

3 ways to spot a bad tenant

 By Johette Smuts

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In today's economic climate, wasting time, energy and money on a tenant that will default on payments or stop paying completely is just not an option.



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And yet, in Q1 2019, almost 40% of tenancy applications were classified as either 'high risk' or 'very high risk', according to the PayProp Rental Index, a quarterly statistical analysis of the South African residential rental sector.

This just shows again how important it is to properly assess tenants through credit checks and other means before placing them in a property you either own or manage.

Here are three ways to spot a bad tenant to help rental agencies place better tenants:

1. Not all debt is created equal

It's important to distinguish between good and bad debt on credit checks. Tenants can have two types of accounts – CPA (Credit Provider Association) accounts and NLR (National Loan Register) accounts. CPA accounts include insurance, mobile phone contracts, retail stores and vehicle finance. These are the type of accounts that you can reasonably expect someone to have, and can be viewed as 'good debt'.

NLR accounts are the ones you don't want to see on a credit check. These include short-term loans from micro-lenders, usually with very high interest rates, and can be seen as 'bad debt'. Higher risk tenants usually have fewer 'good debt' accounts and more 'bad debt' accounts than less risky tenants.

2. Interrogate credit enquiries

When potential tenants apply for credit, it could be a sign that they aren't able to get by on their earnings. If they are applying for credit often, it is an indication that either the credit they received initially wasn't sufficient, or that the credit wasn't granted, leading the applicant to re-apply somewhere else. As with anything, there are exceptions – a tenant could

simply be shopping around for the best interest rate for vehicle finance, for example. Overall, there is usually a correlation between riskiness of a tenant and the number of credit enquiries done through various institutions.

3. Unreliable payment behaviour

Most accounts have to be paid monthly, usually by a set date. Failure to make timeous payments will negatively affect a credit score and should be a red flag to anyone placing a tenant.

Other factors

Sometimes multiple cellphone numbers or even addresses can be indicative of poor creditworthiness, as it could indicate that an applicant is trying to avoid debt collectors.

In the current economic climate, property owners and agents need to see risk management as their number one priority concerning placements. Don't compromise on tenant placement, recheck before you renew, and diligently chase arrears.

ABOUT JOHETTE SMUTS

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