

How to deal with non-paying tenants

The number of non-paying tenants would shock any potential investor from considering owning and managing a rental property, says Louw Liebenberg, CEO of PayProp, a processor of residential letting transactions.



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“In a recent review of the claims history of our DepositGuarantee product, we found that 13% of tenants who move out of a property do not pay their last month’s rent. Combined with other industry statistics which show that on a month-to-month basis nearly 6% of tenants do not pay their rent in the month that it is due, the problem is larger than some landlords would like to admit.”

Liebenberg has five tips to deal with non-paying tenants:

1. Use an estate agent

The reality is that estate agents have access to tools that the average private landlord will not readily find. Firstly, they have far more sophisticated tenant assessment tools, more thoroughly prepared leases, legal resources and, most importantly, time to deal with these issues. Secondly, they have seen ‘every trick in the book’ and are therefore usually immune to some of the strategies used by tenants to delay payment.

2. Sign a mandate

If you use an agency, ensure that you sign a written mandate with them. The mandate details what the obligations of the agency are towards you and the tenant. Most importantly, it should also outline the limits of the authority you grant to the agent in dealing with a non-paying tenant. For example, has the agent clearly outlined the process that they follow in the case of non-payment? At what point can the agent start incurring legal costs that you as a landlord will be liable for?

If you do not clarify these upfront, it may cause massive confusion and delays in dealing with a delinquent tenant.

3. Insist on a proper credit check

Insist on seeing the detailed credit check performed by the agency. Don’t just look at credit scores, but try to also understand the tenant’s debt position relative to their income and the rental you are asking. PayProp has found that the

average tenant has monthly debt commitments that are 1.3 times that of the rental being negotiated. Therefore, just looking at what someone is earning (or driving or wearing) and thinking that they earn enough to afford the rental, is misleading. In fact, the recent PayProp Rental Index found that the percentage of high and very high risk tenants increases for tenants requesting rentals that are above R15,000.

4. Inspections, leases and deposits

Never allow a tenant into a property without having a signed lease, received proof of payment of the deposit and a signed incoming inspection. Once a tenant is in a property on the promise of paying a deposit at a future date, you have no guarantee that you will ever get the deposit – leaving you as the landlord at immense risk should non-payment or damage occur. Also, if no incoming inspection exists, you have no grounds to claim damages when the tenant moves out.

Not having these in place severely limits the recourse available to you in the case of non-payment.

5. Deal with non-payment quickly and harshly

A relaxed attitude to late payment often gives the tenant the impression that performing on the lease agreement is optional. Our advice is to start by reminding a tenant that payment is due a few days ahead of the agreed date. If payment is not received on the agreed day (i.e. the first of the month), immediately let the tenant know that you have not received the funds. If you have not received the money after that, (i.e. the second or third) immediately proceed with a legal Letter of Demand.

The Letter of Demand is crucial in two ways. On the one hand it lets the tenant know that you as the landlord are serious about their non-payment. PayProp has recently launched an integrated Letter of Demand offering with Koegelenberg Attorneys. In the first 90 days almost 2,000 letters have been sent to non-paying tenants. More importantly, 74% of those tenants paid their arrears within 20 business days of having received the letter.

On the other, it creates the opportunity for the landlord to legally terminate the lease, and start the process of eviction. When it gets to this point, it is crucial that you involve a lawyer to ensure that you have the best possible chance of a successful eviction.