

PROPERTY MANAGEMENT BULLETIN

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FROM THE TEAM AT PRDNATIONWIDE PALM BEACH

THE 1% RULE

Fact or Fiction? ...

The one percent (1%) rule has been around for many years. It is a quick generalised rule that can help investors find the most profitable properties. The concept is to buy properties that produce a monthly rental income of at least 1% of the purchase price. While this is great in theory, market conditions don't always support the rule.

Rule Example

If a property is for sale at \$500,000, the 1% rule means that the monthly gross rental income should be \$5,000. The main goal of the rule is to ensure that an investor will break even or make a profit from the property. Generally, the 1% rule is a prescreening or short-listing tool only. You also need to factor in the property's condition, presentation, quality of fixtures and fittings, location, capital growth potential, supply and demand, local market conditions, and the suitability for attracting tenants.

Fact or Fiction? ...

It is up to you. It is just a calculation. Your decision to purchase any property must consider facts, data, research, professional advice, your personal and financial goals, and your set criteria as a property investor.

DAMAGE TO MY PROPERTY WHO IS RESPONSIBLE & WHAT CAN I CLAIM?

'Damage to my property' is the last statement or conversation that any investor wants to read, hear, deal with, or discuss.

However, the reality is... Damage to a property is a fact and reality that every investor needs to be aware of.

Damage to the property can relate to several different concepts, such as:

1. *Malicious damage*

The act of someone intentionally causing damage to a property.

2. *Accidental damage*

A sudden and unexpected cause of damage to a property.

3. *Fair wear and tear damage*

The normal deterioration or aging of a property.

Malicious damage (such as deliberate holes in walls or ripping out property fixtures or fittings) is something that every investor wants to avoid happening. Malicious damage can be minimised by ensuring that your property is kept in a well maintained and presented condition to attract quality tenants, as well as having current landlord insurance to protect you from the unexpected event of malicious damage.

Accidental damage (such as a spill or stain on the carpet, a burn mark on a benchtop from a hot pan or hair curling iron or dropping an object and cracking a tile) in most circumstances may feel like malicious damage, but without the intent - 'It was an accident'. However, despite it being an accident, the tenant will more than likely still be held accountable.

Fair wear and tear damage (such as stains and marks in high traffic carpet walkway areas, generalised spots on walls, and cracked fittings or fixtures due to age) will often, be considered a normal expense or cost that is the investor's responsibility.

As an investor, it is important to know that the fixtures and fittings within a property have a depreciable lifespan. There are ATO guidelines stating that investors are responsible for the replacement cost of an item every 5-10 years, depending on the asset.



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DAMAGE TO MY PROPERTY WHO IS RESPONSIBLE & WHAT CAN I CLAIM?

The 'grey area' of damage that all parties (the investor, tenant, and property manager) must navigate and negotiate is predominately 'accidental damage.'

For example:

A tenant vacates the property after six years. The property manager carries out a final inspection, and it is noted that:

1. The carpets are stained in several areas, and in particular, the walkway areas are extra-marked.
2. There are general spots on many walls.
3. The toilet seat is cracked.
4. There are holes in most of the flyscreens.
5. There is a burn mark on the kitchen benchtop, and
6. There is a strong smell of pet urine within the property.

WHAT CAN YOU CLAIM... from the tenant's bond?

The answer is... 'It is a grey area' that often comes down to compromise, mediation, or a court decision if a mutual agreement cannot be reached between all parties.

However, there are factors taken into consideration to determine the outcome.

- How long did the tenant reside in the property?
- How many tenants resided in the property? and
- How old were the fixtures and fittings when the tenant moved into the property 'taking into consideration depreciation'?

A real hypothetical consideration of the above matter/s if taken to court:

1. The carpets are stained in several areas, and in particular, the walkway areas are extra-marked - It may be written-off as fair wear and tear due to the term of the agreement, or they may decide that the carpet has a lifespan of 10 years and pro-rata a replacement cost depending on the extent of the damage.
2. There are general spots on many walls - It may be considered fair wear and tear, depending on when the property was last painted.
3. The toilet seat is cracked - It may be considered fair wear and tear once again, depending on the age of the toilet seat.
4. There are holes in most of the flyscreens - as above.
5. There is a burn mark on the kitchen benchtop - This will solely depend on the magistrate or registrar of the court on the day, taking into consideration the above.
6. There is a strong smell of pet urine in the property - This should be considered 100% a tenant cost responsibility to rectify the situation. But once again, will solely depend on a court decision if challenged. If any parties dispute a cost, expense, or decision, the matter will generally end up in court for a magistrate or registrar to determine the outcome, which is always unknown. The moral of this article. It is good to have an educated understanding of anything that you invest in. It is good to fairly and reasonably compromise towards a win/win outcome. It is good to budget to upgrade your rental property fixtures and fittings in accordance with the ATO depreciation guideline schedules.



TALK TO THE PROPERTY EXPERTS

BUYING, SELLING AND PROPERTY MANAGEMENT

**If you are thinking of buying or
selling, feel free to give us a call**

Properties Recently Rented

1 Capel Court, Elanora	\$750
32 Dogwood Drive, Palm Beach	\$750
54 Third Avenue, Palm Beach	\$1,100
22 Spindle Street, Palm Beach	\$800
2/46 27th Avenue, Palm Beach	\$600
5/19 Fifteenth Avenue, Palm Beach	\$550

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