

MANAGING YOUR PROPERTY AND FINDING TENANTS



AN EXPANDED CHAPTER FROM
PROPERTY 101

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DISCLAIMER

Topics and material covered in this e-book are a generic discussion of the issues and concepts related to property management. Nothing in this e-book is intended to be a substitute for individual advice for your specific circumstances. Readers should take advice from an appropriately qualified adviser in relation to any matter discussed in this e-book. Neither the writer nor GRA LP will be held responsible for any loss stemming from error, omission or misstatement in the material covered in this e-book.

Introduction

Most successful investors I see don't manage property themselves. They have professional property managers who handle the letting and management of the tenants. If you have the right yields with residential property in New Zealand, you should be able to afford a manager from the rent your property generates and still produce a good return.

In this e-book I will first discuss using a property manager. Property management is hard work and it can be difficult, and I will share some stories that reinforce why I use professional property managers.

I will then look at the Residential Tenancies Act, as it is prudent to understand your obligations so you can relate to your property manager. There is a lot of case law and rules that make dealing with tenants difficult in New Zealand. The rules are there to protect the tenants as much as the landlord, arguably however, tipped in favour of the tenant in New Zealand.

If you are interested in managing your property yourself to save the money, or you enjoy such activity, this e-book also discusses some of the ins and outs. Part of being a successful landlord is keeping tabs on whoever is in charge of managing your properties, because the ultimate responsibility lies with you. So it's a good idea to have an understanding of what is involved. Poor management can not only result in lost rent, it can also jeopardise your insurance cover or cause you to be hauled up in front of the Tenancy Tribunal and suffer losses.

Using a property manager (*letting agent*)

When asked about management, I've always said that I really don't want to be worried if a tenant's toilet or roof is leaking on a Sunday night - that's a manager's job. The moment I get involved with tenants, I move from having a passive investment to having another job I have to work at. In saying that, sometimes assets are very simple to manage, and it can make sense to save the money and do it yourself. But as you scale up it's just another job, and most people are investing to work less, not more. What is key is getting a manager who is effective at achieving consistent market rents and minimising repair costs.

A professional manager will charge a fee (typically ranging from 6% to 10% of the weekly rent, depending on region and property) and often they also charge letting fees, inspection fees and a percentage of renovation work done. In exchange they will manage everything, from finding tenants to chasing rent payments, inspections, and dealing with repairs and maintenance. They are on call, and if your tenant has an issue in the middle of the night it's not you who is going to get the phone call.

Professional managers should be skilled at choosing good tenants, minimising vacancy, and ensuring you get full market rent. I consider them a good way to leverage your time, and they certainly make life easier. I avoid managing tenants - I want my weekends to myself. But each investor needs to make their own rules, and not everyone can afford to use managers.

If you decide to use a property manager you must choose a good one, especially as it is a non-regulated industry. A bad property manager can cost you dearly (think long vacancy periods, low rent, non-paying or destructive tenants), and can easily turn a profitable property into one that is not. I have heard some shocking stories and experienced a few.



KEY POINT

Under the Residential Tenancies Act (Section 16A), you are legally required to use a property manager or agent if you are planning to leave the country for more than 21 days.

CASE STUDY 1

Using your mate as a manager

I recall a boarding house I reluctantly part-owned, which was managed by my mate's new property management company. Long story short, they were poor at reporting, and achieved an occupancy rate of about 20%. When I moved the management to a new manager who was focused and knew what he was doing, occupancy went up to 85%, and I got perfect accounting and reporting.

Moral of the story

Don't use your mate's property management company unless your mate is good at it.

CASE STUDY 2

Crooked manager

One of my clients suffered loss of bonds due to their manager not lodging the money with Tenancy Services, despite indication the manager had done so. In fact, the manager was a crook and was pocketing the bonds.

Moral of the story

Make sure your manager has good ethics and a separate trust account.

CASE STUDY 3

Feral tenant beats up my manager

My Paeroa property manager was beaten up by a tenant while trying to collect rent and inspect the property. When we finally got in, there were 10,000-plus cockroaches in the house, dog excrement and a disassembled car engine complete with oil stains on the carpet. The tenant was arrested. I felt very sorry for my manager, but he should have been performing more regular inspections and been more proactive. His lack of proactivity allowed a lot of damage to be done to my house.

Moral of these stories

Good management is everything. It affects security, rent, repairs bills, occupancy and returns. It is the difference between a good investing life and a bad investing life because it reduces your stress levels.

MY VIEW ON PROPERTY MANAGERS

Property managers are great sources of market information. However, they are not necessarily property investors and therefore not necessarily good at giving strategic advice, e.g. about whether a property is a good investment or if an area is good to invest in. (Just the same as with real estate agents – they sell houses but this does not make them property investment experts.)

Although often not strategic advisers, property managers have tactical, local knowledge and are a good source of resources such as:

- Tradespeople
- Real estate agents, if you want to sell or buy property in an area. Some managers are also real estate agents themselves and can introduce you to vendors.
- Direct feedback on rents, vacancy rates, and trends in the area

Property managers are experts at managing legal matters with tenants, arranging repairs, securing a property when problems arise, accounting for money and rents, and they know their local market. A good manager makes your investment a breeze and life easy. A bad manager costs you money and makes life miserable.

In summary, managers remove the hassle of investment. They turn property into a passive investment because they do the work – otherwise you have another job: managing property.

Managing property yourself

If you elect to manage your property yourself, you need to get up to speed with what is involved, and make sure you have the time required. You must be prepared to confront tenants if they are late with their rent, deal with urgent repairs no matter what time of day or night they occur, conduct regular inspections, and sort out any problems that may arise. Some personalities are definitely better suited to this than others.

CASE STUDY

Self-managed property

Russell was managing his property himself. His tenants were Work and Income (WINZ) beneficiaries, and WINZ was paying their rent directly to Russell.

The tenant was sent to prison for drug dealing and operating a 'P' lab from the

house. Even though he was in prison, WINZ kept paying the rent (due to an oversight on their part). Consequently, Russell had no idea that his tenant was no longer living there. Russell drove past the house one day by chance to find:

- The house had no front door
- There were holes knocked in the walls in every room
- The hot water cylinder was gone
- The entire kitchen had been stolen
- The house had been stripped – even the kitchen sink, bathroom vanity and curtains – all taken.

After finding out what had been going on, Russell had the house tested for methamphetamine contamination, and the tests came back positive. It cost him \$75,000 to decontaminate and repair the property.

Moral of the story

Conduct regular inspections or appoint a property manager to do it for you.

The Residential Tenancies Act

BACKGROUND TO PROPERTY MANAGEMENT AND THE RESIDENTIAL TENANCIES ACT

Renting a property to tenants falls under the legislation of the Residential Tenancies Act (RTA), which outlines the rights and obligations of both landlords and tenants. You can get a copy from www.legislation.govt.nz. The RTA is administered by Tenancy Services, which is part of the Ministry of Business, Innovation and Employment. It is worth spending some time on their website (www.tenancy.govt.nz) because it has comprehensive information about tenancies and excellent advice for landlords. Note that legislation does change from time to time. It therefore pays to stay in touch with changes as they occur, or you can inadvertently run afoul of the law.

TENANCY AGREEMENTS (REFER RTA PART 2)

Part 2 (13) of the RTA states that you must have a tenancy agreement that is signed by both you (as the landlord) and the tenant. However, Section 13C of the RTA states that tenancy agreements are not unenforceable if they are not in writing. In spite of this, I don't think a verbal agreement is worth the risk.

A written agreement provides security for both landlord and tenant. For example, if you don't have a written agreement you run the risk of a tenant getting into rent arrears and then saying they don't owe anything because they are not the legal tenant. If you end up

in a dispute before the Tenancy Tribunal, a written agreement provides legally binding evidence of the conditions agreed to at the start of the tenancy, and will make the case much easier to adjudicate. In my opinion you should always have a written tenancy agreement.

You can get a copy of a standard residential tenancy agreement from **www.tenancy.govt.nz** at no charge, as shown in Figures 1 and 2 on the following pages.

Such an agreement should include the following:

- Name, physical address for service*, and phone numbers of the landlord
- Name, identification details, physical address for service, and phone numbers of the tenant(s)
- Tenancy details including address of the property, weekly rental, bond amount, and how rent is to be paid
- Date the tenancy is to begin
- Type of tenancy (periodic or fixed-term)
- Property inspection report
- A list of chattels provided by the landlord
- Water meter reading (if tenant is paying for water)

** An address for service must be a physical address where documents relating to the tenancy can be received by or on behalf of the tenant or landlord, even after the tenancy ends.*

<h2>Landlord details</h2>		
Name(s)		
This section must be filled in		
Physical address for service		
Phone:	(Wk)	(Hm) (Mobile)
Other contact address(es)		
Additional address for service (This may be an email, PO Box, facsimile number)		
<h2>Tenant details</h2>		
Name(s)		
Identification	<input type="checkbox"/> Drivers licence	<input type="checkbox"/> Passport <input type="checkbox"/> Other Write ID Number:
This section must be filled in. It is important to give good contact details.		
Physical address for service		
Phone:	(Wk)	(Hm) (Mobile)
Other contact address(es)		
Additional address for service (This may be an email, PO Box, facsimile number)		
Is any tenant under the age of 18? YES / NO (Cross one out)		
<h2>Tenancy details</h2>		
Address of tenancy		
Body Corporate rules attached if premises are Unit Title premises Y / N/A (Strike out one option)		
Rent per week \$	To be paid in advance, weekly/fortnightly (Strike out one option)	
Bond amount \$		
Rent to be paid at		
Or into Bank Account No.	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Account name.		
Bank	Branch	
<h2>The landlord and tenant agree that</h2>		
1. The tenancy shall commence on the _____ day of _____ 20 _____		
2. Strike out one option: This is a periodic tenancy and may be ended by either party giving notice as required under the Residential Tenancies Act 1986 OR This tenancy is for a fixed term, ending on the _____ day of _____ 20 _____ <i>NB: Fixed-term tenancies automatically become periodic upon expiry of the fixed-term unless either party gives the other written notice of their Intention not to continue with the tenancy. That notice must be given no more than 90 days, and no less than 21 days, before the end of the fixed-term. If the landlord grants the tenant a right to renew the fixed-term, they should state this below under Number 4. The tenant may exercise this right by informing the landlord in writing no less than 21 days before the end of the fixed-term.</i>		
3. Strike out the bold section below if it is not applicable The tenant shall not assign or sublet the tenancy without the landlord's written consent.		
4. Insert other terms of this tenancy (eg. pets, number of tenants, reimbursement of recovery costs, right of renewal if tenancy is a fixed-term) If necessary, please continue on a separate sheet and attach it to this agreement and ensure that all parties have signed and dated it.		
<h2>Signatures</h2>		
Do not sign this agreement unless you understand and agree with everything in it		
The landlord and tenant sign here to show that they agree to all the terms and conditions in the tenancy agreement and that each party has read the notes on the back page of this agreement.		
Signed by _____	_____	_____
TENANT	TENANT	TENANT
Date signed _____	_____	_____
TENANT	TENANT	TENANT
Signed by _____	Date signed _____	_____
LANDLORD	LANDLORD	

FIGURE 1: Tenancy agreement
 Source: Tenancy Services, Ministry of Business, Innovation and Employment

Extra clauses, such as whether or not tenants may have pets, maximum number of people that can live in the property, who pays the utilities (water), who is responsible for maintaining the garden, and whether tenants can smoke, can be added as long as they comply with the terms of the RTA. The standard agreement from www.tenancy.govt.nz also includes an outline of the provisions of the RTA.

TWO MAIN TYPES OF TENANCY IN NEW ZEALAND

1. Periodic tenancy - The tenancy continues until either the landlord or the tenant gives notice in writing to terminate it. The landlord is required to give 90 days' notice, unless the property has been sold or the landlord's family needs to move in, in which case 42 days' notice is required. A tenant must give the landlord 21 days' notice.

2. Fixed-term tenancy - The tenancy ends on the date specified in the tenancy agreement at which time it automatically becomes a periodic tenancy unless either party has given the required written notice to the contrary. To end a fixed term tenancy before the term is up, both landlord and tenant must agree in writing, or else an order must be made by the Tenancy Tribunal (e.g. because either the tenant or landlord would suffer extreme hardship if the tenancy were to continue). The only other time a fixed tenancy can end early is if the property is sold under mortgagee sale, in which case the tenant can be given notice as if under a periodic tenancy (42 days).

NOTE: If you buy a property that has a fixed term tenant, you must honour that lease, unless the tenant is willing to agree to a variation (which you would need to negotiate).

BOND (REFER RTA SECTIONS 18-22)

Landlords can require that tenants pay a bond when they move into the property. A bond, which can be up to the equivalent of four weeks' rent, covers anything the tenant may owe the landlord at the end of a tenancy (e.g. unpaid rent, the cost of cleaning or repairing damage). You do not have to ask for a bond, but it is advisable to do so. You are entitled to increase the bond amount proportionally every time the rent is increased. A tenant is not obligated to pay a bond - they can rent somewhere else if they don't like the requirement, but a bond is normal in New Zealand.

The bond money must be lodged with Tenancy Services within 23 days of receiving it, along with a bond lodgement form signed by both landlord and tenants. If everything is in order at the end of the tenancy, and all rent has been paid, the bond will be refunded to the tenant. If there are any issues, the landlord will be entitled to part or all of the bond. To arrange a bond refund, the landlord and the tenant must fill out a bond refund form stating how much is to be refunded to each party.

Any disagreements about how the bond refund is to be apportioned can be sorted out through Tenancy Services – either via their mediation services or, if things get really tricky, through the Tenancy Tribunal.

RENT (REFER RTA SECTIONS 23-32)

A landlord may ask for up to two weeks' rent in advance. You are entitled to charge market rent, but may not ask a tenant to pay significantly more than this. If you do, the tenant has the right to approach the Tenancy Tribunal and ask for it to be reduced. Unless a tenant is paying rent directly into your bank account (which in my view is preferable), you must give them a receipt for rent received.

You have the right to periodically increase the rent, but you can't do this more frequently than once every six months. Additionally you are required to give tenants 60 days' notice of such an increase. If the tenancy is for a fixed term, the provision to be able to put the rent up must be written into the original tenancy agreement.

RIGHTS AND OBLIGATIONS (REFER RTA SECTIONS 36-49)

The RTA details the rights and obligations of both landlords and tenants. Since this is an e-book written for property investors, I will look at the RTA more from a landlord's perspective but you also need to know what the rights and obligations of your tenants are. In short, tenants are entitled to quiet enjoyment of the property, they must pay rent on time, treat the property and the neighbours with respect, and let the landlord know if anything needs repairing.

As a landlord you are obliged to:

- Provide clean and tidy accommodation, and ensure it meets health and safety standards. 'Clean and tidy' means to a reasonable standard.
- Maintain the property in a reasonable state of repair.
- Give tenants the required amount of notice if you intend to enter the property: 48 hours for an inspection or 24 hours for repairs.
- Ensure the property is secure by providing locks etc.
- Inform tenants if the property is going to be sold.
- Notify tenants if there is a change of landlord and provide the new landlord's contact details.
- Notify tenants if you are going to use a property manager or agent and provide their details.
- Unless otherwise agreed, pay for all outgoings associated with ownership that would be incurred whether or not the property was tenanted, e.g. rates, building insurance.

Some of the things you have a right to do are:

- Inspect the property regularly, but not more often than once every four weeks (90-180 days is normal)
- Restrict the number of people that can live in the property
- Prohibit pets
- Decline tenancy applications from smokers
- Specify special conditions, as long as they don't breach the RTA or the Human Rights Act. Examples of special conditions you could include are no smoking or illegal drug taking on the premises, nominating where vehicles may or may not park, tenant must maintain the garden.
- Enter the property to show prospective tenants or buyers, subject to your tenants' consent (which they may not unreasonably withhold).

As part of respecting your tenants' rights, there are some things you are not allowed to do, including:

- Enter the property without giving the required notice
- Interfere with the tenants' peace or privacy
- Ask for more than four weeks' bond
- Ask for more than two weeks' rent in advance
- Have less than four weeks between inspections
- Seize a tenant's belongings
- Decline a tenancy for reasons that breach the Human Rights Act, e.g. gender, race, religion, age, employment status, political outlook, marital status, illness or disability.

TERMINATING A TENANCY (RTA SECTIONS 50-66)

A tenancy can end for a number of reasons including:

- Either the landlord or tenant gives the required amount of notice in writing.
- Death of a sole tenant.
- The property is sold and the buyer has requested vacant possession. (This can only happen under a periodic tenancy or by mutual agreement under a fixed-term tenancy.)
- An order for termination of tenancy is given by the Tenancy Tribunal.

Tenants are required to leave the property clean, vacate by the agreed date, remove all their belongings, pay rent up to the last day, and return all keys to the landlord. The RTA outlines what actions to take if your tenant neglects to do some of these things.

TENANCY TRIBUNAL

The Tenancy Tribunal is a division of the Ministry of Justice that helps sort out problems that may arise between tenants and landlords and is covered in Parts 2 and 3 of the RTA. Often disputes can be resolved in other ways, but if they can't, either the landlord or the tenant can make an application for a Tenancy Tribunal hearing. After the hearing, the Tenancy Tribunal can make several types of orders including:

- **Possession order:** This is for the eviction of a tenant, e.g. because they haven't paid rent for more than 21 days, they have seriously damaged the property, or they have threatened or assaulted the landlord.
- **Monetary order:** One party will be ordered to pay money to the other. A tenant may be ordered to pay money to the landlord for such things as rent arrears, damage caused to the property, or unpaid water rates. A landlord may have to reimburse the tenant for costs they incurred for urgent repairs, to compensate them for damage to their belongings caused by poor maintenance, or for breaching the RTA.
- **Work order:** A landlord or tenant may be required to undertake work to fix or repair something.
- **Disposal order:** If a tenant has left belongings behind after the tenancy has ended, the landlord must be granted a disposal order before being able to get rid of them.

Applications can also be made to the Tribunal to:

- End a fixed-term tenancy early due to extenuating circumstances on the part of the tenant or the landlord
- Increase the rent sooner than 180 days if significant improvements have been made to the property
- Reduce the rent if it is above market value.

To make an application to the Tenancy Tribunal, you need to fill out an application form (either a paper one or online), and pay the application fee (which at the time of writing is about \$20). The forms you need, as well as details about what other information to provide, can all be found at www.tenancy.govt.nz.

Now the basics of legislation are out of the way, let's have a look at how to find tenants and manage your property on a daily basis.

Managing your property

Successful property management can be broken down into 11 parts:

1. Presenting your property for tenanting
2. Finding good tenants
3. Keeping tenants long term
4. Minimising vacancy periods
5. Getting market rent
6. Undertaking regular inspections
7. Attending to repairs and maintenance
8. Checking rent payments have been made on time
9. Dealing with problems
10. Ending a tenancy
11. Keeping good records

A well-managed property will attract good tenants that pay market rent, and will have minimal vacancies. In other words, good management will maximise the income you get from a property, which makes sound business and financial sense.

1. PRESENTING YOUR PROPERTY

The best way to find tenants quickly and get market rent for your property is to make sure it is presented in such a way that it stands out (positively) against your competition. This does not have to be an expensive exercise. Have a look around at the standard of the other properties in the area and make sure you are equal to them (on average) or just a bit better. Don't spend thousands of dollars exceeding market expectation. You won't get a return on the money you spend doing that. Just meet the minimum for the market.

Provide a property that is clean and well-maintained, and you are halfway ahead of the competition right there. Many investment properties are in lower cost suburbs, but this doesn't mean tenants want to live in squalid or unpleasant conditions. Clearly you need to tailor your presentation to the area, and an expensive suburb will require a higher level of finish, but the fundamentals are the same. Meet the minimum standard to get market rent for you property. Don't get carried away.

Some things that tenants appreciate include privacy, fencing, outdoor living (decks facing the sun), TV aerials, and good security features.

Remember:

- Whatever you spend on your rental, your tenants will wreck, steal or wear out. So why waste money on something that will be destroyed in 5-10 years?
- Renovation will result in an increase in value, which can allow you to recycle your deposit and therefore allow reinvestment. However, this is not a reason to go crazy and spend more than the minimum required to get the valuation.
- As you renovate, visualise the renovation in 5-10 years:
 - The paint will be old and need renovation
 - The kitchen, bathroom and heating equipment will be worn out. The hot water cylinder will be on its last legs (if not stolen at some point).
 - The timber fences will be rotting
 - The polished floors or carpet will be worn out
 - The landscaping will possibly have degenerated

Do I make my point? The moral of the story is don't get emotional. I see too many landlords get as upset about damage as if it had happened to their own home.



KEY POINT

Focus on durability and bang for your buck, not pretty or emotional renovations which waste money.

To furnish or not?

One niche that can be very lucrative from a cash flow perspective is providing fully or semi-furnished homes to short stay or longer stay tenants who seek this style of accommodation. Examples include:

- Students or executives will often pay a premium to rent one room (in, say, a four to six-bedroom house), if you provide them common facilities to share with others, like lounge suites, TVs, fridges and washing machines. Where the rent for a five-bedroom house in a reasonable area might be, say, \$600 per week, you will find tenants will pay up to \$250 per room. So at full occupancy, a 'rent by the room' tenancy agreement with semi-furnished accommodation in common areas can return double the cash flow - if the right management is provided. The primary reason people will rent by the room is to avoid being liable for the whole flat and bond.

- Executives in town for fixed periods, say one to two years, will pay large premiums for fully furnished, high-end houses. The premium for the furniture is often very high.

These types of strategies (corporate executive accommodations, rent by the room 'mini boarding houses', short stay fully furnished houses) can turn low cash flow but high capital growth assets into high cash flow, high capital growth accommodation. But generally it's management intensive - which can reduce yield if you don't do the management yourself.

2. FINDING GOOD TENANTS

If you don't know what you are looking for, you may not see it even if it knocks right on your front door. So let's define what makes a good tenant.

- Pays rent on time and contacts you immediately if there is a problem.
- Treats your property well, and keeps it clean and tidy.
Treats the house like it is theirs.
- Notifies you promptly if something needs repairing.
- Respects the neighbours.
- Cooperative about regular inspections.
- Willingly provides access for you to undertake repairs.
- Stays put and doesn't move often.
- Does not live in squalor, does not tolerate vermin, and does not have too many pets.

How do you find one of these tenants? The first step is to set your market rent. To find out what the market rent for your property is:

- Get an appraisal from a professional property manager.
- Look on Trade Me at properties currently for rent in your suburb.
- Refer to the statistics on the Tenancy Services website (www.tenancy.govt.nz/rent-bond-and-bills/market-rent) or the QV website (www.qv.co.nz/resources/property-investment-rental-analysis), which list rents by suburb and property type. These are best used as guidelines as they can be slightly out of date.
- Talk to letting agents in the area.

The next step is to let potential tenants know that your property is available.

Ways to do this are:

- Advertise in the local newspaper, online or on community notice boards. The Trade Me website is arguably the most popular for rentals as I write this e-book. Word your ad so that it appeals to your target market. Remember to be positive, e.g. if your rental is on a busy, noisy road, say your house is the 'quietest one on the street'.

- Use a professional property manager. Prospective tenants often approach property managers as a first port of call, so it is likely there will be suitable tenants on their books already. If there aren't, professional managers know how and where to advertise most effectively. You can pay some letting companies to just let your house, and then manage it yourself. Not all agents will do this though; it's worth asking if that's what you need.
- Advertise on supermarket and community notice boards.
- Put a 'For Rent' sign outside the property. This is a strategy better suited to homes on streets that attract a reasonable amount of traffic. If your property is at the end of a very quiet cul-de-sac, then it is unlikely your sign will be seen by many prospective tenants, but often a neighbour will refer it to a friend or relative who wants to live nearby.
- Ask existing tenants if they know of anyone who could be interested.

If you are inundated with responses to your marketing, it can be sensible to arrange an open home and have everyone turn up at once. As well as being more convenient for you, it also creates an atmosphere of competition, which is no bad thing.

Ask the people who contact you how they heard about the property, so you can figure out which of your marketing methods are working – and stop paying for the ones that aren't.

Assessing applicants

Now comes the part where you scrutinise the candidates more closely to identify the most suitable tenant, and this requires fairly astute judgement. To this end you will need an application form asking them for information and background detail.

Personally, I think it is a good idea to get a professional property manager to choose the right tenants for you, even if you are not planning to use one for ongoing management. They will charge a letting fee (usually the equivalent of one week's rent), but it is worth it because they are experts in assessing people, following up references, and recognising when the wool is being pulled over their eyes.

There is one proviso – make sure the property manager you use is one who will behave professionally and find you good tenants at market rent. There are some lazier varieties out there who, if they won't be managing it themselves, will let your property for less than market rent just so they can find tenants quickly and pocket your fee. They also need to check tenants' credit and tenancy history, and assess character. Rejecting poor-quality applicants is as important as finding a good tenant. A bad tenant costs you

months of vacancy, repairs bills, and Tribunal time and representation.

If you decide you want to choose tenants yourself, these are the steps to follow:

- Have each prospective tenant fill out an application form. You can get standard ones from **www.tenancy.govt.nz**. Such a form should contain some or all of the following:
 - Name and current address of applicant
 - How long they have been at their current address, and why they are leaving
 - Photo ID
 - Current landlord's contact details (if applicable)
 - Contact details for at least two referees
 - Permission to undertake a credit check, and a privacy waiver if you later wish to be able to list them for default of payment with a credit monitoring agency. This is important.
 - How many people they intend to have living at the property
 - Whether they have pets, what sort and how many
 - Whether or not they, or the other intended occupants, are smokers

- Talk to each applicant, find out a little about them, and ask if they are happy to pay a bond and rent in advance.

- Do some initial screening. Put onto your shortlist for more thorough investigation those who were open and easy to deal with, and are able to pay rent in advance. Remove from your list anyone who made you feel uncomfortable, was shifty about providing ID or references, or baulked at the idea of a credit check or paying rent in advance. Bear in mind that appearances can be deceiving, so don't assume someone will be a great tenant just because they are well-dressed. Often the lounge lizard, suit-wearing executive is just as badly behaved as anyone, in my experience. While it is important not to make generalisations about people, you will find that families and young professionals make fairly reliable tenants, though young children can significantly increase the wear and tear a property is subjected to, as will pets.

- Once you have made a shortlist, obtain a credit report from a credit check agency, and you can usually do this online.

- Contact all the referees for each prospect. Take what their current landlord says with a grain of salt, however. If they have been difficult tenants, you might get a glowing report just so the landlord can get rid of them quickly.

- Check the Tenancy Tribunal website to see if an applicant has had any orders made against them (www.tenancytribunal.govt.nz under 'Search Tenancy Tribunal Orders').

You can't refuse to grant a tenancy for reasons that breach the Human Rights Act, but you can decide not to rent to someone for the following reasons:

- Bad credit record
- Unacceptable references
- Inability to make rent payments
- Tenancy Tribunal orders have been made against them
- They are smokers
- Too many people would be living in the property
- They have pets
- You don't like them and therefore won't do business with them

Once you have decided on a tenant:

- Fill out and sign a tenancy agreement with your new tenants. Ideally have the name of everyone who is going to be living there on this agreement. If you are going to allow pets, clearly state the terms under which you agree to this (e.g. number and type of animal, tenant responsible for damage caused etc.). Otherwise write 'no pets' on the agreement.
- Undertake a property inspection together and sign the property inspection form. It can be a good idea to take photographs during the inspection in case of disagreements about the state of the property or chattels at the end of the tenancy.
- Fill out a bond lodgement form, collect the bond from the tenant, and forward it to Tenancy Services within 23 days.
- Take payment of rent in advance - if the tenant is going to be paying weekly, you can ask for one week in advance, if they are going to pay fortnightly you can ask for two. Make sure you give the tenant a receipt (unless they pay directly into your bank account).
- Give the tenant an automatic payment form so they can make arrangements to pay ongoing rent automatically into your bank account.
- Remember to stop advertising.
- Inform unsuccessful tenants - it is courteous and lets them move on. There is no need or advantage to say why they were unsuccessful and you risk offending them and starting arguments. Simply say the property has been let to someone else if asked, as this is sufficient.

Existing tenants

What happens if a property you have purchased comes with existing tenants (either because they are on a fixed-term lease, or you have checked them out and want them to stay)? There are a few steps you must follow:

- Supply the tenants with your contact details and address for service.
- Fill out a change of landlord form, which must be signed by you and the old landlord, and send it to Tenancy Services. You need to complete the bond information, your contact details, and those of the tenants and the previous landlord. Bonds can be assigned through this process.
- Provide the tenant with an automatic payment form for rent payments. Do this as soon as possible to avoid loss of rent to the old landlord and administration hassles.

Housing New Zealand leases

Sometimes I get asked whether Housing New Zealand (HNZ) leases are a good idea. I think the answer to this is contingent on where in New Zealand your property is located.

On the positive side, under a Housing New Zealand lease the government typically rents your house from you at a pre-agreed rental amount, with agreed rent review intervals on a fixed term (e.g. 5 years + 5 years). The leases generously provide for reinstatement by HNZ at the end of the lease, as well as maintenance. So you get a secure income stream and a lower cost of maintenance.

However, the yields are typically on the low side, and between rent reviews can end up being below market. Of greater concern, properties become dedicated rental properties that are denied the ability to be sold to an owner-occupier until the completion of the HNZ lease. This means that if you have to sell during the down cycle when fewer investors are in the market, the value can be more impaired. Consequently, such properties can have more volatile valuations during a down market due to the existence of the HNZ lease.

I therefore see little value in a Housing New Zealand lease in the Auckland or Christchurch markets while tight supply prevails as an issue. I see more merit in the leases in areas with looser housing supply in order to secure a sustained income stream.

3. KEEPING TENANTS LONG TERM

The key to keeping tenants long term is to treat them well. Providing great customer service is the name of the game here. Property investment is a business, and like all businesses, it is only going to thrive if the customers are happy. Keeping your tenants happy is actually easy, so it is perhaps surprising that not all landlords do it.

- Keep the property in good condition. Make sure it is insulated, heated and dry to start off with. Don't let your property condition slide, but minimise cost of maintenance.
- Treat your tenants with respect and courtesy. Respond to their enquiries quickly and politely, and check in with them every few months to make sure everything is OK. It doesn't hurt to thank them every now and then for being great tenants. However, don't overstep the mark and become best friends with your tenants because the lines between business arrangement and friendship can become blurred, resulting in unrealistic expectations, usually on the part of the tenant (e.g. asking for a rent discount or to skip payments due to cash flow pressure).
- Attend to any repairs promptly. You would be surprised at the number of landlords that don't, which can be very frustrating for tenants and a good reason for them to leave. Some repairs, like leaks, cause more damage and cost if left, as well as increased water bills.
- Respect your tenants' privacy and be sure to give them the required notice if you need access to the property. Remember your property is their home. Don't make them feel insecure about that.
- Keep the rent at fair market value. It is better to undertake regular rent reviews and increase the rent by a small amount than to surprise tenants with a big rent hike. When you write to inform your tenants of a rent increase, I suggest you word it in such a fashion that it gives reasons as to why their rent is going up (e.g. changes in market rates).

4. MINIMISING VACANCY PERIODS

A vacant rental property can be stressful on cash flow and increases the risk of break-ins and vandalism. With no let-up on the outgoings, the lack of rental income can be taxing on resources. It is probably unrealistic to expect that your property will never be vacant, and I personally allow for two weeks' vacancy per year when analysing my numbers before I buy in Auckland. Out of Auckland this can be much longer, depending on the area and scarcity.

To ensure your property is untenanted for the minimum period:

- When buying, do yourself a massive favour and make sure your property is in an area that has high tenant demand and limited supply, and that it is the type of property that appeals to those that want to live there. In other words, buy right in the first place. This is most of the battle – picking the right area and region.

- Respect your tenant but don't trust them. Keep an eye on the house – a simple drive-by keeps you in touch if the house is local. Otherwise, make sure the manager is conducting inspections regularly.
- When your tenants give notice, begin advertising for new ones immediately to get a short list that you can potentially show through the property before the existing tenant is out. This way you will have the new tenants ready to move in as soon as the old ones vacate.
- Bearing in mind that most people prefer to move house on the weekend, try to arrange for existing tenants to move out on a Friday or Saturday – if you have a new tenant ready to take over straight away they can move in the next day. Remember, on change of tenant the house will need cleaning and minor (or major) repairs, so sometimes it is better to schedule a gap to allow access for a tidy up.
- Make sure the rent you are charging represents fair market value. If it is way at the top end of the scale it will take longer to find a tenant. Drop your rent if necessary; you can raise it later if the market allows. Waiting months for an unrealistic rent often costs you more than dropping rent and simply raising it later.
- Make use of fixed-term tenancies, and ensure they come up for renewal at a time when there are lots of prospective tenants about, e.g. just before the start of the school or university year, or springtime when people traditionally like to move house. If renting to students, ensure the lease covers the long summer holiday period – if it expires just before Christmas you could face a couple of months without tenants.
- Consider arranging landlord insurance that covers you for vacancies. It is pretty cheap cover at one weeks' rent per year. This type of insurance doesn't apply to normal vacancies, but does cover vacancies under some circumstances, e.g. while a property is being repaired, tenant abandoning the property. (For more information on insurance, consider downloading my insurance e-book from www.gra.co.nz/ebooks-download.)
- Build your portfolio so you have multiple rental properties. The more properties you have, the less effect an unexpected vacancy in one of them will have on you.

5. GETTING MARKET RENT

It is good business practice to maximise the rent your property achieves without venturing into overcharging territory (which would provide your tenant with an incentive to leave). Because rents change over time (usually increasing), you need to keep abreast of what is happening in the marketplace to ensure you are always getting market rates. To do this I recommend that you:

- Be aware of the latest market rents in your area and undertake regular rent reviews to keep in line with them.
- Review the rent in between tenancies – this can be an excellent time to increase it to market rates (even if the last increase was less than six months ago).

My philosophy on rent

- If rent is over market I'll lose my tenant, and rolling tenants costs money because of:
 - Letting fees
 - Reinstatement
 - Rent lost due to vacancy
 So it is not smart to over-rent houses in the long run. Try to obtain a fair but solid market rent.
- If I'm under market, no one thanks me and I lose money, so that is not smart either. Under-performing rent undermines your cash flow and is poor business.
- Direct tenant contact can make you feel sorry for tenants and that causes you to allow skipping of payments, stops rental increases and quickly turns you into a social worker instead of a landlord.

6. UNDERTAKING REGULAR INSPECTIONS

Where possible, always undertake regular inspections of your property, both to keep an eye on how the tenants are treating it and as part of providing the good service I have been talking about. An inspection is an opportunity to fix small, low-cost issues that are annoying your tenants and which might cause them to move out.

Inspections are also an opportunity to build rapport with your tenants.

The other point of regular inspections is to alert you to problems your tenants may be causing (e.g. damage), and give you a chance to remedy those before they escalate out of control.

- Under the RTA you may carry out inspections as often as every four weeks. In most instances you won't need to do them as frequently as this, but you should not leave it any longer than about once every three to four months, and as said, a 'drive-by' is well worthwhile in between. I would always chat to a tenant and check in with them if I saw them on a drive-by.
- Many landlord insurance policies specify how often inspections must be carried out in order to keep the cover valid, so be sure to comply if you have this type of insurance.

- Always give your tenants the required 48 hours' notice of an inspection (in writing). Check that the time you want to come will be convenient for them, and ask if there is anything in particular they would like you to look at or if they want to be present during the inspection.
- It can be a good idea to bring the photos and inspection sheet from the initial inspection with you as a comparison because they can be very useful in identifying if any damage is new. Take photos of any issues you discover during this inspection also.
- If everything is in order, be sure to thank your tenant for taking such good care of your property. Praise goes a long way with a good tenant. Don't think you are doing them a favour by renting them the house. They are the customer - thank them for being good tenants.
- Get on to any repair or maintenance issues as soon as possible after the inspection.
- If you notice damage that the tenant has caused, request that they remedy it within 14 days. You can ask them to do this verbally, or if that would be awkward, give them formal notice in writing (you can use the 14-day notice template at **www.tenancy.govt.nz/forms-and-templates**). At the same time, tell them when you will be back to check on the repairs. Be sure to discuss and follow up with a subsequent 48-hour inspection notice. Tenants should quickly learn you are tough but fair, and attentive to detail in the relationship.

7. ATTENDING TO REPAIRS AND MAINTENANCE

- Attend to repairs and maintenance quickly. There are three reasons for this:
 - Issues that are left can deteriorate quickly, causing more damage in the process, resulting in larger repair bills for you.
 - Getting onto repairs promptly equals good customer service, and will go a long way to keeping your tenants happy.
 - Keeping your property well maintained will ensure it holds its value.
- Tenants are required to repair or pay for repairs to damage they (or their guests) have caused.
- If you fail to make repairs in a timely fashion, your tenant has the right to issue you with a notice to remedy the situation. If that doesn't work, they can take you to the Tenancy Tribunal.
- A number of landlords have found their properties have been used to manufacture drugs like 'P' (methamphetamine). Illegal activity is not permitted at all under the

- RTA, but 'P' manufacture in particular brings serious maintenance issues with it. In the process of manufacturing the drug, extremely poisonous chemicals are created that leave toxic residue behind. The Tenancy Tribunal ruled in 2004 that this residue must be professionally removed, and then the house tested by qualified chemists to confirm that it is once again habitable and complies with section 45 of the RTA (i.e. reasonable state of cleanliness).
- The key thing to understand is fixing this is very expensive, and many insurance providers have a \$25,000 cap for repairing 'P' damage. In most instances this will fall far short of what is required. I understand it is possible to purchase 'P' detectors which will alert a security company if 'P' is detected or the device is tampered with, which may provide some peace of mind. There is a cost involved with this (approximately \$30-60 per month at the time of writing, which is tax deductible). I don't presently do it, but I would for a house I thought to be vulnerable.
- If you discover this sort of activity, notify the police and begin eviction procedures immediately. The cost of refurbishment is huge, so you need to shut it down immediately if you have suspicions. Additionally, the fact the house has been contaminated will likely be put on permanent record, which can adversely affect a property's value.
- The period in between tenants can be a good time to attend to non-urgent maintenance issues that could be disruptive to tenants, e.g. repainting, replacing carpet, re-polishing wooden floors, updating fixtures and fittings. Just do the minimum though, and minimise cost.
- If you need to undertake more major maintenance, such as replacing carpet, updating bathrooms or the kitchen, and the tenants are grumbling about the inconvenience, you can offer to temporarily reduce the rent to compensate them. In many cases, however, this will not be necessary as they will be grateful for the upgrade if you present it in a positive light.

8. CHECKING RENT PAYMENTS

Have a system in place to check that tenants are paying their rent on time. If a payment is late, it is important to get onto it as soon as possible for the obvious reason that ensuring your continuity of income is paramount to the success of your investment. Additionally, if you have landlord insurance it will be a condition of your policy that you follow up missed payments within a certain timeframe to keep your cover valid.

Skipping and catching up with an arrears payment is possible with most tenants, but payments that are weeks or months behind may be impossible to recover. So letting tenants get into arrears increases the risk of having to evict them or rent having to be written off. The best policy is to be super tough on people who are getting behind with rent, and evict them early. Don't let them slide and your losses escalate.

With online banking, checking that automatic payments have gone through is easy, so make sure you do this regularly. If tenants are paying by another method (e.g. cash, cheque), note in your diary the dates when payments are due. Of course if you are using a property manager, they will have systems set up to take care of checking rent payments and following up arrears for you.

9. DEALING WITH PROBLEMS

The RTA is legislation that is designed to be fair to both landlords and tenants, and although a problem might be stressful, there are always ways to reach a solution. If your tenant is in breach of their responsibilities, follow the steps listed below. If you are in breach of your responsibilities, get your act together to avoid potential liability under the RTA or insurance ramifications.

Naturally, prevention is superior to cure, and if you manage your property as described above, it minimises the risk of problems occurring.

If you do strike issues:

- As soon as you notice a problem (e.g. late rent, damage), talk to your tenant. This might be all it takes to resolve it. By all means be sympathetic if a tenant is facing a difficult situation and attempt to find a solution that works for both of you (e.g. by working out a payment plan for rent arrears or repair costs), but don't get drawn into a sob story. If you are not on good terms with your tenant, or feel threatened by them in any way, you can skip this step and go straight on to the next one.
- Generally the next step will be to issue a 14-day notice in writing for your tenant to remedy the problem. This can be a good idea to do anyway as a precautionary measure, even if you think they will address the problem immediately. If you have any further issues, you can show you have been through the official process and a

record of the date you started it. You do not have to be aggressive about it, and if your tenant seems offended, just explain that it is standard procedure.

- If a 14-day notice brings no joy, apply to the Tenancy Tribunal for a mediation between you and your tenant. The mediator will not tell you what to do, but will explain the legal aspects of your situation and help you nut out an agreement together. Mediation can be over the phone or face-to-face. The Tenancy Tribunal also provides a FastTrack resolution service, which is designed to resolve disputes within two business days, and is suitable for simple problems.
- When agreement is reached, a mediated order will be issued. Mediated orders are legally binding and outline what actions you and your tenant need to take and the consequences if you don't.
- Before mediation, gather together all the supporting documentation and evidence you need, e.g. bank statements, photographs, receipts, records of correspondence.
- Mediation is often successful in bringing about a solution, but if it's not, you can apply to the Tenancy Tribunal for a court hearing. You do not need a lawyer, and most people don't use them, but there are circumstances under which you can have one if you choose (e.g. disputes over \$6,000, very complicated issues, or if both parties agree). At the end of the hearing the Tribunal will issue an order, which you and your tenant must follow.

10. ENDING TENANCY (REFER RTA SECTIONS 50-66)

A tenancy will end because either you or the tenant have given written notice, or, in more unusual circumstances, a possession order has been made to have tenants evicted or your tenants simply abandon the house and disappear.

- You must give your tenants the legally required amount of notice as outlined earlier in this e-book. This notice must be in writing, and include the address of the property, the date by which the tenants must vacate, and, if you are giving less than 90 days' notice, your reason for terminating the tenancy.
- If a tenant can prove that you gave them notice in retaliation, simply because they asked you to meet your obligations under the RTA, the Tenancy Tribunal can issue an order stating that your notice has no effect.
- When a tenant gives you notice, you can insist that it is in writing, as this is a requirement under Part 2 (51) of the RTA. You can request that it includes their new address, and states that they will give you reasonable access to show the property to prospective tenants, that they will leave the property clean and tidy, that they will

pay all utilities up to the final day and will arrange for final readings before closing those accounts.

- Start advertising for new tenants before the current ones move out (if you will have access to show them the property).
- At the end of a tenancy, you should undertake a final inspection with your tenant to assess whether there has been any damage over and above normal wear and tear. Bring the original inspection sheet and photographs with you as a reference.
- If possible, it can be sensible to arrange an additional inspection a few weeks before the final one to give tenants time to remedy any issues. Keep diary notes of meeting points and write to tenants confirming issues to lay a trail.
- Fill out a bond refund form with the tenant, stating how much of the bond is to be refunded to each of you. If you are unable to agree on how the bond should be refunded, you can apply to the Tenancy Tribunal to have the matter resolved.
- Send the bond refund form to the Tenancy Services, who will then process the refund accordingly.
- If, even after the bond refund, there are still matters outstanding (e.g. large rent arrears, very expensive repairs, belongings left behind), you can apply to the Tribunal to have an order granted in your favour. Collection is often an issue, however.
- Consider loading a tenant as a payment defaulter with a credit agency if they don't pay. You can only do this with a privacy waiver in the initial tenancy agreement, so make sure you have one. Otherwise, they can ask for the credit default to be removed as it breached their rights under New Zealand's privacy legislation (ridiculous but true).



KEY POINT **Eviction**

You are entitled to apply for a possession order to end a tenancy (i.e. have tenants evicted) if a tenant has breached the RTA. You will need to follow the correct process via the Tenancy Tribunal, and can make an application online through www.tenancy.govt.nz/disputes/tribunal/making-an-application.

You might want to hire a property manager to do it for you if you are nervous.

11. KEEPING GOOD RECORDS

Keeping good records is important on two counts. Firstly, you need to track all your income and expenses for tax purposes. Secondly, good records can be helpful if you encounter any problems and need to provide evidence to the Tenancy Tribunal.

Keep a separate file for each property containing:

- The tenancy agreement and a copy of the bond lodgement form
- Records of all rent payments (either copies of receipts or bank statements)
- Invoices for expenditure (property management fees, repairs, insurance, rates etc.)
- Inspection reports and photos
- Records of any communication between you and your tenants
- Records of communication regarding your tenants, e.g. with Tenancy Services, neighbours
- Copies of insurance policies
- Instruction manuals for appliances etc.
- Paint colours, type of carpet used etc. for reference later
- Any other information relating to the property or tenancy

Of course if you have a property manager they will take care of most of this for you. Additionally, I suggest you use a good accounting software package to make recordkeeping for tax purposes easier and less time-consuming. Your accountant can give recommendations – I tend to use Xero or simple spreadsheets at year end. You can get a free rental or business cashbook from the GRA website at www.gra.co.nz under 'Resources'.

HOW TO MAINTAIN YOUR PROPERTY

Looking after your property well ensures it will maintain its value, and by dealing with issues as or before they arise you will reduce your overall maintenance costs. However, do the minimum – don't go over the top, as you will find you don't get the money back. (Unless you are selling...then it pays to spend a bit more).

The maintenance budget

When analysing an investment property purchase you must always include ongoing repairs and maintenance costs. It is just as important to factor in these costs for your family home.

Generally allowances are \$1,000 to \$2,000 per year for average to small three or four-bedroom houses around New Zealand that are in a good state of repair to begin with. Some years you will spend a lot less than this, but every now and then there will be big ticket items to attend to, so over time it should even out to this kind of average.

Things to consider in maintenance

The best way to minimise maintenance costs is to buy a low maintenance house. Wooden cladding, tin roofs etc. all cost more to maintain – remember that when buying. Low maintenance exteriors include brick, concrete, aluminium, and vinyl. Aluminium windows and doors require much less maintenance than wood, but should be appropriate for the house or the overall value will suffer (picture those awful '70s aluminium windows that were installed in beautiful old villas).

Regular inspections should pick up issues, and your tenants should report any problems.



KEY POINT

A stitch in time saves nine. Stay on top of maintenance to reduce costs in the longer run – but do the minimum to achieve this is my motto. I'm never house proud – I'm balance sheet proud. It is all about the numbers to me. Property is an investment, not an ego trip or emotional attachment.

Minimising the amount of maintenance your property requires is a sensible approach to take, and the following list includes some of the things you can do to keep costs down. Essentially, you need to physically inspect the exterior and interior, proactively looking for faults.

- 1.** Keep your property clean inside and out, including having the exterior washed once a year – this will help the paintwork last longer and mould and mildew won't be able to grow and cause damage.
- 2.** Clean the gutters before they get blocked.
- 3.** Replace batteries in smoke alarms regularly.
- 4.** Have any chimneys cleaned annually, or at least as required by your insurance policy. Consider blocking or removing fireplaces – they are a fire hazard in many houses. They are nice for a home but may be too much risk for a rental.
- 5.** At least once a year check the exterior including the roof and flashings (waterproof strips over window, door and roof joins) for potential water leaks. Water leaks are your biggest enemy because they cause so much damage.

- 6.** Every 5–10 years you will need to repolish wooden floors, replace the carpet (especially in rentals), and repaint the interior. Keep that in mind.
- 7.** Every 7–20 years, the exterior will need to be repainted, roof repaired or replaced, the hot water cylinder, appliances and fittings (e.g. taps) may need to be replaced, and the home could be in need of updating (particularly the kitchen and bathrooms). The aforementioned maintenance budgets of \$1,000 to \$2,000 do not cover this sort of major expenditure. You fund that through capital growth – making your selection of area essential. If you are in a long-term low growth area, you will struggle to fund major repairs from cash flow. Think about that before buying property outside of the major cities.
- 8.** Use the same paint colour and fittings in all your rental properties so you can buy in bulk and don't have to waste time (which as we all know is money) sourcing matching items. White paint is best for the interior as you can paint the ceiling and walls quickly in one colour, potentially with a spray gun which is very fast. Using different colours means taping and cutting in paint lines where colours change, which is labour intensive and costly.
- 9.** In lower cost properties, use polypropylene-based carpet (some wool mix is OK), as it is inexpensive and hard-wearing. Go for the cheapest durable carpet – your tenants are going to wreck it. Commercial grade carpet is a bonus. Don't go over the top on cost.
- 10.** Use mats or rugs in high-traffic carpeted areas, e.g. at the front door, entrance to the kitchen. They are easy to replace and are very effective in extending the life of the carpet underneath.
- 11.** Try not to use carpet in wet areas such as bathrooms and kitchen. Tile or use vinyl.
- 12.** Consider installing drainage holes in wet areas (bathroom and laundry particularly) – if there is an overflow the water won't end up throughout the entire house. A raised door jamb to hold water back onto tile or vinyl, and the floor sloped to a drain, is a good idea to cope with floods in a bathroom.
- 13.** Materials used in wet areas must be waterproof. Chipboard cabinets or inappropriate floor and wall coverings can deteriorate rapidly when exposed to moisture. For example, MDF 'blows' and expands if exposed to moisture.
- 14.** Ensure the house is well-ventilated with extractor fans in the kitchen and bathrooms. Remember your tenants may cook stinky food every day (high-fat, curries etc.). Have the clothes dryer vented to outside, and use security stays so windows can be

left partially open. Watch for odour or vapour damage during inspections and work with tenants to control it. They may see no issue with filling your kitchen and lounge with fatty, smelly smoke daily. Give them an extraction fan.

- 15.** Use door stops behind interior doors to prevent the handles from damaging the walls.
- 16.** A section of kitchen bench that is heat resistant is a great way to prevent burn marks, e.g. a square of tiles next to the stove, counter-sunk into the bench. It is cheap and easy.
- 17.** Consider not having a waste disposal – tenants often don't know how to use them properly, resulting in blocked plumbing (which can be costly). A dishwasher can also be a costly maintenance item – tenants for some reason don't clean plates before loading them, turning the dishwasher into some sort of garbage disposal unit. Dumb and frustrating as it is, you may be better not to have a dishwasher.
- 18.** Have a low maintenance garden. Weed matting, bark, and slow-growing hardy plants are good options. Bark chip and white metal chip are cheap and zero maintenance.
- 19.** Regularly trim plants and trees back from the house – the gutters will stay clear for longer, and with more light there will be less chance for mould to grow. Remove the trees if they cost too much to maintain and don't add character.
- 20.** Keep the property clear of rubbish, including areas under the house. I always clear a property of debris and rubbish when I buy. This way, a tenant can't say the debris was pre-existing, and it reduces pest problems.
- 21.** Generous gaps between fence palings discourage taggers.
- 22.** Remove a spa pool if the property has one – they are costly to maintain and are a hazard to children for which you could be potentially liable.
- 23.** When renovating, make use of materials that don't need frequent painting or replacing. Tile floors, for example, especially if the grout is a darker colour that won't show dirt, are very low maintenance compared to wooden floors and carpet (which need to be resurfaced or replaced every few years).
- 24.** It is best to prohibit pets from a maintenance point of view. If you are allowing pets, prepare for carpet wear, fleas and house damage.
- 25.** The same goes for smokers – cigarette smoke discolours interior surfaces, and the odour takes effort to get rid of even after the tenants have left.



KEY POINT

When you identify something that requires repairing, think about whether you are best to do this yourself or pay a tradesperson to do it for you. Take into consideration the time and skills involved, and whether the work needs to be undertaken by a licensed person. Make sure you get warranties over work and try to use fixed price quotes.

CONCLUSION

- I nearly always use a property manager. Who wants another job on the weekend? The more houses you buy, the busier you get unless you delegate the work to a manager. Then you get an easy life.
- Doing your own property management is a job and comes with risk.
- If you are doing your numbers at the beginning and buying right, you should be able to afford a property manager, turning your property into a passive investment.
- Understand the Residential Tenancies Act and the rights and obligations of both tenants and landlords, even if you are not going to manage the property yourself.
- Have a written tenancy agreement signed by both you and your tenants.
- The two main types of tenancy are periodic and fixed-term.
- You can ask for up to four weeks' rent as bond, and you must lodge the bond with Tenancy Services.
- You are entitled to a maximum of two weeks' rent in advance, and may not charge more than market rent. You may increase the rent to keep it in line with market rates, but not more frequently than once every six months.
- The Tenancy Tribunal is there to help resolve disputes between landlords and tenants.

- Do yourself a favour and only buy houses in areas with high demand and tight supply of housing. Try to buy low maintenance properties.
- Screen prospective tenants carefully, always undertake a credit check, and follow up on all references. Get a privacy waiver so you can mark a bad tenant's credit rating.
- Housing New Zealand can be a great tenant, but restricts you from selling the property to an owner-occupier. This can limit your market if you want to sell, and potentially devalue your property during the down cycle.
- Have tenants pay rent directly into your bank account by automatic payment.
- Look after your tenants well and treat them as valued customers of your property business – you will get better rapport and higher occupancy.
- Undertake regular inspections, both to check up on how tenants are treating your property and to see if anything needs fixing.
- Attend to repairs and maintenance issues quickly and proactively to reduce cost.
- Always give your tenants the required notice before entering the property to make repairs or undertake inspections.
- Keep an eye on rent payments, and contact tenants promptly if they are late.
- If you encounter problems and don't know what to do, hire a manager or contact Tenancy Services. Often just talking to a tenant is enough, but if that doesn't work or isn't feasible, follow the correct process: 14-day notice, mediation and finally Tenancy Tribunal.
- The legally required amount of notice must be given to end a tenancy. Make things easy for your tenants by providing them with a checklist of what needs to be done before they leave.
- Practise good record keeping. Have a file for each property which includes all income, expenditure, tenancy agreements, correspondence etc.
- Work out a maintenance plan and a maintenance budget.
- Less is best. Don't over-spec maintenance or renovations – you are wasting money.

About the author



Matthew Gilligan is a chartered accountant, and has been practising since 1992. He is the managing director of Gilligan Rowe and Associates where he works alongside John Rowe, Janet Xuccoa and Salesh Chand (his partners) to assist the firm's clients.

In particular, Matthew heads GRA's specialist asset planning division, helping clients protect their assets, implement their estate plans and develop optimal taxation structures through a process called asset planning.

Matthew has extensive knowledge of the property market, with a focus on Auckland investment. He has been involved in this area for over 20 years and has developed and invested in property in Australia, the United States and New Zealand over that time.

A great believer in education and sharing knowledge, Matthew is a well-known speaker on asset planning and property matters. Matthew regularly presents at seminars, and also speaks to various groups, including working with banks and their clients, property investor associations, and various organisations around New Zealand that are interested in property.

As part of his commitment to education and helping people prosper, Matthew writes a regular blog to keep readers up to date with a range of topical issues affecting all New Zealanders who have a goal to be financially successful.

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