

MY HOUSE. YOUR CASTLE.

A guide for anyone new to running an investment property:
what's really involved in being a New Zealand landlord.





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Introduction.

Buy a nice tidy little property. Rent it to a lovely young couple you'd be quite happy to adopt. And let them pay off your mortgage while you take a nice long holiday.

Sounds lovely, doesn't it? But as Oscar Wilde said, the truth is rarely plain and never simple. In reality, there's the hassle of dealing with rent arrears, inspections, maintenance, and the legal ins and outs of running a small property empire.

Perhaps you've recently bought a property with a view to renting it out. Well, hold up Mr & Mrs Mogul. You want to know it's well taken care of, but you're pretty busy, and this stuff is taking up a lot of your precious time. And quite frankly, stressing you out.

After all, how on earth do you choose the right tenants? Should you trust your instincts, or the opinions of their previous landlords? And what if it all turns to custard – with holes in the walls and tenants who have basically become squatters on your property?

It's also hard to know what you don't know (if you know what we mean).

This eBook is designed to share the relevant info you need to consider as a landlord, and share a few handy tips that will keep you on the straight and narrow.

So please read on, take some notes – you might just find there's a better way.

Thinking about buying an investment property? What's your type?

Maybe you're at the stage when you don't even have anything to rent out yet. If so, the first step is about understanding the motivation behind your wish to become a rent collector. This insight will help you to decide what kind of rental property is right for you.



The future property mogul:



I'd like to begin building my very own property empire, providing mountains of passive income so that I can live out my retired years in style...

Shopping considerations: It's all about the numbers for you – yield, potential capital gain, low maintenance and tenants that pay their rent on time. You don't really mind what tenants get up to in their spare time!



The forward thinker:

Let's buy the low maintenance 2 bedroom city pad now while we have two incomes, rent it out for the next wee while and move in once our legs no longer love the 2 flights of stairs in our current 3 level family home.

Shopping considerations: As you'll be more emotionally invested in the property (your future home!) finding the right tenants and good property management is key to a stress free rental experience.



The family first financier:

I'd like to be able to help out my children with a first home or some capital towards it, a rental property is a great way to get started.

Shopping considerations: Depending on current market conditions, you may be banking on capital gain to sell in the future. Alternatively you may be looking for that perfect first home for your son or daughter in years to come. Time to pull together a property checklist to make sure the home ticks all the boxes needed.



Rental property purchased – now bring on the rent payments!

Congratulations, you're the owner of an investment property. The burden of an additional mortgage may have put a damper on excitement levels, so it's time to get that property doing what it should – making you money.

Use our handy checklist to get underway:

- ✓ Request an obligation free rental appraisal
- ✓ Do your own appraisal- browse similar rentals online and compare weekly rents
- ✓ Look at any unique selling points of your property versus similar advertised properties. For example, if your property has a great outdoor area or fabulous new kitchen, you'll want to make sure this is highlighted in your advertisement
- ✓ Give your property a once over – check **EVERYTHING** is in working order and is clean and presentable (inside and out). Keep in mind you want it to appeal to the largest number of potential renters as possible.



Get your free
Rent appraisal



Click here to register





First impressions count. Sort of.

The advertisement is posted, viewing times arranged. It's time to meet your dream tenant. Or will you? While we're not suggesting skepticism and general distrust is the best policy here, it's important to remember that this is an interview situation and potential tenants are most definitely putting their best (pet free, smoke free, mess free, finance-issue-free) foot forward. Make sure you 'check check check' as outlined below and combine this with a good old dose of trusting your instincts.



Reference check

What do past landlords have to say? If possible ask potential tenants for phone details as well as written references, as you may want to ask a few questions yourself.



Credit check

Any nasty financial issues that may affect their ability to pay rent on time?



Tenancy Tribunal check

This is an online searchable record of past tenancy disputes, held on the site for three years

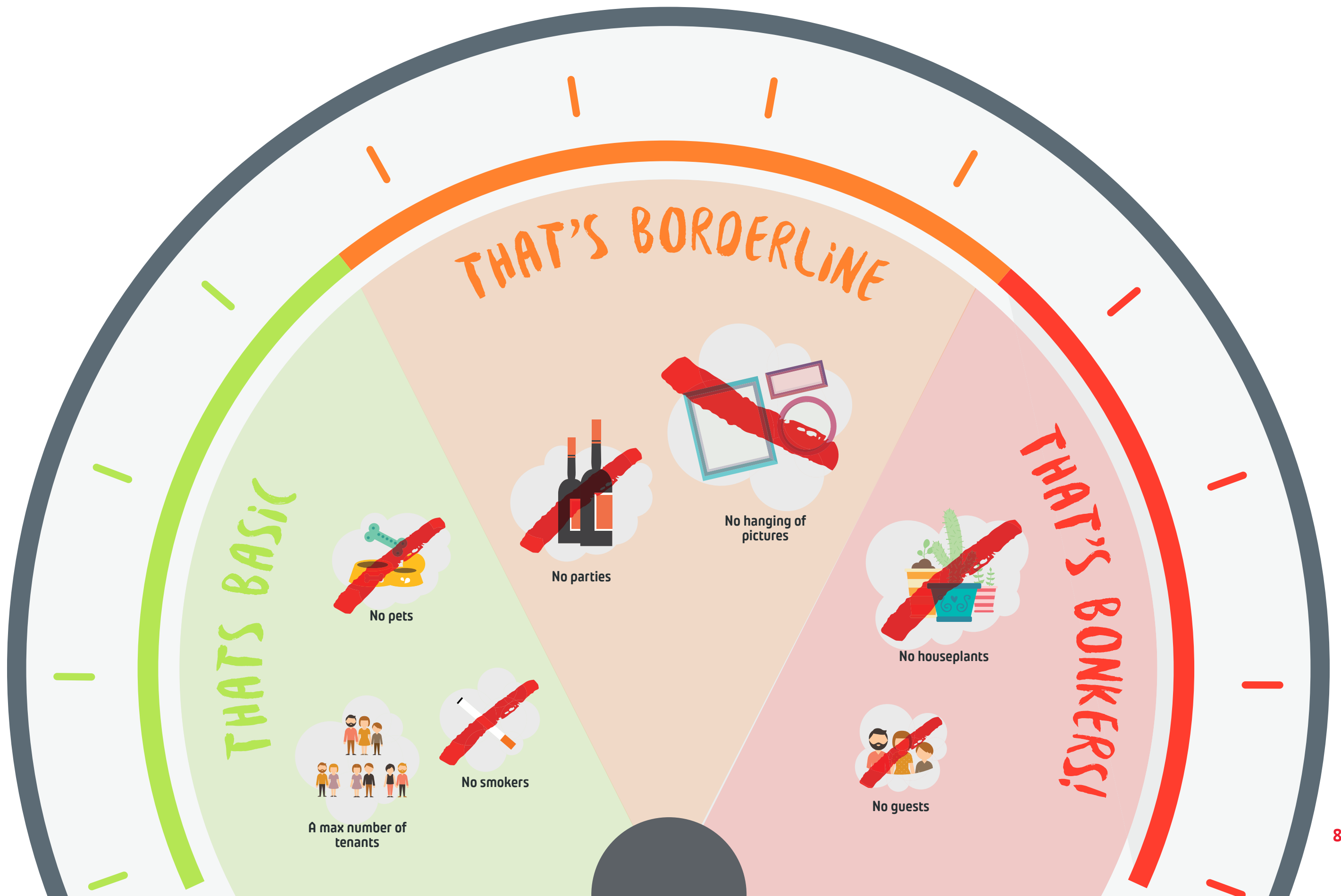
**If the above check out ok, give this exercise a big tick.
Now let's move forward!**

It's your place, your rules...right?

Well, sort of. While putting rules in place to minimise the likelihood of damage is sensible, it may not always be practical or reasonable to expect your tenants to live in the property while maintaining a show home like appearance. Too many rules are a huge turn off for renters. Our advice is to try and be realistic, and also think about how you can police any rules you are putting in place.



How reasonable are your rules?





Get in on the Act

You've got a list of rules which you believe well and truly fall within the realm of reasonable – but what does the law say? You can put what you want in your tenancy contract. But do be aware that unless it's also covered by the New Zealand Residential Tenancy Act (RTA), it won't stand up in court. And it may turn off someone who would otherwise be a model tenant.

If you are managing your rental on your own, you'll need to get to know the RTA from top-ish to bottom-ish or at least seek legal advice on the key points to look out for. Pleading ignorance won't hold up in court so it's best you're well educated.

Cheat's tip: getting a good property manager on your side can help you navigate the legalities of the Act.

Sense check your rules:

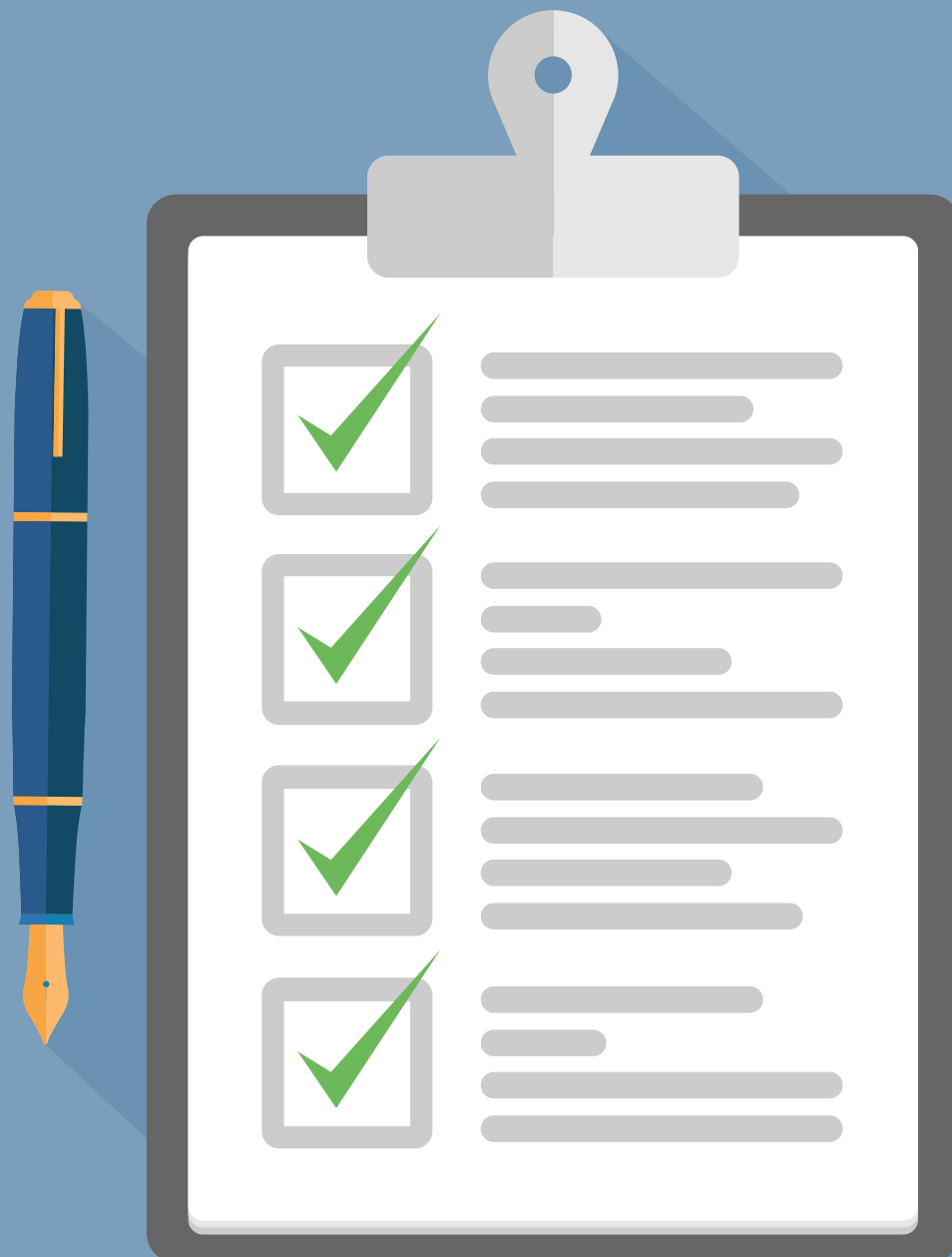
Would I be happy living in a house with these restrictions?
Do they hold up from a legal perspective?
Can I realistically police them or are they a waste of paper?
Are all these rules likely to wipe out a pool of good potential renters with little gain?

Remember: You were a renter once too (statistically speaking).

Tenants aren't stupid, and if you show them respect they are more likely to reciprocate. And keep in mind that people hate moving, so are unlikely to deliberately cause trouble!

The 5 most important things NZ landlords should know

Phew, being a landlord sounds like rather a lot of work. Collecting interest on savings in the bank is starting to sound like the easy option right now... To help you out, here are our big five 'must knows' for New Zealand landlords, to cut through the clutter and focus your attention.





1. The name is Bond. Rent Bond.

While you may fantasise about that nice lump sum bond payment materialising into a new ice-making fridge, the reality is this should enter and exit your bank account before it has time to get too comfortable.

A couple of things to consider

- The New Zealand bond requirement is the equivalent of a maximum of 4 weeks rent
- This legally must be lodged with Tenancy Services within 23 working days of its receipt
- If you are using a property manager, ensure the bond has been lodged and your tenant has been notified of this.

**Get your free
Rent appraisal**



Click here to register



2. Shake that money tree!

Maximising your rental income is the name of the game, but there are restrictions you'll need to keep in mind when it comes to payment in advance, rent increases and more. Reign in your greedy side and read on...

- Legally you may only ask tenants to pay a maximum of 2 weeks rent in advance
- BUT your tenant can request to pay monthly if it suits them
- If you are managing the property yourself, you can't legally charge any fees to cover advertising costs (property managers call this a letting fee)
- The price needs to reflect the market rates and quality of the property
- The market will guide you (with silence) if you are trying to charge too much. If you're unsure of market rental values for your property, request a free rental appraisal
- Think it's high time you charged more? You'll have to give your tenant 60 days' notice for any increases and it must be at least 180 days since the last rent increase or beginning of agreement.



3. Mr Fix it

Unless you've rented your property to a career DIYer, you can expect maintenance issues to arise with your rental property. In fact, if no issues arise, you might want to be slightly worried too! Finding a tenant whose attitude lies somewhere on the continuum between serial problem finder and relaxed 'tap has dripped so much the floor is rotten' type is akin to a landlord's Holy Grail.



You're obliged to...

Ensure that any appliance that was working when a tenant moved in must remain in working order unless you can prove tenant negligence.



They're obliged to...

Give written notice of any issues at the property. These must be fixed within a reasonable amount of time otherwise the tenant can issue you with a 14-day Notice to Remedy.



Impartial vs Invested

You may be invested from a literal point of view, but are you also invested in the property from an emotional point of view? Taking on the role of landlord yourself can be challenging, as unfortunately not everyone will treat your property as you would. Having someone else to look after the place means you have a built in emotional buffer, as well as someone who can take care of every little troublesome and time-consuming complaint.



Let's get legal (again)

Under the RTA, a landlord must provide the premises to a 'reasonable' state of readiness which includes complying with all health and safety regulations and requirements which are subject to change and amendments (see, you really do need to understand the RTA).



The end goal

If you're feeling the maintenance pains, look to the future for relief – do you want your property to deteriorate if you're planning on selling up or moving in eventually?

4. Don the white gloves, it's time for a property inspection!

There are a number of rules around property inspections, so make sure you're not falling foul of any of the below.

Notice to rectify and breach notices:

If you spot something minor like the lawns are looking a little shabby (and it's in your agreement that they will keep them tidy) you can give the tenants 14 days' notice to rectify. This needs to be in writing.

If you spot something more serious (what's that growing in the ceiling cavity?!) you can issue a breach notice.

And don't forget a few things to check:

- ✓ Tenants have received 48 hours' notice of inspection
- ✓ It's at least three months since last inspection
- ✓ You haven't seen any obvious damage
- ✓ Artwork isn't covering any holes in walls, rugs not hiding any new stains in carpet
- ✓ Any obvious maintenance required?
- ✓ Is there any maintenance or cleaning required that you expect the tenant to carry out?



5. Really looking forward to my annual 4-week ski trip! Oh wait. I'm a landlord now.

Email, mobile phones, Skype and text messages have made the world feel a lot smaller, and us feel more connected. However, as a landlord you have a responsibility to be contactable and on the ground (or appoint someone to) if you're going to be out of the country for an extended period.

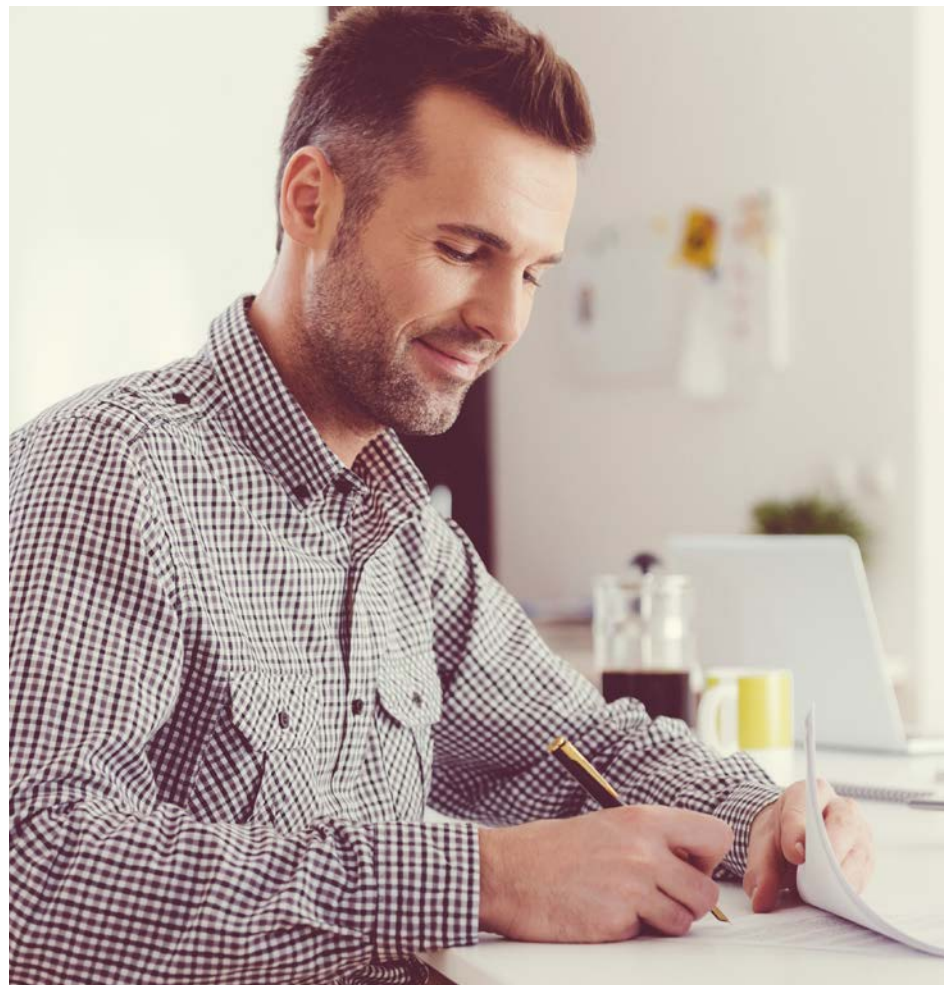
Here are the rules:

- You need to appoint an agent if leaving the country for more than 21 days
- The agent becomes responsible for the property, handles tenant enquiries and any emergencies
- You must legally notify the tenant – in writing – of your absence and provide contact details of the new person responsible
- You must legally contact tenancy services, which holds the bond, to give them the new temporary manager's details

As with any rules, there are consequences for breaking them. So best not to!

Great expectations. What should you look for in an ideal tenant?

So we've had a look at some of the hard and fast rules already, but there are a few other things to look for in a long-term tenant. If you manage to find a tenant who can do all of the below – hold on tight and never let them go!



The no brainers:

- Pay rent on time – sometimes it's the little [big] things!
- Not withhold rent – usually a sign of an underlying issue
- Pay electricity, gas and water bills (water line charges are the responsibility of the landlord)
- Keep it legal – don't use the property for unlawful purposes
- Return all keys – otherwise you may need to get locks changed
- Not exceed the number of tenants stipulated – if you wanted a hostel you would've invested in one!



The big gainers:

- Keep the premises clean and tidy – a gift to you as a landlord when it comes time to sell
- Cause minimal damage to property – less down-time and fix up time between tenants
- Not disturb the neighbours – it's always a good idea to keep them onside – and ideal if you are thinking of moving in yourself at some point
- Leave it clean and tidy when vacating – no bond worries and minimal down-time between tenants
- Keep the gardens and grounds tidy – definitely a nice to have

Again, a good relationship between tenant and landlord is reciprocal. If you make it easy for tenants to communicate with you and take care of the place, they're more likely to do just that.

When things go wrong. Very wrong.

The passive income is rolling in, it looks like you'll be in for some nice capital gains too if the market keeps going the way it is. Things are just rosy.

Enter the undesirable tenants, just to shake things up! While it's great to expect the best, it also pays to be prepared for less than ideal scenarios. Which is why we've summarised these for you, with some practical tips for dealing with the situation. So you don't have to play them out in your head at night. Over. And over...





Meet undesirable #1 The Empty-Pockets

The rent payments are behind, you've spoken to the tenant and they're between jobs...but confident something is on the horizon...and the money will be with you any day...it's weeks overdue now and you're not sure how much more slack you can cut them.

Show me the money

The main things to remember in this scenario are: keep a cool, non-emotional head (not always easy as the recipient of a good sob story) and avoid letting things slide. You may be able to work out an arrears payment plan between you, but if not, there's a legal procedure that has to be followed...

1. Issue a 14-day notice in writing to allow the tenant to pay back the missed payment – this can be issued as soon as the day after rent is due.
2. If two weeks go by without you seeing the rent, you can apply for mediation, although this will take at least 10 days, and up to 21 days to happen.
3. The tenant didn't turn up to mediation? You can lodge the case with the court, but a hearing could be 7-8 weeks away. That's a lot of late rent payments!
4. If the tenant doesn't attend your hearing, you'll need to wait another 48 hours before terminating the tenancy, at which point they have a week to move out.



By now you're out of pocket at
least two months' rent!

Tip #1: Avoid becoming your tenant's friend – maintain a business relationship and it's much easier to have tough conversations.

Tip #2: A property manager can make things immeasurably easier in situations like this. They are used to dealing with tricky situations and have no emotional investment. They also have a great understanding from a legal perspective.



Meet undesirable #1 The Cartels

It's not just gritty inner city neighbourhoods on the wrong side of (and close to) the tracks. Meth Houses, P Labs, whatever you call them, can pose a real risk to the investment for landlords in any location in New Zealand.

Cleaning up the mess is not cheap either. Private landlords are spending up to \$100,000 to strip and rebuild the inside of their properties, and landlord insurance usually has a cap on the payout.

Inspector Gadget

What if you have your suspicions that your place is being used to make, grow or sell drugs?

Take photos during your property inspection if you see any illegal activity. It pays to be a stickler for keeping up with regular inspections, as this acts as a deterrent for a would-be drug baron, who may put your property in the 'too hard' basket.

Police will rarely follow up on the small stuff – such as evidence of drug use or paraphernalia. Instead, your next step is to issue the tenants with a breach notice and lodge a Serious Issue complaint with the Tenancy Tribunal. On the other hand, if you see signs of manufacturing or dealing, report these to the police right away.

Get a clean bill of health

If you rent out a contaminated property, you're breaching the RTA, as well as other legislation, such as the Building Act and the Health Act. So it pays to double check before you buy or let, and during each tenancy.

Tip #1: Always do a Meth Test before you purchase a property. Even if it belonged to a nice little old lady. P Labs are not just an issue in lower socio economic areas. The good news is, there are specialists out there who know exactly what to look and test for.

Tip #2: Call in the professionals, from the start. They have systems to deal with these kinds of cases, and a good, registered property management agency offers comprehensive landlord insurance specific to property management.

DIY or engage a property manager

Us Kiwis like to think that DIY is in our DNA. But some number 8 fencing wire is not going to get you out of a legal dispute with a tenant (unless perhaps you're MacGyver). Sure, you may save a few bucks managing a property yourself, but is it really worth giving up your time and peace of mind? And are you prepared for the worst of the worst-case scenarios?



Can you really manage on your own?

- Could you bring yourself to evict a family, or a person who's fallen on hard times i.e. if they were made redundant, or became terminally ill?
- How would you go standing up in the Tenancy Tribunal and arguing a case?
- Do you understand your rights, obligations and procedures under the Residential Tenancies Act 1986 & Residential Tenancies Amendment Act 2010? (You do? We're impressed.)
- How will you manage the tenancy if you go overseas or on holiday?
- Do you know how to find out if your potential tenants have ever been evicted or have a poor rental history?
- Do you feel comfortable with being on-call 24/7?
- Do you have access to qualified and insured tradespeople at short notice?
- Are you organised and assertive enough to chase up late rent immediately?
- Do you know the warning signs for a methamphetamine lab?
- Do you have access to appropriate landlord specific insurance?
- Could you better use the time involved somewhere else?

Does engaging a property manager stack up?

If you do decide to choose a property manager, here are some questions to ask them first. Someone who's experienced and following best practice will have no problems answering them.

- + Do they have a good local presence, relevant experience and area knowledge?
- + Can they arrange landlord insurance and process claims on your behalf?
- + How often will they actively review the weekly rental amount?
- + What's their staff to property ratio?
- + On average, how long do they take to lease a vacant property, and how long are their lease terms?
- + Are they trained in representing clients at the Tenancy Tribunal?
- + Do they belong to a licensed agency and industry best practice standards?
- + Do they do regular inspections, with photos, how often?
- + Do they provide online access to your tenancy details and documents?
- + What percentage of arrears do they have across their office?
- + Will your money be kept in a secure trust account?
- + How will you be notified of maintenance issues?



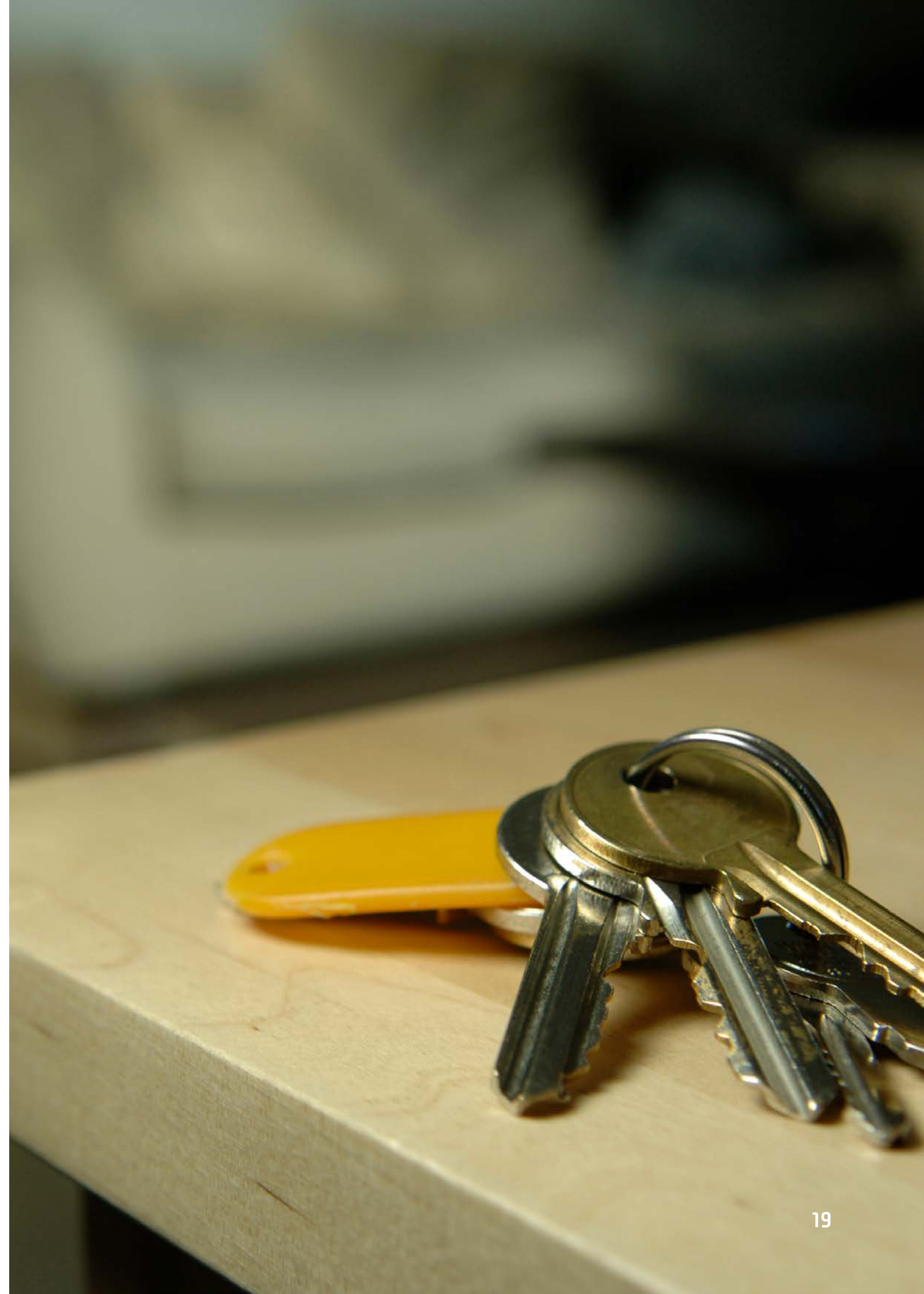
Well, there's a lot for you to think about, so let's wrap this up.

Whether you seek a nice tidy capital gain or you're tucking away a nest egg for your retirement, owning and renting out a second (or third) property can be a sound long-term investment. If you do it right.

Owning and maintaining a rental property can be rewarding financially, but it's also a lot of work. And let's face it, there are probably other things you'd much rather do with your time.

Not to mention the pain of dealing with difficult tenants or scheduling regular inspections. And you need to be available at all times – so there go those plans for sailing around the Pacific.

Perhaps it's time to consider engaging the professionals. Having someone experienced enough to handle all the hassles will take away the stress of owning a rental property. Leaving you with the peace of mind that your property is being taken care of and building up that nest egg.



Thanks for taking the time to read our guide.



For further information about managing investment properties you can follow the Professionals blog, as well as Facebook and Twitter.

If you're thinking about bringing in a property manager, we'd love to talk to you about your property and offer you a free rent appraisal

REQUEST A FREE RENT APPRAISAL

Professionals Property Management is part of the Professionals Real Estate Group.

Please note that the information provided in this guide is of a general nature and should not be construed, or relied on as suitable for your personal financial situation.

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