against the importance of keeping good tenants in a property.

Unreasonably high rent increases may prompt the angry departure of good long-term tenants, leaving empty rental properties generating no income for weeks, it could turn out to be a very costly affair.

The message is simple: **don't take good tenants for granted.**

We see many cases where tenants have caused extensive malicious damage to rental properties or absconded without paying their rent. A tenant who pays their rent on time and maintains your property is well worth keeping. This doesn't mean you should never raise the rent, but think carefully if you are considering a significant increase. In some cases it may be worthwhile 'rewarding' good long-term tenants by keeping rent rises to a minimum.

Given that it can take four to six weeks to re-let a rental property, you need to weigh up the benefit of an annual rent increase against the cost of losing a good tenant. The legal guidelines relating to when a landlord can raise the rent and under what circumstances vary from state to state, and landlords considering a rent rise should check with their relevant rental tenancies authority.

When raising the rent, many landlords with long-term tenants often forget to review the bond amount. In a scenario where a tenant has lived in a property for a number of years with regular rent increases, the bond that was lodged may eventually fall short of the requirement for a certain number of weeks' worth of rent. If you are raising the rent, make sure you also consider a 'top up' of the bond amount. You should check with your relevant state authority for guidelines on this.

Issues Facing Landlords

Deeon Aslin, Business Relationship Manager, New South Wales

There have been numerous media reports of late regarding low vacancy rates, over the top rent increases, huge numbers of prospective tenants queuing up to lease properties...this is certainly not the case in many areas we have visited recently, particularly in smaller communities. Despite rent increases, landlords continue to face rising interest rates, raised levies, repairs and maintenance costs and in some cases, a significant vacancy factor.

Even though there is supposedly a rental shortage, it does not mean the calibre of tenant is improving. Property Managers inform us that prospective tenants are going to great lengths eg supplying false references to secure a tenancy. They tell stories of Landlords being enticed by offers of increased rents or a bidding war between tenants and some tenants offering to pay 3 months in advance. These circumstances do not guarantee a better quality tenant - in most cases, quite the opposite. Now, more than ever, Landlords need to be aware of the pitfalls of owning investment property and Property Managers cannot be held accountable for everything that can go wrong.



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