Harcourts

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Property Management Focus

Bringing you the latest news, facts and figures from the world of Australian real estate.

Landlord insurance: be ready for any circumstance

Many may consider landlord insurance unnecessary, confident that only the best tenants will emerge from a stringent selection process to lease their property.

And with good tenants, what could possibly go wrong with your investment – right?

Time to take a cold shower and consider this carefully. Or how about take a refreshing bath?

A very good tenant, in an apartment building, fell asleep while pouring a bath. The water not only flooded their unit, but seeped through the floor, damaging the ceiling, carpets and electrical appliances in the apartment below.

Because the owner of the apartment took out the right landlords' insurance, he was able to quickly repair the damage to his own unit. He was also able to claim the excess payable as a tax deduction.

The owner of the unit below had no insurance, leaving their only course of action to sue the tenants upstairs, seeking to recoup costs for repairs.

Whether it be a house, unit or townhouse, an investment property is often among the most valuable assets anyone will own.

The importance of taking out landlords' insurance was borne out by a recent survey which revealed that two out of five landlords had experienced tenants damaging property or defaulting on rent in excess of the value of the bond (Source: Home Insurance Comparison).

While standard house and contents insurance will cover such events as theft, fire or various natural occurrences, landlord's insurance is specifically designed to protect the landlords' investment.

For example, landlord insurance can cover you for:

- Malicious or accidental damage by tenants or their guests

- Vandalism
- Damage caused by structural alterations to the building without your consent
- Theft by tenants or their guests
- Legal action if taking action against a tenant
- Liability for a claim made against you
- Loss of rent if the tenant defaults on their payments or leaves early.

The same applies to investment properties that are units or townhouses, although existing body corporate insurance may already cover you for building and legal liability for public areas. Check with your body corporate to find out what existing insurance policies cover.

As with all types of insurances, the cost and conditions of different landlords' insurance policies on the market differs greatly, so take the time to talk with your Harcourts Property Manager about finding an insurance policy that suits your specific property.

It is important to buy an insurance based on its suitability rather than price, and to clearly understand which is included and what is not.

For example, some policies will cover only "malicious" damage made by tenants and not "accidental". Often there are strict conditions that apply to covering default rent payments.

If you rent out a fully or partly furnished property, you may also need to add contents insurance to cover items such as whitegoods, furniture or appliances. There are many other factors to consider.

The good news is, insurance premiums and an excess payments are tax deductible.

Yes, landlord insurance will cost you a small amount each year, but it will save you from sleepless nights wondering what will happen if the unexpected becomes reality.

Buying investment property on a low income

There is no sugar-coating the fact that if you are a low-income earner, buying an investment property will require a lot of discipline and sacrifice.

There are a number of challenges to overcome, but although income level is a factor when it comes to borrowing money for investment, there are a lot of other aspects at play, many within your control.

Investing in property remains one of the most effective ways for those on average or lower-than-average fixed incomes to build wealth, so there is every reason to research and dare to dream.

With discipline and planning, those earning a relatively low income can position themselves as a candidate to qualify for an investment loan by paying attention to their credit rating, saving for a deposit and searching for the right investment property.

CREDIT RATING

In a nutshell, your credit rating is about how you demonstrate a healthy degree of financial discipline over a number of years.

Today, all major lenders have access to virtually everyone's credit history, and although each apply slightly different criteria, most will consider the following factors:

- Stability of employment history
- Regularity of deposits into savings or transaction accounts
- Level of existing liabilities or debts, including credit cards
- Paying bills on time and in full.

The better you perform in these areas over an extended time, the more likely you are to qualify for a loan.

SAVING FOR A DEPOSIT

It's easy to say; harder to achieve, but saving 5-10% of the property value for your deposit will increase your level of suitability to the lender. The act of saving a deposit also proves to the lender that you have the discipline to service a loan.

To avoid paying lenders' mortgage insurance (LMI), an investor typically needs 20% deposit, plus enough money to cover up-front costs of stamp duty, legal fees and other government charges.

If the prospect of saving a 20% deposit is inconceivable, you can consider other methods to avoid LMI (which usually costs between .5 and 1% of the loan amount), such as approaching a family of friend to be a guarantor to help you complete the deposit.

Guarantee loans allows another person, usually a family member, to use the equity in their own home as additional security for a portion of your loan amount, and are available from several banks and lenders.

TYPE OF INVESTMENT PROPERTY

By finding the right type of property, an investor can also increase their chances of qualifying for a loan. Lenders are more likely to lend money on a property located in an area of predicted capital growth, good buyer sentiment and demand, showing higher than average rental yield, and of course, at a good price.

The good news is that the lender will also take estimated rental income that would be generated from the investment property into account when estimating your borrowing capacity. If the property has a relatively high yield, such as 3-5%, then this boosts your ability to service the loan.

If you're investing in property to generate wealth, you should consult a range of professionals including an accountant, financial planner, a local mortgage broker and agents.

Low-income earners face a daunting task when it comes to entering the investment property arena, but every long journey began with taking the first step, and many have reached their goals.

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