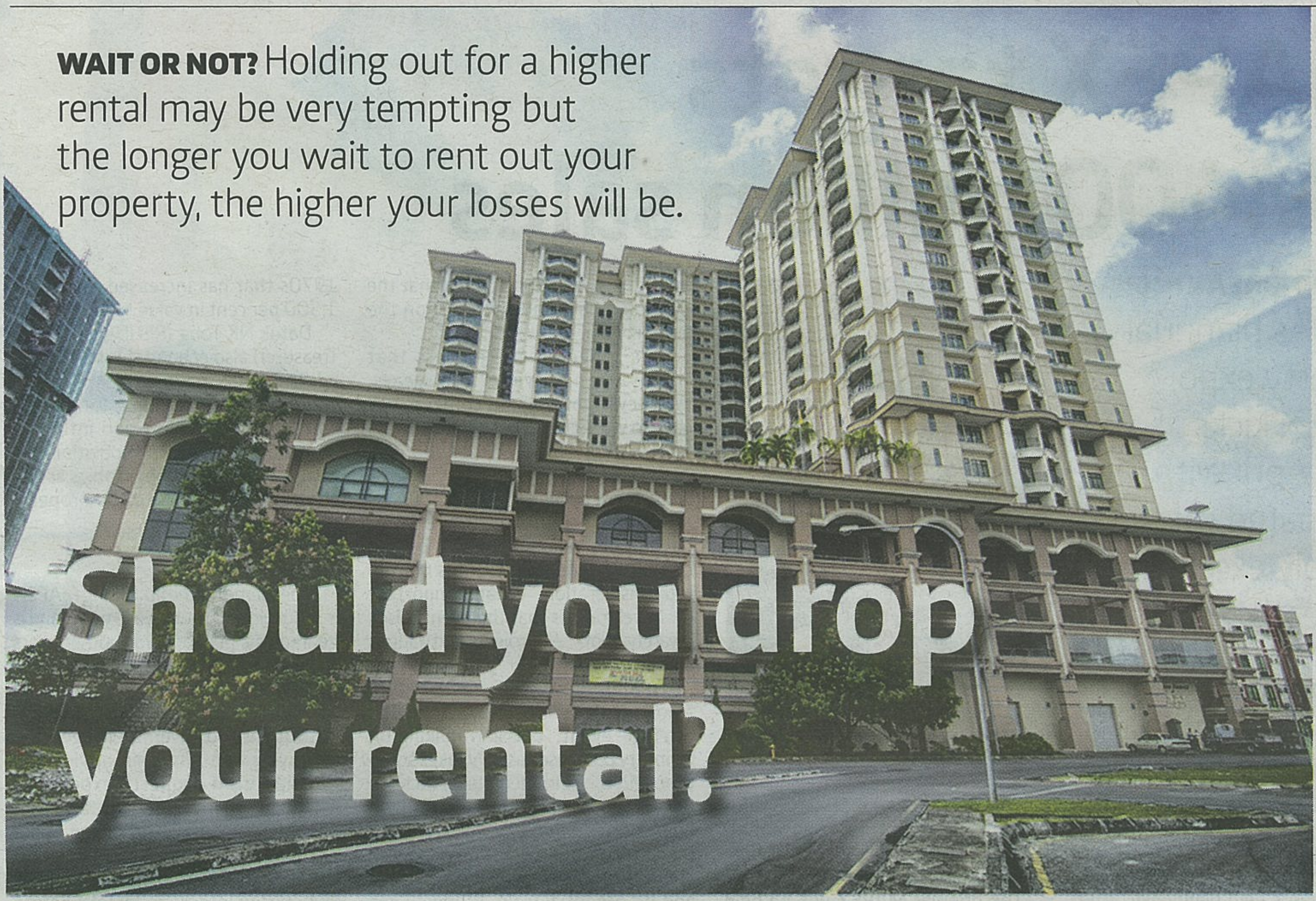
WAIT OR NOT? Holding out for a higher rental may be very tempting but the longer you wait to rent out your property, the higher your losses will be.



Should you drop your rental?

Most property owners are rarely ever happy to reduce their rental price, and rightly so. Property owners renting out their properties are investors and it is natural that they seek the maximum returns for their investment.

However, it may not be in your best interest to wait for your ideal price as I will explain in this post.

Making rental gains is a tricky business. It is not very easy to make net rental gains in the first or second year of your investment. Logically speaking, if your monthly rental is equivalent to the monthly mortgage payment, a tenant might as well purchase a similar property instead of helping you pay your instalments. In such a scenario, it may be difficult to find a tenant.

But that is a discussion for another day.

Now, let's assume you did your homework and made a good investment in a condominium. You now want to rent it out. What should your price be?

Md Ikhram *is a serial entrepreneur with a passion for marketing and writing. An avid observer of the Malaysian property market, he writes about it at his blog, http://www.livingspace.com.my/blog*

The time factor

The law of economics says that prices eventually reach an equilibrium based on demand and supply. Hence, in a matured area (a development that has been around for some time), it's just a matter of going online and searching for similar properties in your area for rent. You'll quickly be able to determine the general going rate from there.

In a new development, this may not be so easy. In this case, you may have to start from somewhere near your monthly mortgage payment.

Then comes the all important question posed in the title of this article – what if your real estate agent brings you a serious tenant but the tenant wants to negotiate the rental amount? In simple cases, it is very easy to decide; if the price is unreasonably low (way below the market average), you can decline the offer without batting an eyelid.

But life is not always black and white, is it? How do you deal with the grey areas? We know of property owners who will not move an inch from their asking price, which are premium price points.

It certainly makes sense to aim for a premium rental price but many owners forget the time factor. You see, every month that your property is not rented out is costing you. In economics, it's called opportunity cost.

It's easy to see this when you have a mortgage to pay. However, even if your property is fully paid for, you are losing money when your property is not rented out. This opportunity cost can quickly snowball into a huge loss.

Case study – Mont' Kiara condo

Let's play out a scenario. Ms Eva wants to rent out her 1,100-sq ft condominium in Mont' Kiara. She's done some nice renovations to the place and furnishes it beautifully. Eva is pretty sure she can fetch a premium rental price for her unit.

She speaks to her real estate agent and does some homework of her own. She finds that the average going rate is RM3,250 per month and decides that her unit can fetch RM3,500 per month.

Within two weeks, Eva gets an interested tenant, Kamil. Kamil offers her RM3,200 which is slightly below the market average. Should she take up his offer?

If she believes that she can get a better offer in three weeks, she can hold out. But after five weeks, Eva will be losing money. **See Chart 1.**

The chart below displays the different rental offers Eva may get and how long she can afford to hold off that offer before beginning to lose money. Here's a summary of the chart:

If she is offered RM3,400, she cannot afford to hold off the offer for more than a week;

If she is offered RM3,300, she cannot afford to hold off the offer for more than three weeks;

If she is offered RM3,200, she cannot afford to hold off the offer for more than one month; and

If she is offered RM3,100, she cannot afford to hold off the offer for more than 1.5 months.

In all the scenarios above, you will see that beyond a certain holding period, losses begin to mount.

The chart below proves that time is a very important consideration although it is often forgotten. It is definitely not the case that an owner will make more money if she holds out for the best offer.

In fact, by holding out longer, you are in actual fact not getting your desired rental amount.

Rather, there is a fine balancing act between price and time. This is something that you must consider when renting out your property.

The Math

For the more inquisitive, here's how I calculated the opportunity cost for the chart below:

Loss or Gain = $R(T-L) - r^{*} T$, where

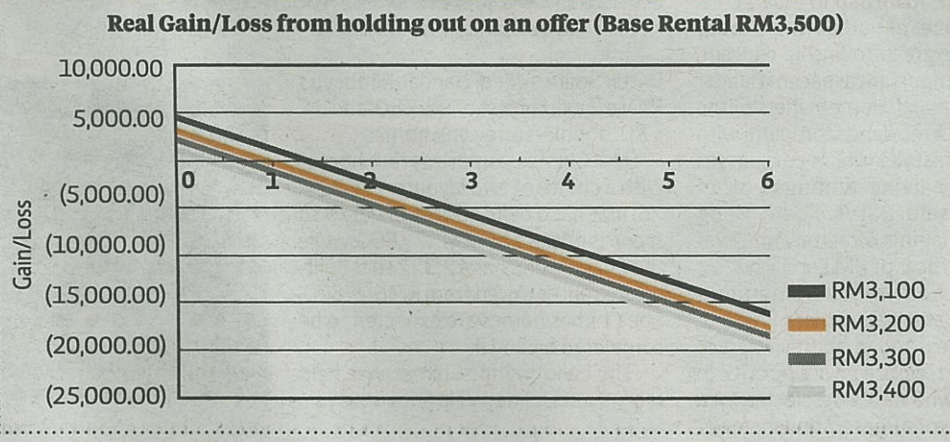
R = Desired rental price

r = Rental price offered by potential tenant

T = Tenancy period

L = Months foregone without rental if the offered price is not accepted

Chart 1



PROPERTY Q&A

Find answers to your questions

Q/A 1

Sunny Foo@ Penang: I would like to know whether it is legal for the bank to charge borrowers RM50 for issuing a Redemption Statement and RM100 for subsequent statements? I have called up the bank concerned to enquire and was told that it is common practice among all banks to charge for issuing such Redemption Statements.

According to my interpretation of the Competition Act 2010, "Unfair Practices" or unfair conditions as stipulated in the Sale and Purchase Agreement where a borrower cannot disagree, can be challenged. So, can we challenge the bank for imposing an early redemption "Exit Penalty" for a housing loan as I believe this practice falls within the ambit of "Unfair Practices" under the Competition Act?

RED: The charges imposed by banks for issuing redemption statements are a contractual term between the bank and the customer. If you are not happy with the charges imposed, you can write to Bank Negara Malaysia (BNM) for clarification and assistance.

The effect and ambit of the Competition Act 2010 has yet to be tested in the Malaysian courts and cases from other jurisdictions are merely a guide only and may not be binding on the Malaysian courts. A borrower who is unhappy with any term imposed by a bank should not accept the bank facility. If a borrower has any question on certain bank practices which needs clarification, he may direct the query to BNM which is the supervising authority. ***By Tan Kim Soon (tkimsoon@gmail.com)***

Q/A 2

Robert J@Klang: I am a partner in a small construction firm. My partner and I are guarantors to a shop loan given to my partner's relative. My partner is the one paying the instalments while I act more like a sleeping partner. Recently, my partner and I have fallen out and I wish to pull out from being a guarantor to the loan. How do I proceed?

RED: The main function of a guarantor is to guarantee the main borrower's loan. In the event of a default, the bank will go after the guarantor if the main borrower is unable to service the loan. You cannot discharge yourself as a guarantor as you are a party to the loan. The bank will not allow this to happen. The only way out is to either refinance from another bank (not easy as your partner has defaulted on the loan) or to sell the property. If the bank were to sue you as guarantor, you will also be affected and blacklisted as well. ***By Michael Yeoh, financing consultant***

Ask the RED expert: Please fax your questions to: 03-2283 1700 or email to nstred@nstp.com.my