

How smart landlords handle rentals

Take these tips from experts on managing your rental property. For example, don't skimp or take shortcuts when screening for tenants.

By [Bankrate.com](#)

Owning rental property seems like an easy way to generate extra income. But it's actually not all that easy.

Nevertheless, the number of people buying second or third properties as investments has grown tremendously, according to the National Association of Realtors. In fact, the group's recent survey found that 36% of home sales in 2006 were second homes and 35% of current investment-property owners plan to buy another property in the next two years. Since 46% of those questioned by NAR said they bought the investment property for the rental income, it behooves landlords to be scrupulous in searching for good tenants.

Landlords who take shortcuts when screening potential tenants, who skimp on insuring the property or who fail to outline everything in a detailed, written lease can end up with unpleasant and, yes, costly surprises. But there is one shortcut neophyte landlords can take: They can listen to the pros so they won't have to learn lessons the hard, expensive way.

Do your own due diligence: A case study

Take, for instance, the tenant who so looked good on paper, with his attractive credit report and handsome deposit check. Too bad the paper he looked good on was bogus.

Apparently, this seemingly perfect tenant doctored his credit report, giving himself a stellar rating. Then the guy bounced his hefty \$4,000 deposit check. Pasadena, Calif., landlord Payman Emamian blames his real-estate partner for renting to this con man. Not only were they out money, but the lying tenant damaged the investors' two luxury Hollywood town houses. (The guy claimed he'd work in one and live in the other.)

After three months, Emamian successfully evicted the man, but not before he ran up a \$20,000 tab for back rent, legal fees and repairs.

Emamian's advice to landlords: "Never accept a credit report that a tenant brings you."

Emamian, who bought his first rental property -- a four-unit building -- in 1998, says he's learned to double-check everything. To help landlords dig into backgrounds, companies such as the National Association of Independent Landlords, of Houston, provide credit reports and scores for \$15.95 each. Landlords must first get the applicant's permission, signature and Social Security number, plus they must provide their own proof of real-state ownership, photo identification and credit-card number for payment. NAAIL also provides a host of other background checks, including a nationwide criminal search for \$12.95 and a national eviction search for \$5.95. Many landlords charge prospective tenants an application fee to cover the costs of screening.

Emamian doesn't stop at second-guessing tenants. He applies the same level of scrutiny to information provided by sellers when he's scouting a potential rental property. "Never listen to sellers as to what the expenses are," Emamian says. "You research."

Most buyers know they need to foot the bill for taxes, insurance and some maintenance, but many don't factor in utilities, landscaping, private trash collection or the loss of income when the unit is vacant.

Check references

As for screening tenants, Emamian always asks for two landlord references. The past, not the current, landlord is the most important reference because the present landlord may fudge the truth to get rid of a terrible tenant. Also, the landlord can either pay an outfit like NAIL to question present and previous landlords and employers or do it himself. Emamian also asks for a copy of a bank statement.

"I want to make sure they have assets -- how is that check going to clear?" says Emamian.

Jim McDavid has survived 40 years as an owner, manager and seller of rental property by doing very thorough due diligence, and basically by doubting everything prospective tenants tell him. In fact, McDavid says he gets a police report on applicants and asks for photo identification as an extra precaution. Although procedures vary from state to state, McDavid says in Virginia he simply walked into the sheriff's department and paid a small fee for the criminal background check.

"I've owned just about everything in the book," McDavid says. "I owned condos in Florida and houses in Charlotte (N.C.)." McDavid, a licensed real-estate broker in his home state of South Carolina, as well as in North Carolina and Virginia, says, "Everything changed on 9/11, even in real estate."

Buy adequate insurance

Protecting yourself goes beyond combing through a tenant's background. McDavid says that too often landlords skimp on a very important item: insurance.

"Tenants create all possible situations you can imagine," he says. McDavid tells of a young woman who rented from a client. The woman's boyfriend slipped her two illegal drugs -- Ecstasy and methamphetamine. Her family is suing the boyfriend, the lender on the property and the owner of the town house.

"Protect yourself against the impossible," McDavid says of insuring rental property. "You need as much (coverage) as you have on your automobile driving around." Also, most experts recommend requiring tenants to have renters insurance. The owner's coverage repairs and replaces only the actual structure and many times the appliances, but not the tenant's belongings.

Another form of protection is proof of a property's condition. McDavid suggests having a written, signed document with photos of the property when the tenant moves in.

"Establish a baseline," he says.

Just say 'no' to form leases

And what about those leases for sale at office supply stores? They're useless because each state has different landlord and tenant laws. McDavid suggests getting a standard lease for your state from a real-estate office or association.

Warren Wheeler, a real-estate attorney in Atlanta, agrees.

If you buy a lease-in-a-box, Wheeler says, "for a good bit of time that works -- until there's a problem." Those generic form leases also don't take into account concerns for different types of dwellings. A high-rise luxury condo will have different stipulations than half of a duplex or a converted row house or a single-family home on an acre of land or a unit above a bakery. Get an attorney to help add provisions particular to your property, Wheeler suggests.

Also, set up house rules, put them in writing and enforce them uniformly. If one tenant thinks another tenant gets special treatment, it could be considered discriminatory.

"You can't discriminate racially," Wheeler warns. "There's a federal law against that."

Heed environmental matters

With environmental concerns taking center stage nationwide, landlords, too, have to take heed. They must watch out for lead paint, asbestos, mold and overall indoor-air quality, says Robert Gallo, certified indoor-air quality manager who is director of sales and marketing at RTK Environmental Group in Stamford, Conn. "If the structure was made before 1979, chances are it will have lead paint in it even if it has been painted over," he says.

First, Gallo says landlords need to give tenants the U.S. Environmental Protection Agency booklet "Protect Your Family from Lead in Your Home." Then Gallo recommends having the property inspected by a licensed lead-testing company. "Most people are poisoned not from eating paint chips, but from the dust," he says.

Gallo says the do-it-yourself lead-testing kits examine only the surface, but can't determine if there's lead underneath. His company uses X-ray fluorescence to scan every painted or sealed surface. He charges at least \$425 for up to a 3,000-square-foot home, which includes a diagrammed report and advice on the cheapest and safest way to correct the problem. To protect against mold, Gallo says clean up all water immediately.

Consider hiring a property manager

Lisa Vander, founder of Pacific Blue Investments in Solana Beach, Calif., actually tells her clients not to deal with all of these details. Instead, she urges her clientele to farm out that work to a professional property manager.

"If you're retired, that can be your job," says Vander, who considers herself a real-estate wealth developer. "If you already have a job, do not take on managing your own property."

A better option, in her opinion, is to have a property manager handle the day-to-day dealings. To do this dirty work, property managers typically charge a percentage of the rent, with many charging as low as 4% for very large complexes and up to 10% for single-family homes. The property owner, Vander says, should "learn to manage the equity in the property and buy other property, while managing the manager."

The owner's concerns should be finding out how to increase the rent by improving the property while decreasing expenses. "The owner should be doing the thinking work and not the physical work," she says.

Other matters to consider

Vander also tells her clients not to go it alone. "Get involved in an apartment association," she says. That way, property owners have others to turn to for advice, forms and referrals. She recommends establishing separate bank accounts for each property so that the finances of each investment can be analyzed separately. It's also important for keeping tax records straight.

Finally, each expert recommends demanding an adequate security deposit from tenants, a form of protection if all the above fails. And to avoid the headache that Emamian experienced, insist on getting the deposit before the tenant moves in -- and in certified funds: cashier's check, certified check, money order or, of course, cash.

By Otesa Middleton Miles, Bankrate.com