

## Why it pays to protect your investment

Anyone who has owned an investment property knows that some tenants can prove troublesome; and even if you have great tenants, things can sometimes go unexpectedly wrong.

A destructive tenant, or a tenant who leaves your property owing rent, can make an otherwise sound investment turn sour.

There are many horror stories about tenants who have lived rent-free for an extended period before finally being evicted, tenants who trashed a property after being served notice to move out, and lesser examples of malicious damage discovered after the tenants have gone. Often there is little that the property owner can do about it.







The bond paid by the tenant on signing the lease offers some protection, but this safety net will rarely cover the cost of major damage.

Astute property investors are conscious that their property represents a significant investment and as such they need to take a careful approach to insuring their assets.

Like other types of insurance, some home insurance policies cover different risks and offer different benefits to others, so it is imperative that you select a policy that best protects your property against the serious risks of damage and destruction.

The most common type of insurance for property investors is residential property insurance.

The components of a residential property insurance policy should include:

-  Building and / or contents
-  Malicious damage by tenants
-  Domestic workers compensation
-  Loss of rent
-  Strata title mortgagee protection
-  Public liability

### Buildings








General building cover for property investors' residential property insurance should cover the property against accidental damage. However, depending on the individual policy, some accidental damage may not be covered such as:




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-  Settling, shrinkage or any movement of earth
-  Erosion
-  Water entering the building through an opening made for renovations
-  Flood; water overflowing from a river, creek, lake, reservoir, dam or canal
-  Rust, corrosion, gradual deterioration through wear and tear
-  Damage from rats, mice or insects
-  Damage from roots from trees, plants, shrubs and grass

### Contents

Insuring the contents of a building does not normally affect property investors as tenants are responsible for insuring their own possessions. However, property investors should consider taking out a contents policy to cover elements of the

Investment property that they own including carpets, internal blinds or curtains, portable domestic appliances and any furniture and furnishings that are not built-in.

### **Rent**

You should also ensure your residential property insurance policy covers you for loss of rent, due to either the default in payment of rent by the tenant, or the departure of the tenant from the premises without notifying your Property Investment Manager or yourself.

The policy should cover you for loss of rent as a result of accidental damage to the building, rendering it untenable. If your property is damaged by fire and it takes six months to return the building to a tenable state, you won't want to be out of pocket to the tune of six months' rent.

### **Strata Title Mortgagee Protection**

Some insurance policies provide mortgagee protection cover where you have a mortgage on a strata title unit. In the event of damage or loss to the buildings or contents, the insurer may pay the amount you owe on your mortgage, but no more than the sum insured when you are required to pay your mortgage in full following a loss. This will only be the case if the body corporate has not insured the buildings.

### **Public Liability**

Public liability insurance assures you are protected if your tenant or someone else has an accident on your property. Liability insurance will usually cover you for any liability incurred as a result of being the property owner.

### **Domestic Workers Compensation**

If you plan to renovate or carry out repair work on your property, it is advisable to be covered for domestic workers compensation. If you employ someone to work for you and they slip over on your property and break their leg, you may be liable if you do not have domestic workers compensation coverage.

### **Ensure Cover Reflects Replacement Cost**

Always ensure your property insurance coverage is adequate, current, and accurately reflects the replacement cost of your property in the current market.

In a society that is becoming increasingly litigation conscious, it is crucial you have adequate liability insurance cover in place to avoid being sued.

Investing in property is one of the biggest financial decisions you will make. Ensure you protect and maintain this most valuable asset with adequate and appropriate insurance cover.

## **A case for the tribunal..**

*The following is a summary of a legal judgement arising from a tenancy dispute. It is important to remember that this is a summary and for a full account, the entire judgement should be read. We do not recommend you rely on this summary in any decision making about your investment property.*

This case involved tenants who chose to move into a property on the agent's assurance that the Council would remove the big pile of rubbish on the front porch within a week.

When the rubbish was not removed after the first week, the tenants made several telephone calls to the agent requesting he do something to remove the rubbish. Two and a half weeks after having moved in, the tenants were woken by a fire which started in the pile of rubbish.

The agency claimed they had taken all reasonable steps to arrange for the removal of the rubbish by Council and had made several calls to them. They also claimed that the tenants should have had their own property insured.

The Tribunal found the landlord was in breach of Section 25(1)(a) of the Residential Tenancies Act 1987 which states that:

(1) It is a term of every residential tenancy agreement that:

- a) the landlord shall provide the residential premises in a reasonable state of cleanliness and fit for habitation by the tenant.

As a consequence of this breach, the tenants suffered a loss. The Tribunal ordered the amount of compensation sought by the tenants.