

APPROACHING RENTAL PROBLEMS

Keeping Your Properties Steady
When Things Go South



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OVERVIEW

We've all been there; all of our properties are in order when suddenly an act of God strikes. It could be a fire, flooding, or a death. Worse still, God might not be involved at all; it could just be a bad tenant. Regardless of the source, dealing with problems at your rental properties can be a real pain in the neck. What's the solution to avoid these problems and the possible financial consequences?

The answer is SYSTEMS. This business, like ALL other businesses, is all about systems. You have to buy, create, and otherwise implement and follow profitable, efficient and affordable systems. You must master all of these systems, or as you grow, hire others who are masters of these systems. And these systems must be integrated with each other so there is no duplication of effort, and more importantly, they must work seamlessly together.

The beautiful thing about a good system of systems is that it allows you to grow your portfolio with as much profit and as little pain as possible. Keep in mind that a system that works well for a hundred or fewer rental units may not work well for a portfolio of a thousand or more units. So whenever you install a new system, make sure you are taking care of today's needs as well as having one eye on tomorrow.

You should have a system in place for each step of the rental process, operating from top to bottom to protect every aspect of your business. In this eBook, we'll cover how to systematize two important parts of the rental business: the buying process and the lease.





THE BUYING PROCESS

Adding a system with rules and guidelines to the buying process is a vital step to ensuring the profitability and safety of your investments. There are a lot of things to take into account here. I've broken down some of the major ones below.

AREA

There are tons of different possible areas to buy real estate, whether they be residential, commercial, industrial, retail, or agricultural. In residential real estate, it further breaks down into owner-occupied and rental real estate. Rentals can be split up into single-family and multi-family homes. You need to decide what's best for you in this case.

To scope out neighborhoods, I recommend driving through them to determine whether you're interested in buying property in that neighborhood. In my experience, moderate-income and middle-class housing is the way to go. This kind of housing tends to have more financially stable tenants with less to worry about, so they can focus more on maintaining the properties they rent from you. The risk with low-income housing tends to be a bit too high for me, while the return on investment (ROI) for high-income housing is often too low.



MARKETING AND ADVERTISING

Once you've acquired properties, it's time to attract interested tenants. Marketing and advertising are different, but the goal of both is to deliver the message that you have great properties for sale. There a number of great methods for doing this. Here are my recommendations:

- **Tenant referral programs:** As a reward to your good tenants, offer them something like \$50 for each good referral they send your way. Good tenants only. They will likely keep a good, responsible company, and that's who you want to rent your properties.
- **Colleges:** College kids need places to live, and you can provide that for them. Use their online or physical bulletin board to post your vacancies. College renting is a different ballgame, however. Be sure to have strict rules, cosigners, and individual leases for each student. Trust me.
- **Social media:** One of the best places to get the word out. Just be careful not to spam your audience, or nobody will want to follow you.
- **Craigslist:** This site has a wide audience and a how-to to help you get started. What's not to like?
- **Churches, restaurants, grocery stores, local publications:** All great options. Be sure to consult with them regarding their rules and regulations before posting. I've had great success with many of these.

Be sure to keep up with what properties (type and size) are in demand in your area. That's the marketing side of things, and it requires that you stay up-to-date on the marketplace and what people are looking to buy.



SCREENING

Screening is the process of selecting the right tenants for your properties in order to make money. This money will come in the form of Net Operating Income (NOI) and is easy to achieve provided you have the right properties in the right area occupied by the right people. Finding the properties and area is often pretty straightforward; finding the right people is a different story. When you get a call in response to one of your ads, be sure to ask the right questions, such as how many rooms they need or what draws them to the property. This can ensure the tenant is a good fit.

Bad tenants are worse than vacant units. They can leave behind filth and damage that will cost you a lot more money than if you'd kept the property empty. A good screening process is the ideal counter to this possibility. The national tenant network, or NTN, is a good starter tool for this. It will tell you which tenants have been evicted in the past and their history with payments to other people.

Another helpful step is to ask for references from previous landlords as well as proof of income and residency. Previous landlords should be able to vouch for the tenant's ability to pay on time and their treatment of the property. Proof of income will ensure that your tenant has a job and will be able to continue making payments once they sign the lease.

Now's the time to start showing your rentals. NEVER rent to someone right after they see the house. Do your due diligence and check their references, financial history, and the like before renting. Avoid Section 8 tenants if possible; it's a broken program that benefits nobody. Leave that to charitable organizations, and find ways to help them out if you can.



THE LEASE

Having a lease that's legally airtight is of paramount importance. NEVER use free online leases. Don't even use a lease from the Department of Housing and Urban Development. Use a lease from your state's Association of Realtors, and you will have very little risk of legal trouble.

Be sure to consult a lawyer if you want to add addendums to your lease that benefit you. These addendums can be about anything from waterbeds to firearms to overnight guests. Do your research and decide what addendums might be right for your property.

There are other major considerations to have in line when assembling and reading over your lease. I've outlined several of them here:

- **Security Deposits:** Always get as much as you can and as much as is legal. This can be your financial safety net if you have a bad tenant. Shoot for at least one month's rent. The first and last months' rents are also possible, as is a "cleaning deposit". Be sure to walk-through and mark important items on a walk-through form with your tenant. Make sure they sign it. If you withhold the tenant's deposit, you better have a good reason why, or you could face serious fines.
- **Pets:** It's your call whether you want to allow pets. I personally do, but I charge a fee based on the type of pet so I can make more money. The people willing to pay these fees are generally good pet owners, so the risk is pretty low. I say it's worth it, but it's up to you.
- **Smoking:** Smoking can damage your property by yellowing the walls, leaving ashes and burns, and making the place stink. This one is also up to you. If you're going to allow smokers, set some guidelines, such as where they can smoke. If you want, charge additional fees or raise the rent for smoking properties.
- **Protected classes:** Discrimination is illegal. Consult local laws and the Civil Rights Act of 1964 to ensure you aren't violating this very significant law. Along with the obvious ones (race, sex, class, etc.), you can't discriminate against people with service animals. Persons with disabilities are a bit more complicated. Be sure to consult the ADA for guidelines on this.
- **Maintenance and repairs:** Be sure tenants know that they will be responsible for paying for any damage they do to the property. However, they should also know that you are going to be the one fixing it, whether by doing it yourself or calling an expert. You decide whether it's worth fixing yourself or calling someone else.



THE LEASE

In addition to your systems for finding tenants and leasing your properties, make sure you have your other systems in order. This includes updating and remodeling your properties to keep up with current standards. These are called capital improvements, and they help keep your property desirable in an ever-changing market. Talk to your accountant about how to offset costs and strategize your capital improvements.

Keep your books in order. You can either hire a bookkeeper or have someone install Quickbooks or a similar software for you. This is CRUCIAL to tracking your progress and seeing your profit and portfolio grow. Do not skimp on this.

There are a plethora of things to think about when renting out properties, and the list above is far from exhaustive. I hope I've at least gotten you a good start in the rental business and that you'll take this advice to heart going forward. Godspeed!