

WHAT IS A RENTAL GUARANTEE?

As more Queenslanders delve into off-the-plan apartment purchases, a common question is around the jargon that can be used. What is a rental guarantee and how does it work, is a question that crops up.

A rental guarantee is usually provided by a developer, usually serviced apartments, a guaranteed rental return over a period of time. It means the investor gets a certain level of return so they're not subject to the market fluctuations.

They offer rental guarantees to help investors with certainty.

Nothing is for free, any developer offering rental return has factored that into the sale price.

What we often see is the rental guarantee is not necessarily reflective of the market. When it comes to getting a loan the lender will only take into account revenue that the market would freely achieve, not the return provided by the developer in the guarantee period.

Those returns often don't match the market rents and so investors are lulled into a false sense of security thinking they'll get a certain level of rent for their investment period but once the guarantee runs out the achievable rent is much lower.

Offering a guarantee is struggling to sell it.

Nothing is for free.

What is the fair value for that apartment and what is the rental market doing in that area? This will help you assess whether the rental guarantee is really adding value.

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