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2nd Edition

Property Management Kit

FOR DUMMIES®

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Robert S. Griswold, MBA

Co-author, Real Estate Investing For Dummies

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2ND EDITION

by Robert Griswold

Host of radio's *Real Estate Today! With Robert Griswold*

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About the Author

Robert S. Griswold is the coauthor of *Real Estate Investing For Dummies* with Eric Tyson. He has earned a bachelor's degree and two master's degrees in real estate and related fields from the University of Southern California's Marshall School of Business. His professional real estate management and investing credentials include the CRE (Counselor of Real Estate), the CPM (Certified Property Manager), the ARM (Accredited Residential Manager), the CCIM (Certified Commercial Investment Member), PCAM (Professional Community Association Manager), and the GRI (Graduate, Realtor Institute).

Robert is a hands-on property manager with more than 30 years of practical experience, having managed more than 800 properties representing more than 45,000 rental units. He owns and runs Griswold Real Estate Management, Inc., a property management firm with offices in southern California and southern Nevada.

Since 1995, Robert has been the Real Estate Expert for NBC San Diego, a network-owned and number-one-rated station. Every Saturday, he provides impromptu answers to viewers' real estate questions live on the air during *NBC News this Weekend.*

Once a week for 14 years, Robert hosted a live, call-in real estate news and information talk show called *Real Estate Today! with Robert Griswold,* heard throughout southern California on Clear Channel's AM 600 KOGO radio and around the world on the show's Web site at `www.retodayradio.com`. He has been twice named the #1 Radio or Television Real Estate Journalist in the Country by the National Association of Real Estate Editors in their Annual National Journalism competition. The first award was for *Real Estate Today! with Robert Griswold,* and the second was for his work for NBC News.

Robert is the lead columnist for the syndicated *Rental Roundtable* landlord-tenant Q & A column at `www.rentalroundtable.com`, which is also featured in the *San Diego Union-Tribune* and the *San Francisco Chronicle.* He also writes a nationally syndicated column, *Rental Forum,* at `www.inman.com`.

He's a nationally recognized real estate litigation expert, having been retained on more than 1,000 real estate legal matters — as well as serving more than 150 times as a court-appointed receiver, referee, or bankruptcy custodian.

Robert is a member of the National Faculty of IREM and a National Apartment Association (NAA) and California Department of Real Estate Certified Instructor. He's a licensed California and Nevada real estate Broker, a Realtor, and an active member of NAA and his local apartment association, the San Diego County Apartment Association. Since 2005, he has served as a Planning Commissioner in the City of San Diego.

In his spare time (?!), he enjoys travel (especially cruising!), watching his children excel in soccer, and participating in family activities with his wife, Carol, and their four teenagers, Sheri, Stephen, Kimberly, and Michael. Above all, he tries to retain his sense of humor and truly enjoy what he's doing!

Dedication

I dedicate this book to my father, Westcott Griswold, who's greatly admired by all who know him. I also want to thank my best friend and wife, Carol, for her 25+ years of love, support, patience, and persistence in attempting to bring the proper balance to my life. Of course, life's always exciting and has real meaning thanks to my four great teenagers — Sheri, Stephen, Kimberly, and Michael. I also want to express my appreciation to my mom, Carol, for her unconditional love and infinite encouragement. Most of all, I want to praise and thank God for the wonderful gifts and incredible opportunities He has given me.

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My Project Editor, Chad Sievers, made the rewrite fairly painless with some great suggestions, which have led to a phenomenal resource book for rental owners and property managers. My thanks also go to Copy Editor Jennifer Tucci for a masterful job. I'd also like to thank technical editor, Joe DeCarlo, who helped make sure that the information was accurate and that my advice hit the mark.

My interest in real estate can be traced back to my father and mentor, attorney Westcott Griswold, who advised me to excel in real estate, not law; and my friend and first real estate professor at USC, Dr. Rocky Tarantello. Thank you!

I was blessed to formally begin my real estate management career working with two of the most savvy, knowledgeable, and ethical men in real estate — thank you, Rod Stone and George Fermanian, for starting me on the right track. In my property management days, I've met many fine people, and two of the best are my friends property manager Wade Walker and attorney Steve Kellman. I also want to thank attorney Kathy Belville-Ilaqua for her review and sage advice on fair housing materials covered in the new edition.

I'll always be thankful to Carl Larsen, Homes Editor of the *San Diego Union-Tribune,* who started me in my writing career when he gave me a shot with the first *Rental Roundtable* column while his lovely wife, Sharon Larsen, assisted in creating my original book proposal.

My heartfelt appreciation also goes to the late syndicated columnist and newsletter author Bob Bruss, who offered encouragement and invaluable advice for my first two books and who reinforced the importance of sharing my personal experiences to illustrate my points.

Finally, I'd like to thank all of my NBC news viewers, *Rental Roundtable* and *Rental Forum* readers, and radio listeners who've educated me with their interesting and thought-provoking questions on literally every aspect of real estate management.

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Contents at a Glance

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Introduction

Welcome to *Property Management Kit For Dummies,* 2nd Edition. You can discover many of life's lessons by doing some on-the-job trial and error. But property management shouldn't be one of them — the mistakes are too costly and the legal ramifications too severe. This book gives you proven strategies to make rental property ownership and management both profitable and pleasant.

About This Book

Many landlord-tenant relationships are strained, but they don't have to be that way. A rental property owner who knows how to properly manage his rental property and responds promptly to the legitimate concerns of his tenants will be rewarded with good people who stick around. The key is properly maintaining your rental property and constantly investing in upgrades and improvements. By doing this, you can be successful in meeting your long-term financial goals and realize that being a landlord is an excellent primary or secondary source of income.

This book is based on hands-on experience and lessons from my own real-life examples. I have an entirely different view from other property managers that your tenants are your customers, not your enemies, and as such, they should be treated with respect. Not everyone is cut out to be a property manager, and I want to make sure you understand not only the basics of the rental housing business but also some of the tricks that can make you glad you're a real estate investor.

Although this book is overflowing with useful advice and information, it's presented in a light, easy-to-access format. It explains how to wear many hats in the property management business: advertiser/promoter (in seeking tenants), host (in showing the property), handyman (in keeping up with and arranging for repairs), bookkeeper (in maintaining records), and even counselor (in dealing with tenants and their problems). Just as important, this book helps you maintain your sense of humor — and your sanity — as you deal with these challenges and more.

I wrote this book in essentially chronological order — from your first entry into the world of rental property ownership and your corresponding steps to prepare and promote your property to showing your rental and selecting the right tenants. As a result, reading the book cover to cover makes sense, but feel free to read the sections that are most relevant to you at any given time. Skip around and read about those areas that are giving you problems, and I'm confident that you'll find some new solutions to try.

To make your life easier, I've included many of the forms you need to be successful in managing your rental — whether you're just starting out with a single-family rental home or condo, you have a handful of rental units, or you possess a whole portfolio of rental properties. These forms are all on the included CD-ROM, so you can just print them right out, have your local legal counsel review them, and start putting them to use.

Conventions Used in This Book

To help you navigate this book, I use the following conventions:

- *Italics* highlight new, somewhat technical terms, such as *estoppel agreement,* and emphasize words when I'm making a point.
- **Boldface** text indicates key words in bulleted and numbered lists.
- `Monofont` highlights Web sites and e-mail addresses.

What You're Not to Read

I'd certainly love for you to read every single word I've written in this book, but I understand that you're a busy person. Face it: Managing rental property takes time, so you want to read just the essential info to help you find success. In that case, feel free to skip the following:

- **The sidebars:** These gray-shaded boxes are full of fun bits or humorous stories that are quite interesting (if I do say so myself), but not essential for you to understand just what you need to know.
- **Text with True Story icons:** These passages contain some of my real-life experiences to help keep you from making my mistakes.

Foolish Assumptions

In this book, I'm making some general assumptions about who you are:

- You're an unintentional property owner — someone who, through a series of circumstances, suddenly and unexpectedly came upon an opportunity to own property. Perhaps you inherited a house from a relative and, not wanting it to sit idle, you decided to rent it out. Or maybe you transferred to a job in another city and, because you've been unable to sell your home, you've been forced to rent the property to help cover the mortgage and operating expenses. Many property owners find themselves in the rental housing business almost by accident, so if you count yourself in this group, you're not alone.
- You're one of those people who has made a conscious decision to become a rental property owner. Perhaps, like many rental owners with a plan, you needed to buy a new, larger home and decided to keep your existing home as a rental property. Or maybe, while you were looking to own your own place, you found a great duplex and decided to live in one unit while renting out the other. In a world where people seem to have more and more demands on their time, many aspects of rental property ownership — like the capacity to supplement a retirement plan with additional sources of cash flow or the proven opportunity to build wealth — are very appealing. The key to achieving this success is finding a way to make money while still retaining control over your life.

Real estate offers one of the best opportunities to develop a steady stream of residual income that's being earned whether you're sleeping, participating in your favorite leisure activity, enjoying your retirement, or relaxing on vacation. Whatever the circumstances, the bottom line is the same: You hope to generate sufficient income from the property to cover the debt service, pay for all operating expenses, and possibly provide some cash flow along with tax benefits, appreciation, and equity buildup. The key to your success is knowing how to manage people and time. And this book has plenty to offer you on that front.

How This Book Is Organized

Property Management Kit For Dummies, 2nd Edition, is organized into six parts. The chapters within each part cover specific topic areas in more detail. So you can easily and quickly scan a topic of interest or troubleshoot the source of your latest headache! Each part addresses a major area of rental housing management. Following is a brief summary of what I cover:

Part I: So You Want to Be a Landlord?

Managing rental property isn't everyone's cup of tea. The chapters in this part assist you in evaluating your skills and personality to see whether you have what it takes to manage rental units — or whether you should call in the property management cavalry. If a management company is the answer to your prayers, I show you how to select one, what to expect, and how much it'll cost in this part. Finally, the day of your escrow closing has arrived and the ink is dry, so flip here to find out what your immediate priorities are as you take over your new rental property.

Part II: Renting Your Property

The most important aspect of rental housing is keeping the unit occupied with paying tenants who don't destroy it or terrorize the neighbors. In this part, you figure out how to prepare the property for rent, set the rents and security deposits, develop a comprehensive (yet cost-effective) advertising campaign, and show your rental unit to prospective tenants. Because all tenants look great on paper, I also fill you in on some tricks and techniques for establishing good tenant selection criteria.

Part III: The Brass Tacks of Managing Rentals

This part takes you from moving in your new tenants to moving them out — and everything in between. You get some strategies for collecting and increasing rent, retaining tenants, and dealing with those few tenants who give you a headache whenever your paths cross. Minimizing vacancies and retaining tenants is the key to success as a rental owner. But when your tenants complain incessantly, decide to repaint in nontraditional colors, or stop paying the rent, the real challenge of managing rental housing begins. In this part, you discover techniques for dealing with these issues and more.

Part IV: Techniques and Tools for Managing the Property

Assembling the right team of professionals — from employees to contractors — is one of the main ways to find success as a landlord. Another way involves maintenance, which can be one of the largest controllable expenses most rental owners face. In this part, I also shed light on how to meet the minimum standards required for your rental property to be habitable and the pros and cons of different alternatives for handling maintenance.

Last but most certainly not least, because landlords and property managers are sued more than any other business entity, you definitely want to review the issues of crime, fire protection, environmental hazards, and the safety and security of your rentals — and I help you do that here, too.

Part V: Money, Money, Money!

Having the proper insurance for your rental properties and property management activities can be a complex topic, so in this part, I guide you through the ins and outs of insurance. Taxes are another inevitability of the rental property business, so here's where you can find basic info on property taxes, the way rental property income is taxed, and some of the tax advantages of owning rental property. With all that money going out for insurance and taxes, you also want to know just how much cash flow your rental empire is generating, so I provide you with some basics on rental accounting and recordkeeping.

Every seasoned rental owner should look for additional sources of income beyond rent, including the opportunities and pitfalls of lease options, which I cover in this part. The effect of government-subsidized housing programs continues to play an important role in many communities, so here you can find info on the advantages and disadvantages of working with public rental assistance programs. Niche rental markets — like those catering to students and pet owners — are also worthy of your consideration, and I let you know how you can use them to your advantage.

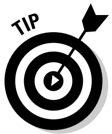
Part VI: The Part of Tens

Here, in a concise and lively set of condensed chapters, are the tips to make the difference between success and foreclosure. In this part, I address the benefits of owning rental properties and tips to rent your vacancy today. I also suggest you check out the CD for a bonus Part of Tens chapter on ten common management mistakes and how to avoid them.

Property management and rental housing laws are dynamic, with something new arising every day. So because I'm just that nice of a guy, I also offer an appendix to help you navigate them. Count on the invaluable resources in this appendix to keep you current and improve your management skills.

Icons Used in This Book

Scattered throughout the book are icons to guide you along your way and highlight some of the suggestions, solutions, and cautions of property management.



Keep your sights on the bull's-eye for important advice and critical insight into the best practices in property management.

Remember these important points of information, and you'll have great success as a rental property owner.

This icon highlights the landmines that both novice and experienced rental property owners need to avoid.

This icon points your page-turnin' fingers to the enclosed CD-ROM to review (and ideally use) the file or form being referenced.

Focus on this icon for real-life anecdotes from my many years of experience and mistakes. When you've managed more than 40,000 rental units in 30 years, you see some interesting situations. Now, I share them with you.

Where to Go from Here

Like any great resource book, you must read it! *Property Management Kit For Dummies,* 2nd Edition, is designed to be perfect for experienced or seasoned landlords, as well as rookies who still think all tenants are nice and prompt with rent payments.

Whether you're contemplating rental real estate, looking to fine-tune your proven landlord secrets, or facing total financial ruin at the hands of the Tenant from Hell, *Property Management Kit For Dummies,* 2nd Edition, offers chapter after chapter of solid rental property management advice, especially for the small rental property owner. It explains how to attract qualified prospects; select and screen tenants; maintain the rental rate; handle security deposits, rental contracts, broken water pipes, late rents, tenants who overstay (and don't pay), and more. Find the topic you want to know more about and start reading right there. ***Remember:*** Everything is manageable and workable — if you know what you're doing!

Property Management Kit for Dummies, 2nd Edition, helps you protect your investment and maintain your sense of humor, as well as your sanity, as you deal with one of the most unpredictable professions in life — property management. Consider this book your Property Management Bible, written just for you.

Part I
So You Want to Be a Landlord?

The 5th Wave By Rich Tennant

"The paperwork for your mortgage seems to be in order. Now, if we can tap a vein for your signature we'll be all set."

In this part . . .

Managing rental property isn't for the faint of heart, but it can be very rewarding for the right person. The chapters in this part guide you through the process of figuring out whether you have what it takes to manage rental property or whether you're better off leaving it to a pro — someone you hire to do the dirty work for you. I also fill you in on what you need to know if you're taking over ownership of a rental property, including how to deal with the current tenants and inform them of your policies and procedures. This is the part for you if you're just starting to think about purchasing a rental property but aren't quite sure what that entails.

Chapter 1

Property Management 101

In This Chapter

- Figuring out what property management is all about and determining whether it's in your future
- Exploring different types of real estate
- Recognizing the steps involved in renting your property
- Walking through the important day-to-day details of property management

You probably already have some idea of what property management is about, because you've likely rented an apartment or house at some point in your life. Even if you haven't, I bet you've noticed the less-than-flattering portrayal of landlords on television shows such as *I Love Lucy* or *Three's Company.* Or perhaps you've heard horror stories from rental property managers you know about tenants who make their lives a living nightmare.

The movies have also been quite unkind to rental property owners and managers. I often feel it should be mandatory for all rental property owners and managers to watch *Pacific Heights.* This film tells the infamous story of a young couple who scrimped and saved every nickel they could to invest in a pricey Victorian-era subdivided house in the Pacific Heights neighborhood of San Francisco, only to have a con man destroy their dreams as he systematically breaks every rule in the book — including the breeding of roaches and physical destruction of the premises.

But don't be fooled into thinking that property management isn't important or rewarding. The key to long-term success and wealth building through real estate ownership lies in the foundation you acquire as a hands-on property manager. For instance, often you start out managing rental properties owned by someone else and gain a great deal of experience that you can use for your own portfolio.

There are many positive reasons for becoming a rental property owner or manager — and just as many ways of doing so. Perhaps you've saved up the down payment to purchase your first small rental unit and hope to see your investment grow over the years as a nice retirement nest egg or a supplement to your current source of income. Maybe you want to invest in a medium-sized apartment building and build some equity as well as rental income to supplement or replace your current source of income. Perhaps you've inherited Aunt Gertrude's run-down cottage and need to find a good tenant who'll care for it and pay the rent on time. Or maybe you've recently closed on your new primary residence only to find that selling your existing home isn't as easy as the real estate agent promised.

Whether you plan to become a full- or part-time property manager, you need to know what you're doing — legally and financially. This chapter serves as a jumping-off point to the rental property world. Here you can find useful, practical info, tips, and checklists suitable for novice or seasoned rental property managers. So get ready for some practical advice from the Tenant Trenches to help you handle situations when they arise!

Understanding What Property Management Really Is

Property managers provide consumers with a product known as shelter. In other words, as a property manager, you're supplying tenants with a place to live in exchange for the payment of rent. Although property management doesn't seem that complex, you can avoid the many mistakes unprepared property managers make by knowing what you're getting into.

The following sections give you a quick overview of the pros and cons of property management. Chapter 2 provides more in-depth analysis of these advantages and disadvantages to help you determine whether renting your property's the right choice for you.

Considering the pros

Property management can be a rewarding and fun venture. I can't imagine my life without some aspect of property management in it (why else would I have written this book, right?). Following are some of the reasons I get such a kick out of this business:

- **Variety:** Personally, I enjoy the variety of tasks and challenges found in property management. Sure, some aspects of it are repetitious. Rent's due every month after all. But for the most part, every day in property management is something new.
- **Interaction with different people:** If you're a people person, you'll find that property management is a great opportunity to meet all types of people. Not everyone you encounter will be someone you want to make your close friend, but you'll certainly have the chance to work with a smorgasbord of personalities.

- **Development of skills:** Property management requires diverse skills, because you must handle so many different tasks (like marketing, screening, and maintenance, just to name a few). But it also allows you to grow those skills beyond the basics through patience and passion, like by moving from advertising your rental unit in a basic way to analyzing ad campaigns for unrelated products and applying those concepts to rental housing.
- **Experience with real estate investment:** As you manage rental property, you obtain the necessary skills to become a successful real estate investor. Of course, some real estate investors succeed without ever being hands-on property managers because they hire others to handle the task for them. However, I believe every rental property owner should gain that real estate investment expertise by actively working as a property manager for several years.

Confronting the icky parts

You can't expect all aspects of property management to be fun. Just like your primary job, some days run smoothly; others are filled with problems. Here are a couple of the bad aspects to being a property manager:

- **Long hours:** Because you're dealing with housing, you can't guarantee when you're going to be needed. It may be 3 p.m. or 3 a.m. Like me, you can expect to be constantly on-call, even when you're on vacation, in order to deal with issues that only the rental owner or property manager can decide. Fortunately, you can minimize these inconveniences by planning carefully and hiring competent and reliable employees and vendors who can prevent many unexpected emergencies through good management and maintenance. However, owning and managing rental property remains a 24/7, year-round commitment.
- **Difficult tenants:** Despite the great people you meet, property management has its fill of difficult and challenging personalities, including people who're downright mean and unpleasant. As a rental property owner and manager, you have to be prepared for adversarial and confrontational relationships with others. Collecting the rent from a delinquent tenant, listening to questionable excuses, or demanding a contractor come back and do the job properly requires patience, persistence, and a fair but firm approach.

The good news is that these negatives can be found in many other careers or professions that don't offer the benefits and satisfaction you can get from property management. So in my opinion, the pros outweigh the cons.

Renters drive rental property management

The Census Bureau reports that more than one-third of the U.S. population, or 80 million people, are renters occupying 36 million rental units, including nearly 12 million single-family home rental properties.

Despite these impressive numbers, the individual property owner still dominates the rental housing industry. According to the National Multi-Housing Council, individuals own nearly 85 percent of the small rental properties with 2 to 4 units and nearly 60 percent of the residential income properties with 5 to 49 rental units. In comparison, one of the most popular ways for individuals to invest in real estate is through Real Estate Investment Trusts (REITs), which have exploded onto the market with the acquisition of billions of dollars of high-profile rental real estate assets. Yet, in spite of the significant publicity they've received in the real estate media, REITs actually own less than 10 percent of all residential rental housing units in the U.S.

Eyeing the Types of Real Estate Available

Before you run out and purchase a rental property, you first need to have a good idea of the different types you can own. Most real estate investors specialize in properties with specific uses. Investment properties fall into classifications such as residential, commercial, industrial, and retail.

For the purpose of this book, I focus only on residential real estate, because the majority of rental real estate is housing, and the basic concepts are easy to understand and master. (After you master the basic concepts of residential real estate, you may want to consider other types of property management.) The best practices I present here are applicable for these types of residential rental properties:

- **Single-family houses and condominiums or townhomes:** Most real estate investors start with a rental home, condo, or townhome, because these properties are the easiest ones for most novice landlords to gain experience on. They may be located in a community association property where all the common areas are the association's responsibility.
- **Duplexes and small multi-family or subdivided houses:** This category includes properties with 2 to 4 units but can be up to 15 units. Often these properties are the first choice for real estate investors who plan to live in one of the units or want to take the next step up from investing in a single-family rental home or condo.
- **Small multi-family apartment buildings:** These buildings usually have between 15 and 30 units and are best run with on-site management and regularly scheduled maintenance and contractor visits.

- **Medium to large multi-family apartment buildings:** These properties are larger buildings that can have 30 or more rental units in a single location with an on-site manager or maintenance staff. Owning one of these properties is the goal for many real estate investors who look forward to being able to hire a professional property manager and just check their bank account for their regular cash distributions.

No matter what type of residential real estate you're involved with, you need to understand the basics of property management. You must market or staff a property differently depending on its size and location, but many of the fundamentals are the same regardless.

Over the course of your tenure as a rental property manager, you're probably going to manage several different types of properties. That's just one of the challenging yet fulfilling aspects of the job. For example, you may start out managing single-family rental homes or condos and then see your investments or career progress to larger rental properties. Sometimes people in the rental housing business start out as on-site employees for large rental properties, learn the ropes, and later apply that knowledge to become the Donald Trump of rental houses in their area.

Owning and managing all types of rental property can be lucrative, and I suggest you jump in where you have your first opportunity, because no rules mandate your starting position.

Renting Your Property

One of the first and most important lessons I learned when I started in property management more than 30 years ago is that vacant real estate isn't a very good investment. You need to fill those vacancies and keep them filled with tenants who pay on time. Just try looking in the mirror and telling yourself that all the rent came in last month. I bet you can't do it without smiling!

Of course, renting your property and retaining your tenants doesn't just magically happen; it requires a plan and a lot of work. But you want to work smart and not just hard, so that's why I show you some of the best practices for preparing your rental units, setting your rents, attracting qualified prospects, and closing the sale.

In order to be a successful property manager, you need to follow certain steps. The following sections cover the highlights of what to do — from getting your property ready for tenants to getting prospects to sign on the dotted line. Chapter 4 expands on where it all begins: the acquisition of the rental property. Part II then helps you position your new rental property within the rental market and discover how to find good tenants.

Factors that influence real estate as an investment

Almost everyone has heard the old adage that the top three keys to success in real estate are location, location, location. This adage is more than just a cliché. Unlike a stock investment, real estate can't be easily liquidated and reinvested into another investment opportunity in a different geographic area. Real estate success is closely correlated to a property's location.

Real estate's also a very cyclical business that's subject to the Economics 101 concepts of supply and demand. During economic business expansions, the demand for real estate is strong, enabling owners to raise rents. With the higher rents, real estate developers can build new properties, which causes the supply of real estate to catch up with the demand and forces rent increases to slow or disappear. When the business economy begins to slow, the demand declines, and once again you have an abundance of rental real estate. This cycle typically repeats every seven to ten years but can go longer. One of the best reasons for investing in residential real estate is that it tends to be the most stable sector of the real estate market.

Thanks to very generous tax laws, for many years, real estate investors really didn't have to worry about the cash flow generated from their properties. An owner's ability to generate tax losses that could be offset against earned income, plus other creative tax strategies, outweighed the common sense goal of generating more income than expense. Positive cash flow was just an added benefit.

The bottom line: After you purchase your property, you can't effectively control or change its location. Nor can you really influence the overall business economy or real estate cycles.

Seem perplexing? Many late-night so-called investing gurus try to sell you their DVDs, but if you're looking for honest advice on the proper way to find, evaluate, and invest in residential real estate, then I suggest you read *Real Estate Investing For Dummies,* which I coauthored with Eric Tyson.

Preparing the property

Before you can rent your property, you have to make sure it's ready for a tenant to move in. However, you can't simply put a For Rent sign up and expect to rent to the first caller. You need to spend some time properly preparing the property. And by "some time" I mean a lot.

Relax! Tear up that application to those cable shows that completely renovate your fixer-upper for free because you *can* prepare your property yourself. Just remember to focus on the inside as well as the outside. Chapter 5 shows you the best way to determine what to upgrade and renovate in order to meet the needs of your target market of prospective renters. I also explain how to ensure that your property's *curb appeal,* or its exterior appearance, makes your potential new tenants want to see the inside of it and not keep driving by to the next property on their list.

During this stage, you really get to test your decorating skills on a budget, because you don't want to overimprove the property. But if you're too tight and try to get by with anything less than your best effort, be ready for the majority of those individuals showing interest in your rental unit to be the least-qualified prospective tenants.

To get the great tenants, you need to guarantee your rental property compares favorably to other properties in your area and makes that important positive first impression. This impression starts on the exterior with a neat and well-maintained appearance and continues with a clean and inviting interior with the features and amenities expected by prospective tenants in your area.

Properly preparing the rental unit also often requires the use of outside vendors or contractors. What you don't contract out — tasks like basic cleaning, maintenance, and painting — you need to do yourself. You also need to know how to perform a careful inspection to make sure the rental unit's ready to show. I give you details about how to accomplish all these tasks in Chapter 5.

Knowing how much to charge

Understanding what you can charge your tenants is far from arbitrary. Setting the rent in particular can be tricky — especially if you've just spent hours investing your time and sweat into renovating and scouring your rental unit to make it sparkle.

In such cases, overestimating the market value of your rental unit becomes very easy, because you have so much personally invested. But your prospects aren't likely to be impressed that you laid the tile. Instead, they'll quickly point out that the color of the carpet doesn't match their furniture, but if you lower the rent $300 per month, they'll consider taking the unit off your hands, almost as if they're doing you a favor. You may be able to structure some mutually beneficial rental concessions, but don't be a pushover.

Many rental property owners are simply too nice. Maybe you're someone who has trouble bargaining and holding out for the top fair value dollar, kind of like my mother-in-law, a sweet but overly generous woman — especially when it came to yard sales. My wife and I are glad no one ever offered Rita 50 cents for our car!

In addition to setting the rent, you need to make the following decisions before a tenant moves in:

- **The amount of the security deposit:** Setting security deposits is a function of not only market conditions but also limitations on the amount you can charge and whether that amount's fully refundable. These restrictions are determined by your state laws. Determining whether you want to pay your tenants interest on the deposits you hold is also subject to law, but certain advantages can warrant doing so even where not required — especially for long-term tenants.

The best way to make these decisions is to understand your local real estate market and conduct market surveys to see what others are doing. If everyone else has security deposits set at approximately half of a month's rent, requiring your new tenants to come up with a security deposit of two full months' rent upon move-in is difficult.

- **The type of rental contract:** Another important decision that has lasting consequences is deciding whether a lease or month-to-month rental agreement is best for your property. Such conclusions are often reached after conducting a market survey and understanding the pros and cons of each type of contract.

Check out Chapter 6 for more info on determining how much to charge, setting deposits, and figuring out what type of rental contract to use.

Arousing prospects' interest

A successful property manager needs to understand the role of marketing in creating demand and meeting the needs of local renters. Fortunately, your marketing and advertising possibilities have increased dramatically with the advent of the Internet and social media. You (or perhaps your teenage children) can develop a fantastic Web site with digital photos and floor plans. Just make sure you're following all the Fair Housing laws as you work to generate rental traffic.

In Chapter 7, I review the various electronic and nonelectronic options available for promoting your rental property and attracting prospective tenants.

Turning prospects' interest into property visits

The ways to attract potential tenants are endless, but the fundamentals of getting them to visit your rental property are centered around your ability to answer their questions on the phone. You need to understand how to qualify your prospects both for what you want in a stable, long-term resident and what they need in order to call your rental property their "home" for years.

Converting your e-mails or phone calls to actual property visits is the next essential step to creating maximum interest in your rental unit. Chapter 8 explains how to get prospective tenants to view your property.

The way in which you show your rental property to prospects is important. Avoid walking from room to room stating the obvious. Instead, point out certain benefits of your rental unit's unique or special features. Just don't oversell the product and talk fast like a late-night TV used car salesman. Ultimately, the best technique for showing your rental property is letting the property show itself, as I explain in Chapter 9.

The best result you can expect to achieve at the property-viewing stage is convincing the prospect to complete your rental application and put down a holding deposit. What the prospect can expect from you at this time is the receipt of any mandatory disclosures.

Picking your tenants and signing the deal

Property management isn't exactly the dating game, but you do want to gather information (while following all Fair Housing laws to the letter) and select a prospective tenant who meets or exceeds your minimum written rental qualification standards. Tenant selection's probably the one single step in the rental process that can make or break you as a property manager, and I devote a lot of detail to this important topic in Chapter 10.

What seems to be a fairly straightforward process can actually be tricky due to the various limitations on the questions you can ask and the information you can request from interested applicants. Follow the same procedure for everyone so as to comply with Fair Housing laws and determine how you're going to verify each prospect's rental application. Be sure to select your tenant of choice based on objective criteria and then properly communicate your decision to both the approved tenant and the unsuccessful applicants.

Getting Your Hands Dirty: Managing the Property

You never hear from your tenants, yet the check seems to come in the mail each month. Managing your rental unit seems easy — just like you pushed a button! But after a year of progressively busting out with pride at your exceptional property management skills, you decide to drive by the property . . . only to find that your retirement plans and financial nest egg are candidates for a remake of *Animal House!*

In the next several sections, I present the practical, in-the-trenches part of property management that can help you get familiar with every day-to-day eventuality related to the operational side of property management and the life cycle of a tenancy.

Moving tenants in and out

Coordinating the move-in of a new tenant is one of your most pleasant tasks, because this time is your best opportunity to ensure your tenant starts out on the right foot by explaining your rental rules and guidelines. Chapter 11 helps ensure your move-in process runs smoothly.

But all good things must come to an end. That end should start with you making sure that the move-out date is mutually agreed in writing and that the tenant understands your expectations, policies, and procedures via a tenant move-out information letter. I share more about how to make the move-out process as painless as possible for all involved in Chapter 15.

Collecting rent and keeping the good tenants

You can greatly improve your chances of making the rent collection process a positive experience by emphasizing your rent collection policy when your tenant first moves in and by asking all the who, what, where, and how questions of rent payments.

But no matter how carefully you screen your tenants and how thoroughly you explain your rent collection policy, sometimes the inevitable happens and your tenant's unable to pay the full rent when it's due. What do you do? Start by issuing reasonable but firm policies when the tenant moves in and enforcing your grace period and late-period policies. Then when your tenant doesn't pay the rent or doesn't live up to his or her responsibilities under the rental contract, you're prepared to take the appropriate legal action to regain possession of your rental property as quickly as possible. Chapter 12 provides more in-depth info to help you collect rent.

Turnover is your number one nemesis as a rental property owner. Although it's inevitable, your ability to renew your leases and provide incentives for your tenants to stay and pay can be significant in controlling your expenses and maximizing your rental income. That's why keeping your tenants, particularly your good tenants, is a smart move. After tenants have lived at your property for a while, you can quickly determine which ones are the better ones by asking yourself a few questions:

- Who pays the rent on time?
- Who quickly lets you know when the unit needs maintenance?
- Who takes care of the property, perhaps by cleaning up outside debris and planting flowers?

TIP

One of the best ways to ensure your good tenants stay with you is to develop a tenant-retention program where you offer them incentives. This action shows that you appreciate them. Chapter 13 offers more on the importance of developing a good landlord-tenant relationship from the perspective of your tenants. It also reveals your tenants' most important needs — good communication, timely maintenance, respect for their privacy, consistent policies, and a good value for their rental dollar.

Handling troublesome tenants

Despite your best tenant screening efforts, you're going to make the wrong decision at some point and allow a problem tenant to move in or have a good tenant who turns sour. But you can lessen the number of these incidents by getting to know some of the problems you may encounter and how to deal with them early on:

- **Late or missed rent payments:** The timely payment of rent is the lifeblood of real estate investing because you can't pay your mortgage or expenses without it. A written rent collection policy is a valuable tool to minimize these problems.
- **Loud tenants:** It only takes one boisterous tenant to disrupt the tranquility of the whole neighborhood. Developing and implementing rental policies and rules can avoid your problem tenant chasing the good tenants away.

Chapter 14 gives you some additional tools to effectively deal with these problem tenants. I also describe the best way to handle common tenant problems and the pros and cons of alternatives to an eviction. But because avoiding eviction doesn't always work, I make sure you have everything you need to know to go to court, present a winning case, and collect your judgment. Life's full of unexpected events, so I also include suggestions on how to cope with tenants who

- Fall into bankruptcy
- Refuse to leave
- Insist on leaving early or want someone else to take their place
- Have personal relationships that deteriorate during their tenancy
- Pass away at your property

Maintaining the property

Are you familiar with the saying, "To own is to maintain"? When you have only a few rental units or are just starting out, you often do much of the maintenance work on your units yourself. But as you acquire more properties or advance in your primary career, you need to explore the benefits and consequences of using employees. If you own a larger rental property, having an on-site employee who's responsible for its day-to-day management is absolutely mandatory.

To keep your rental property in tip-top shape, you also need to work with outside vendors and suppliers who are pros within their industry. Always keep in mind that you get what you pay for and that maintenance can be one of the largest expenses faced by most landlords. Part IV helps you navigate the nitty-gritty hands-on aspects of managing employees and contractors and maintaining your property.

Protecting your investment

Like many property managers, you probably consider your property an investment. If you continuously lose money, having the property isn't worth the hassle or the expense, right? Not to worry. Although you can't predict bad weather or crime, you can safeguard the value of your investment by

- **Being aware of environmental and natural hazards that can occur:** Minimize your risk or be prepared in case of crime or environmental hazards such as natural disasters, fire, carbon monoxide, or mold. Chapter 18 discusses what you need to know.
- **Buying the necessary insurance:** You can't avoid buying insurance, so I make sure you know enough to be dangerous when your insurance agent says you need coverage for snowstorms at your duplex in Phoenix. Chapter 19 covers the types of insurance you need to consider.
- **Paying your taxes:** Taxes aren't likely to be your favorite subject, but they're important. Property taxes are a reality of life almost everywhere; Chapter 19 makes sure you know how they're calculated and what you can do to minimize your tax payments by appealing your property's assessed value when market conditions decline.
- **Keeping detailed records:** You're going to be so successful as a rental owner and manager that I need to make sure you have good record-keeping and financial reporting so you can keep track of all the money you make. Chapter 20 reveals some simple ways to handle filing and features my analysis of several of the most popular accounting software packages offered for property management.
- **Increasing your cash flow:** Sometimes recouping all the costs for your rental property isn't easy, so you may need to find ways to get more cash in your hands. A wide assortment of options is waiting for you, including government-subsidized housing programs, special niche housing markets, and different lease options. Chapter 21 focuses on these ways to increase your cash flow from some of the traditional sources of non-rent revenue you may not have considered before.

Chapter 2

Do You Have What It Takes to Manage Your Own Rental Property?

In This Chapter

- Managing people is the key to property management
- Uncovering the kinds of real estate owners
- Being aware of the advantages of owning rental property
- Identifying good managers
- Assessing your management skills and experience

Congratulations! Either you already own rental property, or you've made the decision to buy. Real estate is great whether you're looking for a steady, supplemental retirement income or a secure financial future. Most residential rental property owners want to become financially independent, and real estate is a proven investment strategy for achieving that goal.

But after you sign your name on the dotted line and officially enter the world of owning rental property, you face some tough decisions. One of the very first concerns is who handles the day-to-day management of your rental property. You have units to lease, rents to collect, tenant complaints to respond to, and a whole host of property management issues to deal with. So you need to determine whether you have what it takes to manage your own rental property or whether you should hire and oversee a professional property management firm. Owning investment real estate and managing rental units are two separate functions, and although nearly everyone can invest in real estate, the management of it takes time, special skills, and the right personality.

In this chapter, I start by highlighting the importance of relationships with people because property management is really people management. Next, I give you the lowdown on some of the advantages of owning rental property, and then I help you assess whether you have what it takes to manage your own property.

Understanding That Managing Rental Property Is a People Business

Some rental property owners find themselves managing their own properties without even knowing what management requires. Managing the physical aspects of your rental properties (the buildings and money) and keeping track of your income and expenses are fairly straightforward. However, many rental property owners' most difficult lesson is the management of people.

Rental management requires you to deal with many more people than you may think. In addition to your tenants, you interact with rental prospects, contractors, suppliers, neighbors, and government employees. People, not the property, create most rental management problems. An unpredictable aspect always exists in any relationship with people.

As with most businesses, the ability to work with people is one of the most important skills in being a successful property manager. If you enjoy interacting with people and can work with them and they can work with you, then you have a good start to becoming a prosperous property manager.

Identifying the Types of Real Estate Owners

Rental property management has been around for hundreds of years, since property owners first realized they could earn income on their land and buildings by renting them to tenants. These days, the title of landlord is no longer bestowed only on the landed gentry. There are as many different ways that people become property owners as there are types of rental properties. Although the nature of the business has changed over the centuries, today you can classify rental property owners in the two categories in this section. However, no matter what category you find yourself in, one thing is constant: The key to your success is management.

The inadvertent rental property owner

Many property owners find they're in the rental housing business almost by accident. Although solid reasons to invest and own rental real estate exist, many owners begin their real estate careers by fate or through circumstances beyond their control. Here are a few examples:

- You may have inherited a house from a relative and don't want it to sit idle.
- You may have transferred to a job in another city and can't sell your home, so you're forced to rent the property because you want it occupied and some income to help cover the mortgage and operating expenses.
- You're looking to own your own place and found a great duplex where you can live in one unit and rent out the other one.

Whatever the circumstances, the bottom line is the same. You, the owner, hope to generate sufficient income from the property to cover the debt service, all operating expenses, and possibly even provide some cash flow along with appreciation and equity buildup.

The long-term investment rental property owner

With the tremendous increase in the value of real estate over the past decade, many individuals have found that real estate investing is a key element of their diversified investment portfolio. And why not? Real estate is a cornerstone of the American dream. Many people strive for years to own their first home and then realize the tremendous investment opportunity offered by income-producing rental real estate.

In today's world, more and more demands are placed on your time, so many aspects of rental property ownership are very appealing. People want to supplement their current retirement plans with additional sources of cash flow, and real estate has a proven track record as one of the greatest wealth builders of all time. Most folks find that generating a stable income without having to punch a time clock or not being limited to earning an income only for time spent working for someone else is very appealing. Even most professionals, like lawyers and accountants, are constrained in their income to their billable hours. The more hours they work, the more money they usually make. Yet even lawyers and accountants are limited in the actual number of hours they can work, thus limiting their income potential.

The long-term investment category allows you to accumulate more wealth in your lifetime than you can with just one source of income. Real estate investments provide additional cash flow and significant asset value over time. So what are you waiting for? The time to begin your real estate ownership and management career is now. The sooner you start, the sooner you can achieve your personal and financial goals. The key is to find a way to make money while still retaining control over your life. Real estate offers one of the best opportunities to develop a steady stream of residual income that's being earned whether you're sleeping, enjoying your favorite leisure activity, or even retired or on vacation.

Recognizing the Advantages of Owning Rental Property

A great advantage to building wealth through real estate is the ability to use other people's money. Your initial purchase of the rental property is likely to be achieved with the help of financing from a lender. Then your tenants provide the monthly funds to assist you in making the debt service payments as well as the payments for ongoing operating expenses and capital improvements.

The wide availability and low cost of real estate financing make real estate investing a viable and realistic option for virtually everyone. Most people purchase real estate using leverage gained by borrowing from the seller or a lender. *Leverage* is when real estate is purchased with financing, and it usually consists of a cash down payment from the buyer along with a loan or other people's money. There are two types of leverage:

- **Positive leverage:** Positive leverage is where you're able to earn a return not only on your cash investment but also on the entire value of the real estate. The ability to control significant real estate assets with only a small cash investment is one of the best reasons to invest in real estate. For example, you may purchase a $100,000 rental home with $20,000 in cash and a bank loan for $80,000. If the home value doubles in the next decade and you sell this home for $200,000, you've turned your $20,000 cash investment into a $100,000 profit.
- **Negative leverage:** Real estate has enjoyed a long run of steady appreciation from the mid-90s through 2005, but you must remember that real estate doesn't always appreciate and can even decline. Negative leverage can wipe out your entire investment with just a 20 percent decline in the market value of your rental property. So if you buy a rental home for $200,000 with $40,000 in cash and $160,000 from your bank only to see the economy falter or the local real estate market sour, you may find that you have to sell your rental home for less than your acquisition price. If you sell the rental home for only $160,000 after the costs of sale, you may just have enough to pay off your bank, and your cash down payment of $40,000 simply evaporates. Negative leverage is unfortunately the experience of many investors and homeowners who've purchased real estate in the last few years using little or no cash down payments. The real estate market has stopped appreciating and has actually declined fairly significantly in most areas of the country, and many owners find that their mortgage balance exceeds the current value of their property.

Although you can actually purchase some rental properties without a down payment, remember that you get what you pay for. The rental properties that are the best performers in the long run are generally not available with creative financing.

Limited exceptions do exist where you can reposition a poorly performing property in an essentially good neighborhood. Although these opportunities exist in some areas of the country, they're only for the most experienced real estate investors and property managers with a high tolerance for risk. Don't invest in no-down-payment rental properties in a rental market outside of your own area or even a local area where you don't know the neighborhood extremely well. If you do, you'll likely be the next seller offering the property and may even be willing to pay someone to take it off your hands!

Rental real estate also offers you the opportunity to pay off your mortgage by using your tenant's money. If you've been prudent in purchasing a well-located rental property in a stable area, you should have enough income to pay all the operating expenses, utilities, maintenance, taxes, insurance, and your debt service. Each month your property becomes more valuable while your tenant is essentially paying all your expenses, including principal and interest payments on your loan.

Your lender and tenant aren't the only ones who can help you with the purchase of your rental investment property. Even the government is willing to offer its money to help your cash flow and encourage more investment in real estate. In calculating your income tax obligations each year, the government allows rental property owners to take a deduction or offset to income for depreciation. *Depreciation* isn't an actual out-of-pocket cash expense but an accounting concept that provides you with an allowance for expected wear and tear. Depreciation deductions basically reduce the taxable income from rental properties and give you more cash flow during your ownership. See Chapter 19 for an explanation of how depreciation can defer income taxes during ownership until you sell your rental property.

Over time, you may find that your rental income collections grow faster than your operating expenses for increased monthly cash flow. That's why many economists feel real estate is a superior investment, because historically real estate has been a very effective hedge against inflation. And after your tenants have finished paying your mortgage for you, you suddenly find that you have a *positive* cash flow — in other words, you're making a profit.

Eyeing the Unique Characteristics of a Good Manager

Good management equals good financial results. Having tenants who pay on time, stay for several years, and treat the property and their neighbors with respect is the key to profitable landlording. However, finding those individuals is easier said than done. One of the greatest deterrents to financial independence through real estate investments is the fear of management and dealing with tenants. That's why management is so important, but what exactly makes a good manager? The next several sections take a closer look at the many different aspects of managing your own rental properties.

Realizing that good management makes a difference

In order to have a firm grasp on managing your rental property, you need to understand what good management really is. *Good management* is having a well-maintained rental property that's occupied with a paying tenant on a long-term lease who treats the property like her own. As with many things in life, managing well is much easier said than done, but by doing your homework in advance and understanding what it takes to be a good manager, you can reduce those beginner's mistakes.

Who hasn't heard or even personally experienced horror stories about a greedy or downright unpleasant landlord who took advantage of his tenants? The image of rental property owners and managers as overbearing, stingy, and snoopy has become part of the culture. Of course, you've probably also heard about tenants who don't pay their rent, damage the rental property, and harass the neighbors and the owner. Virtually all these horror stories are true, but it isn't a coincidence or bad luck that they happen to the same rental property owners again and again.

Unfortunately, bad management can bring down a rental property investment. For example, owners have problems when they lose control of their rental properties. If you choose the wrong tenant or fail to address certain maintenance issues, your real estate investment may turn into a costly nightmare. A novice rental property owner can quickly find the property turning into a money pit.

Experience is a great teacher — if you can afford the lessons. In rental management, you can be financially devastated when you have a mortgage to pay and your new tenant gives you a rubber check for the security deposit and first month's rent. And to make matters even more challenging, you may find that your occupant has skipped town after trashing your rental unit.

Lucky for you, good property management skills can be mastered. Where can you start? Check out the following:

- **This book and accompanying CD:** *Property Management Kit For Dummies,* 2nd Edition, is a valuable resource that guides you right through the dangerous minefield of property management.

- **Professional organizations:** These types of organizations have qualified staff who can present educational offerings for property owners and managers. Two of the better organizations include
  - The Institute of Real Estate Management (IREM) at `www.irem.org`
  - The National Apartment Association (NAA) at `www.naahq.org`

Separating your personal style from sound management

The first encounter with owning real estate for many rental property owners is their own personal residences. Owning and maintaining your home is actually very good experience for many aspects of rental property management. For example, you may be very handy fixing that leaky faucet or painting cabinets. However, owning a home doesn't give you all the skills needed to become a successful rental property owner. The main difference you need to remember is that a rental property is an investment — nothing more, nothing less. Although in a perfect world you would find your rental property personally appealing, remember it's an income-producing investment.

At your home, you're in full and direct control of making sure there's enough money to pay the debt service on the property. And you take a very serious interest in making sure that little maintenance problems are addressed while they're low-cost items. As a homeowner, you also probably have experience at trying to live on a budget.

REMEMBER

However, in rental property management you look for results that keep your tenants happy and your costs reasonable. Here're some examples:

- You need to have the ability to separate your own personal taste and style from the practical aspects of managing rental property.
- You don't live on your rental property, so make sure the furnishings and the condition of the property appeal to the broadest number of potential renters. You may love to decorate and really look forward to upgrading your '70s rental unit décor, including the ubiquitous old shag carpet and flowered Formica countertops.
- You also need to be very practical and think about the long-term implications of your management decisions. For example, you may prefer drapes for window coverings in your own home; however, vertical blinds are much more practical for a rental property. Although they may not be as luxurious as draperies, blinds are durable, last longer, and are much easier to clean.

Home business opportunity

Many people who manage their own rental properties value the aspect of being their own boss. They often run their business from a home office. Many people today are looking for an opportunity to work at home, and rental management can provide the second income with flexible hours.

You may also expand your real estate holdings to the point that you outgrow your home office or prefer to have a separate business location. Many rental properties offer the opportunity to live and have a small separate management office on-site.

Managing your time

For most rental property owners, managing their rental units is a part-time job. They handle tenant calls, collect the rent, show the units, and even perform most maintenance in the early evenings or on weekends. However, managing your time is an important part of managing your rental properties. Time management is really about evaluating how much time you have and then looking for ways to streamline your tasks so that you make the best use of your time.

Although it can be a part-time job, don't be fooled. Rental management takes a lot of time, patience, and hard work to be successful. At first, most people assume they're equipped to handle any and all property issues. They may even find they can manage one, two, or three units without any problems or time conflicts. They enjoy managing their rental properties and appreciate the cost savings. However, as their portfolio grows, the need to be very efficient in handling management activities becomes essential. The challenge of being a landlord is finding the time required for this second job.

The good news is that time required to be a landlord is in your control. If you master the proper skills of marketing, tenant screening, and tenant selection, you can greatly reduce the amount of time you spend managing rental property. (Check out Chapters 7 and 10 for more info.) You also have to work smart, or you may find that your time is better spent in other areas than management, because time is money.

Delegating management activities

As a landlord, you may look at all the tasks you have to do and get a bit overwhelmed. However, choosing to deal with some responsibilities yourself and delegating some of them to others can make your job much easier to handle. To manage your property to the best of your ability, you need to look at your own set of skills to determine which tasks you can do and which ones you need to delegate.

Throughout this book, I provide various ways that you may delegate certain management activities and responsibilities to your very own personal team of experts comprised of the following:

- **A property manager:** Ultimately, you can delegate all the management activities to a professional property manager. However, having a property manager doesn't mean you're totally off the hook. Depending on the arrangement with your property manager, you may still find yourself providing the oversight. (Check out Chapter 3 for more on using a property manager.)
- **A maintenance professional:** For many owners, a contractor can handle the maintenance of the rental property and grounds more efficiently and effectively. The skills required to be successful with managing your own rental properties are different than the skills needed to handle your own property maintenance. Most rental property owners find that using trusted and reasonably priced contractors is the best alternative. You may not have the requisite skills or equipment to do the work properly and quickly, or you may discover that you're only able to find time in the evenings or weekends. Painting a rental unit is faster if you have the right equipment and experience. Although doing your own painting may seem more cost-effective, any savings will quickly be lost if the rental unit sits vacant for additional time. The old saying that time is money is very true with rental housing. (Refer to Chapter 16 for how to find the right maintenance personnel.)

  I once was hired by a client to manage a large 100-unit rental property with nearly 30 vacant rental units. The rental market was actually pretty good, and together we knew we could rent the units after they'd been painted and cleaned. The owner had always managed the property personally and used only in-house maintenance personnel for all work, including painting. Consequently, the owner wanted to have the in-house maintenance person paint two units per week, but that would take nearly four months until all the units were rent-ready. I was able to demonstrate that hiring an outside painting contractor and having the in-house maintenance focus just on the cleaning of the rental units would get all 30 units rent-ready in less than a month. Even though the outside painting contractor was an expense the owner didn't want to incur, it was the better way to go because we were able to rent the units quickly and more than cover the additional costs. Sometimes the cheapest way isn't the best way to approach a problem.
- **An accountant:** Many owners may not have the patience and discipline to keep accurate accounting records that are so important at tax time and prefer to have a bookkeeper take care of the recordkeeping. A bookkeeper can help you manage your records and bills. See Chapter 20 for more information on accounting.

- **A legal expert:** Some landlords may look forward to their day in court, but most find the experience unrewarding and problematic. Using a local landlord-tenant attorney is a good idea when you have problems involving legal issues that may end up in court.
- **A rental locator service:** Some owners use a rental locator service to provide prescreened rental applicants. Your level of delegation may very well depend on whether you own one or ten rental units.

Knowing that your style is unique

The most important fact to remember is that no one will ever manage your rental property like you will. Accept that fact and then determine whether you're cut out for property management. Remember, property management isn't just a question of style. Ultimately, it comes down to sound, responsible practices.

You're motivated more than anyone else to watch out for your real estate investments. Only you work through the night painting your rental unit for the new tenant move-in in the morning. Who else would spend a Hawaii vacation looking through the local newspaper classifieds for creative ad ideas?

Be honest with yourself. Know your strengths and your weaknesses as a property manager. You may find you're able to do the job but wind up with frazzled nerves and doubts. If you aren't truly excited and challenged by handling your own property management tasks, then you're not likely to have success in the long run. If you decide that you can't do it all yourself, then you may need to delegate (see the preceding section).

Being Honest with Yourself about Your Skills and Experience

One of the first steps in determining whether to completely self-manage your rental property or delegate some or all the duties is to analyze your own skills and experience. Many very successful property owners find they're better suited to deal-making, so they leave the day-to-day management for someone else. This decision is a personal one, but you can make it more easily by thinking about some of the specifics of managing property.

Property management requires basic skills, including marketing management, accounting, and people skills. You don't need a college degree or a lot of experience to get started, and you're sure to pick up all kinds of ideas about how to do things better along the way.

TIP

Examine your own personality. Are you a people person? Serving as a landlord is a labor of love; you must love people, you must love working with your hands, and you must love solving problems. Most of all, you must be able to do all this without getting much back in the way of appreciation.

Whether you're confident you have what it takes to be a good rental property manager or you're still not sure, take stock of yourself and your abilities by answering the following questions. Interview yourself as though you were a job applicant. Ask the tough questions. And, more important, answer honestly.

- Are you a people person who enjoys working with others?
- Are you able to keep your emotions in check and out of your business decisions?
- Are you a patient and reasonably tolerant person?
- Do you have the temperament to handle problems, respond to complaints, and service requests in a positive and rational manner?
- Are you well-organized in your daily routine?
- Do you have strong time-management skills?
- Are you computer literate?
- Are you meticulous with your paperwork?
- Do you have basic accounting skills?
- Do you have maintenance and repair abilities?
- Are you willing to work and take phone calls on evenings and weekends?
- Do you have sales skills?
- Are you a good negotiator?
- Are you willing to commit the time and effort required to determine the right rent for your rental unit?
- Are you familiar with or willing to find out about the laws affecting property management in your area?
- Are you able and willing to visit your rental property regularly?
- Are you willing to consistently and fairly enforce all property rules and rental policies?
- Are you interested in finding out more about property management?
- Are you willing to make the commitment to being your own property manager?

Ideally, you answered yes to each question. This assessment isn't scientific, of course, but it does raise some important issues, particularly the level of commitment that you need to succeed as a rental property manager.

You need to be fair, firm, and friendly to all rental prospects and tenants. Treat everyone impartially and remain patient and calm under stress. Be determined and unemotional in enforcing rent collection and your policies and rules. And maintain a positive attitude through it all. Not as simple as it looks, is it?

Even if you didn't answer with an enthusiastic "yes" to all the questions in this section, you may still make a good rental property manager if you're prepared to be flexible and learn from your property management experiences. The really good property managers graduated from the school of hard knocks.

If your assessment revealed that your skills may be better served doing something other than managing your own property, turn to Chapter 3 for some alternatives. Owning rental property can still be a great investment, even if you don't manage it yourself.

If you're impatient or easily manipulated, you aren't suited to being a property manager. Conveying a professional demeanor to your tenants is important. You want them to see you as someone who'll take responsibility for the condition of the unit. You must also insist that tenants live up to their part of the deal, pay their rent regularly, and refrain from causing unreasonable damage to your property.

Chapter 3

Managing Your Property Yourself or Hiring a Pro

In This Chapter

- Seeing how self-management can work for you
- Assessing the benefits of working with a pro
- Knowing what to look for in a property management firm

The late-night TV real estate gurus can make real estate investing sound so simple. But just as important as buying the right property for the right price, the key to success in real estate is a well-managed property.

Initially, you may try to manage your rental property yourself, particularly if you have a single-family rental home or duplex. So in this chapter, I guide you through the pros and cons of managing your own property (as opposed to hiring a pro to do it for you). If you're like most owners, though, at some point you'll consider hiring a professional property management firm. So I also give you some tools for evaluating property management companies, from the services they offer to the fees they charge. I discuss the importance of experience, qualifications, and credentials. Also, I reveal some of the common tricks management companies use to generate additional income that aren't in your best interest.

REMEMBER

Even if you ultimately decide that *you* are the best manager for your rental property, the more you know about how the professionals manage property, the better you'll be at management yourself.

Managing Your Rental Yourself

With your first rental, you probably do all the work yourself — painting, cleaning, making repairs, collecting rent, paying bills, and showing units. In this section, I let you know some of the advantages and disadvantages to doing it all yourself. Use this information as a way to help you decide whether you want to go it alone or whether hiring a pro is for you. If you decide the latter, check out the information later in this chapter about working with a professional management company. This is one of the most important decisions you make as a rental property owner, so take the time to look at all your options.

Recognizing the advantages of self-management

If you have the right traits for managing property (see Chapter 2 to help determine whether you do), and if you have the time and live close to your property, you should definitely do it yourself. Managing your own rental property has some distinct advantages. By keeping direct control of the management of your rental property, you can

- **Save on a monthly management fee.** If you purchase a single-family rental home or condo as an investment property, you most likely won't be able to generate enough money to pay for a professional property manager and make a profit — at least not right away.
- **Save on maintenance costs.** *You* decide who does the repair work or mows the lawn. Doing your own maintenance or yard work is usually a good idea; if you hire someone else to do it for you, the cost can devour your monthly cash flow in a hurry.

Develop a list of reliable, insured fix-it and landscape personnel who do good work and charge low rates. Even if you hire someone to manage your property for you, you're better off choosing the maintenance contractors yourself, rather than turning over the decision — and your money — to a professional property management firm.

Paying attention to the drawbacks

If you're just starting in the world of property management, you may be thinking of it as a part-time venture — something you'll do in addition to your day job. And if you want, you can keep it that way by limiting the number of properties you own to just a few. By managing your own property, you may

- **Damage your day job.** If you're a higher-income, full-time professional, rushing off on weekdays to handle some minor crisis at your rental unit is not only impractical, it can be downright damaging to your career. Most employers have little tolerance for a second job, particularly one that often has unpredictable and unscheduled demands.

- **Spend far too much time.** If you earn your living regularly from something other than managing your rental property, managing that property may not be worth your valuable time. Rental management can take up more time than anticipated — either because you've bought more rentals, or because you just didn't anticipate the time requirements. Remember, property management often requires working in the evenings and weekends, when most prospective tenants want to see your vacant rental units, and tenants are home to allow access for repairs.

As a jobholder, look at your annual income and figure out approximately what you earn per hour. Do the same for the cash you're saving by managing your own property. Unless your management efforts produce significant cash savings compared to your job, you may be better off hiring a property manager for your rental units. The same guideline holds true even if you're an independent business owner or self-employed. Your schedule may be more flexible than the typical fixed workday of a 9-to-5 employee. But if you're earning $50 an hour as a consultant, devoting hours of your productive work time to managing rental units, which may amount to savings of only $25 an hour, may not make sense.

Managing your property from a distance

If you own rental property in another city or state, you may initially consider managing your unit from afar. As long as your tenants mail their rent checks and make only a few maintenance demands, this arrangement can work — but it's a fragile one. One major problem, or a few minor ones, can turn the job of managing the rental property into a nightmare.

Many real estate investors are attracted to the prospects of higher returns by purchasing rental properties in out-of-state areas. But even with lower acquisition costs and supposedly decent rents, many of these investment opportunities are too thin to allow for hiring a local professional property manager. Consequently, long-distance property management becomes tempting. My strong advice is to think twice about handling your own rental property maintenance from hundreds of miles away. You need to be in the immediate area to routinely inspect and maintain a rental property, especially when a roof leak or broken pipe demands immediate attention.

I once had a client who hired me after having a very bad experience trying to manage his single-family home from another state. He'd been transferred more than 1,000 miles away by his company but wanted to rent his home as an investment. He found a nice family to rent to, and everything was fine for the first six months. Then one day he got an urgent call from his tenants, complaining that torrential rains caused the roof to leak, making the house uninhabitable. The owner, still out of state, asked his tenants to assist him in hiring someone to repair the roof. The work was botched, and he wound up flying back and forth twice to straighten out the mess before finally getting the roof fixed properly. This negative experience ended up costing thousands, easily wiping out whatever small profit he could've made.

Exploring Professional Management

Many rental property owners who are just starting out drift blindly into self-management by default, because they assume they can't afford a management company without having investigated the cost. Some simply don't want to give up part of their profit. "Why pay someone to manage my rental property when I can keep the money myself?" is a common refrain. Other owners would really prefer to hire a professional management company, but they've heard so many horror stories that they don't know whom to trust. Many of their concerns are real — some property managers mismanage properties and lack any semblance of ethics.

Luckily, you can avoid hiring the wrong management company by following my advice on how to choose a good property manager. The following sections touch on some important points for you to consider if you're contemplating using a professional management company.

Eyeing the pros and cons of using a pro

If you think that hiring a professional management company may be the right choice for you, take the time to study this option. Here're some pros of using management firms:

- They have the expertise and experience to manage rental property, plus knowledge about current laws affecting rental housing.
- They're able to remain fair, firm, and friendly with tenants.
- They have screening procedures and can typically screen tenants more objectively than you can yourself.
- They handle property management issues throughout the day and have staffing for after-hour emergencies.
- They have contacts and preferential pricing with many qualified, licensed, and insured suppliers and vendors who can quickly and efficiently get work done.
- They handle all bookkeeping, including rent collection.
- They have well-established rent collection policies and procedures to follow when tenants' rental payments are late.

- They have an online presence with Web sites that provide detailed information and photos of all their available rental properties.
- They handle all aspects of hiring employees so you don't have to process time sheets, calculate and submit payroll, generate paychecks, or oversee all the legal requirements that come from having employees.
- They can be excellent sources for purchasing additional properties, because they're often the first to know when their current clients want to sell.

Of course, management companies have disadvantages as well:

- Using a management company for small rental properties that you've recently acquired may not be cost-effective because the management fees can run up to 10 percent of your gross income.
- Some smaller management companies may not be technologically advanced and aren't able to offer online services such as rental applications to prospective tenants and ACH (Automated Clearing House) or electronic rent payments or maintenance requests to current tenants.
- Some management companies may have in-house maintenance that charges markups or surcharges on supplies and materials, as well as increased labor costs.
- They often won't have the same care, consideration, and concern you have for the rental property.
- They often charge extra to fill vacancies, or they may take longer to fill the spots if the property management firm has several other vacancies they're dealing with at the same time.
- Some management companies require the tenants to drive to their offices to apply for the rental, pay rent, or request maintenance, which can be a disadvantage if the management company isn't located close to the rental property.
- Management companies may not be as diligent in collecting delinquent rent, particularly if the management contract provides that they keep all late fees and other administrative charges.
- Some management companies may try to falsely impress you with low maintenance expenses when they're really not spending enough on repairs and maintenance needed to properly maintain the property.
- Management companies affiliated with "for sale" real estate brokerages may be more interested in a large real estate commission from a sale and may not provide the best property management services.

Even the best property managers need and seek the input of the property owner so they can formulate a property management plan that will achieve the owner's personal investment goals. A good property manager always remembers that the rental property belongs to the owner, not the property manager.

Understanding what a property manager does

A good management company may be able to operate your rental properties better and more efficiently than you can on your own. Its superior knowledge and experience can result in lower costs, higher rents, better residents, and a well-maintained property. A good management company more than pays for its costs, allowing you more time to take up additional properties or other pursuits. Of course, a poor management company can cut into your profits, not only with its fees but also with improper maintenance and poor-quality tenants who run your property into the ground. A bad property manager can leave you in worse shape than if you'd never hired one in the first place.

Professional property managers normally handle a wide range of duties. If you hire a full-service management company, you typically get the following services:

- Enforcement of the property's rules and regulations
- Performance of rental market surveys and rental cost setting
- Preparation, advertisement, and showing of the rental unit
- Preparation of regular accounting reports
- Property inspection
- Rent collection
- Repair and maintenance of the rental unit
- Response to tenant complaints
- Tenant screening and selection

More limited or a la carte management services are also available from some management companies. Maybe you just need help with the rental of your property and are willing to pay a leasing fee. Or perhaps you want a property manager who charges only a small fee to cover the basic service and not much more. Maybe you want someone to just handle your accounting. The bottom line: You can pay for just the items that tickle your taste buds instead of shelling out for the full-course menu.

Telling the good from the bad

Management companies typically accept responsibility for all operations of the property, including marketing, tenant selection, rent collection, maintenance, and accounting. The right property manager can make a big difference in the cash flow your rental unit generates, because he finds good replacement tenants quickly or makes sure that maintenance is done in a timely manner without breaking your budget. You need a property manager who's committed to helping you get the optimum results from your rentals. The following sections help identify what to think about when searching for a management company and what to ask potential managers so you can find the right fit.

Finding the right management company for you

When searching for a management company, you want to ensure you find one that suits you. Size alone isn't the determining factor in whether a professional property manager can deliver quality service. Some management companies specialize in large rental projects, whereas small operations may focus on managing individual home rentals and apartment complexes with only a few units. Don't assume that a big company managing mega-complexes will do the best job for your duplex or that a small company has the credentials, experience, and knowledge you need. Try to find property managers familiar with your kind of rental unit.

With a little research, you can find the right fit for your property. Keep the following in mind to help you locate the right company for you:

- **Check references, particularly the management company's other clients.** Make a few extra phone calls to check references and don't sign a management contract until you feel confident that the company you hire has a sound track record. Checking with the property management company's chosen referrals isn't enough. Ask for a list of all its clients and contact the ones with rental properties similar in size and type to your own. Make certain the rental owners you contact have been with the property management company long enough to have a meaningful opinion on the quality of the service and are truly unbiased.
- **Make sure the firm you hire manages property exclusively.** This guideline is particularly important when selecting a management company for a single-family home, condo, or very small rental property. Many traditional real estate sales offices (as opposed to property management firms) offer property management services; however, property management is often a *loss leader* (meaning it costs more for the real estate sales office to manage your property than they're charging you for that service, because they're hoping to get your business later on when you're ready to sell the property). Many property managers in real estate sales offices don't have the same credentials, experience, and expertise as employees of a property management firm. The skills required to represent clients in

selling property are entirely different than the skills required to *manage* property. You can always hire a firm that sells only real estate when the time comes to dispose of your rental property.

- **Verify that the property manager and the management company have current licenses that are in good standing.** You can call or use the Internet to double-check. Most states require property managers to have a real estate license and/or a property manager's license. Simply holding a license doesn't ensure exceptional services, but it does show that the property manager is motivated enough to comply with state law.
- **Examine the property manager's credentials.** The Institute of Real Estate Management (IREM), an organization of professional property managers, provides professional designations, including the Certified Property Manager (CPM) and Accredited Residential Manager (ARM). A very select group of management firms have earned the Accredited Management Organization (AMO) designation. These designations signify excellence and dedication. See the included CD for more information, plus details on the National Apartment Association's designations.
- **Confirm that the property management company is properly insured.** The company should carry insurance for general liability, automobile liability, workers' compensation, and professional liability. The management company is your agent and will be collecting your rents and security deposits, so it should also have a fidelity bond to protect you in case an employee embezzles or mishandles your money. Look for a management company that has separate accounting for each property managed. Many property managers use a single master trust bank account for all properties. Although this is legal in most states, avoid this practice because, typically, the number one violation encountered during audits of property managers by state oversight agencies is related to shortages and other misuse of the master trust bank account.

In most management contracts, property management companies have the ability and right to perform emergency repairs without advance approval from the owner. Of course, this clause allows the property management company to take care of problems that occur unexpectedly. Most management contracts contain clauses that allow property managers to undertake repairs up to a specified dollar amount without the owner's advance approval. When you're in the early stages of working with a new management company, make sure you closely monitor its expenses. Even though it may have the legal right to use funds up to a certain amount, the company should always keep you informed as the owner. "No surprises" is one of my favorite sayings!

Repairs serve as a profit center for many management companies. They may offer very low property management fees knowing they'll make it up through markups on repairs — and often the repairs aren't even necessary. Look for a property management firm that doesn't mark up materials, supplies, or maintenance labor.

Knowing what to ask a prospective management company

The quality of your property management company directly affects the success of your real estate investments and your peace of mind. Visit the management company's office and spend time interviewing the specific property manager who'll have control of the hands-on management of your property. Here are some important questions to ask as you interview management firms:

- Can you provide a list of exactly what management services are provided, including dates I will receive reports, and a breakdown of management costs?
- Can you explain your methods of generating interest in my rental property and selecting tenants in compliance with all Fair Housing laws?
- Can I contact several of your current and former client references with rental properties that are similar in type, size, and location to mine?
- Is your firm an Accredited Management Organization (AMO) recognized by the Institute of Real Estate Management (IREM)?
- Do your staff members hold IREM's distinguished Certified Property Manager (CPM) designation or Accredited Residential Manager (ARM) designation?
- Is your firm an active member in good standing with a local affiliate of the National Apartment Association (NAA), and does it hold any NAA designations?
- Who will actually manage the day-to-day activities at my property? What are his qualifications, and does he exclusively manage real estate?
- Do you provide 24/7 on-call maintenance services with a live person answering the calls who also has e-mail capability?
- If maintenance is provided in-house or by an affiliated firm, do you only charge the actual cost of labor and materials without any surcharges, markups, administrative fees, or other such add-ons?
- Do you pass along any volume purchasing discounts fully and directly to clients for appliances, carpeting, and other items without any markups?
- Do all funds collected for applicant screening fees, tenant late charges, and other administrative charges go directly to the owner and not the manager?
- If allowed by law, are all employees given pre-employment screenings that include thorough background checking by an independent security consultant, plus drug and alcohol testing by a certified lab?
- Do you carry Errors and Omissions coverage of at least $500,000, plus general liability coverage of at least $2,000,000?
- Do you have a $500,000 Fidelity bond and a Forgery and Alterations policy of at least $25,000 for all employees?

- Are your legally required state and/or local licenses current and without any history of violations?
- Do you have separate bank trust accounts for each client rather than a single master trust bank account containing multiple owners' funds?

When you hire outside property managers, treat them as valued members of your management team — but be sure they know you're the team manager and understand your long-term goals. If you're looking for appreciation and preservation of your rental property's value, then make sure the management company keeps your rental property in great condition and looks for long-term stable tenants rather than just premium rent from short-term rentals. Of course, the manager should ask before spending significant amounts of your money, and he should keep you informed on a regular basis.

Compensating your property manager

Management companies are compensated in a variety of ways, and the type of fees and typical compensation vary widely throughout the country. Make sure you understand the compensation of your property manager, but never evaluate the management company based on the management fee alone.

How property management companies charge

The typical professional management fees for single-family homes or individual rental condominiums are 10 percent of the actual collected income with an additional fee earned each time the unit is rented. The rental fee can range from a flat fee of $250 to $500 or a percentage of the monthly rental rate, such as 50 percent. If the rental home or condo has a high rental value, then the management fee is often lower, in the 7 to 10 percent range.

When a property manager considers how much to charge you, she typically looks at the following pieces of information:

- **The amount of time required to manage the property:** An experienced property management company owner knows the average number of hours the property manager, the accounting staff, and other support personnel will spend each month on managing your property. She then calculates a management fee schedule that should generate the fees necessary to provide the proper management company resources to effectively manage your rental units. If you have larger rental properties, management fees don't typically include the services of any on-site manager, superintendent, or caretaker, who is paid separately.
- **The size, location, condition, and expected rental collections of the property:** Generally, the larger the rental property, the lower the management fee as a percentage of collected income. Fees vary by geographic area and by the income potential of the rental unit, with a higher-end rental property commanding a lower percentage management fee.

However, for certain properties that may be more difficult to manage, the management company may have higher management fees or additional charges for certain types of services or for a certain period of time. Management companies may also propose charging a minimum monthly management fee or a percentage fee (opting for whichever of the two is greater). For example, a property that's in very poor physical condition and needs extensive repairs and renovations requires a significant increase in the time spent by the property manager in bidding and supervising the improvements. This additional time is worthy of separate compensation to the property manager.

Try to find a company with a management fee that's a percentage of the collected income; this kind of fee is a strong motivator to the management company to ensure the rents are kept at market rate and actually collected on time. Never pay a management fee based on the potential income of a rental unit, only on actual collected income.

What to prepare for when considering compensation

Your management company's compensation can be affected by more than just the standard considerations mentioned in the preceding section. Knowing how to look beyond the basics can help you save money in the long run and make your investment in a management company more worthwhile.

Keep the following in mind when analyzing your property manager's compensation rate:

- **Set a specific deadline for filling vacancies.** Distressed rental properties often require extensive maintenance and repairs and typically have very low occupancy and require extensive marketing and leasing activities. The *lease-up* (filling all your vacant units) of this type of property is usually an extra cost item, because the property manager will spend much more time managing this property. As an owner, structuring the compensation so that the management company has an incentive to get the property leased-up as soon as possible is best.
- **Watch out for management fees that seem too low.** When this scenario occurs, it's a good indication that the property managers are spread too thin and may not properly manage your property. Poor management can result in unhappy tenants, which leads to higher turnover and longer periods of vacancy without rental income.
- **Understand that leasing fees are often justified and usually not negotiated.** The most time-intensive portion of property management is tenant turnover. When one tenant leaves, the property manager must make the unit rent-ready. Then she must show the property and screen the tenants. Leasing fees may vary, but you can usually expect either a flat fee of a few hundred dollars or a percentage of the rent, such as half of the monthly rental rate.

A friend of mine who's a mechanical engineer by profession was relocating to another state and wanted to retain his beautiful suburban home in case he was ever transferred back to the area. He inquired into the cost of hiring a professional management firm and was shocked by the wide variation in management fees quoted. So he began asking more questions of one prospective management company and learned that this particular property manager was already overseeing more than 170 other rental units and homes. My friend quickly calculated that this property manager would only be able to spend an average of one hour a month on the management of his rental home, including rent collection, accounting, tenant calls, property inspections, and all the other property management duties — for a management fee that was quoted at 10 percent, or over $150 per month. Be sure you know how many other rental properties will have a claim on your property manager's time before you sign up!

Making sense of management agreements

The management agreement is a pivotal document; it spells out the obligations of the property management company to you, the client. Be sure to study the fine print — it's tedious but necessary in order to avoid unpleasant surprises. Even the management agreements available through state and national real estate organizations can contain clauses that are clearly one-sided in favor of the management company.

For example, many management agreements call for the property manager to collect and keep all the income from applicant screening fees, late charges, or returned check charges. Of course, property managers justify this policy on the basis that they incur additional time and costs when handling such situations. But these fees should belong to you, because you want to give the property manager a financial incentive to fill your unit with a tenant who pays rent on time and cares for the property. A management fee based on actual rents collected is a better arrangement.

Read on to find out what other nuggets may be hidden in the fine print of your management agreement — and how to protect your investment:

- **The "no management fee charged when the unit is vacant between tenants" line:** Although this seems like an arrangement that saves you money, especially when rental revenues aren't coming in, the property manager can rush to fill the vacancy without properly screening tenants — and a destructive tenant can be worse than no tenant in the long run.
- **The "hold harmless" clause:** This clause protects the property manager from liability for his own errors in judgment or the mistakes of the workers the firm sends to your rental unit. One solution is to include a "reasonable care" provision so the property manager is motivated to be diligent in his management and avoid workers he knows have had

problems in the past. Your agreement should also mention such obvious requirements as informing you of what's happening with your rental property.

- **The long-term management contract request:** Some property management companies request long-term management contracts that can't be cancelled or can only be cancelled for cause. Avoid signing any property management contract that can't be cancelled by either party with or without cause upon a 30-day written notice. A property management company that knows it's only as good as its most recent month's performance will stay motivated to treat your property with the time and attention needed to get top results.
- **The confusing language trick:** If the property manager won't agree to reasonable clarifications of the contract language or a complete list of the services provided for his fee, he may not go out of his way to help you later. Consider this refusal a warning sign and find a property management company willing to accept your reasonable terms.
- **The "I'll use my own agreement that suits my best interests" maneuver:** Many property managers use their own proprietary agreements written strictly in the best interests of the property management company. So be sure to have your attorney review this agreement very early in the discussions with your potential property manager.

Make sure all your concerns are addressed in the management agreement. You need to know exactly what weekly or monthly reporting the company provides, when your property expenses will be paid, and who's responsible for payment of critical items like mortgages, insurance, and property taxes. Leave nothing to chance.

I include some sample property management agreements on the accompanying CD. You can use them to better familiarize yourself with these contracts, or you can see which one (or even combine elements into a new agreement) is best suited to your rental properties and your personal situation. Ultimately, you can propose your property manager sign your agreement, but only after you have it reviewed by an attorney.

Being aware of the tax consequences

As a rental property owner, you're running a business and must file Schedule E with your federal tax return. The tax laws allow your rental housing business to deduct all operating expenses, including the costs of advertising, maintenance, payroll, insurance, property taxes, and management fees, whether paid to yourself or a property management firm. ***Note:*** Federal and state tax codes change from year to year, so discuss your personal tax situation with your accountant or tax preparer in advance.

Although your expenses are deductible, they erode your net income from your property. If your annual expenses are greater than rent revenues, you may find that you can use those losses to help ease the tax burden from your full-time job or other sources of income unrelated to your rental property. But a loss is a loss, and trying to keep your rental property in the black is still a good idea, even if you have to pay some taxes on the income.

The IRS's passive loss rule states that all real estate rental activities must be treated as passive with an exception that some taxpayers are allowed up to a $25,000 deduction. However, real estate investors who can be classified as real estate professionals are permitted to deduct all their rental real estate losses from their ordinary income, such as current employment income (wages, commissions), interest, short-term capital gains, and nonqualified dividends. See Chapter 19 for more information on whether you meet the stringent IRS requirements to qualify as a real estate professional.

Even though federal real estate taxation laws consider most real estate activities passive rather than active investments, definite tax advantages exist for those individuals who're actively involved in the management of their rental properties. The definition of *actively involved* allows you to hire a property management firm and still take advantage of the tax write-offs available for rental income property, as long as you're involved in setting the rents and policies for the property.

Chapter 4

Taking Over the Property

In This Chapter

- Understanding what to look for before the deal is final
- Helping existing tenants through the transition process

Somewhere during the process of thinking about investing in rental property, you may have considered acquiring a rental property already occupied with tenants. On the surface, in fact, this kind of opportunity looks like a positive, because you don't have to advertise and select tenants yourself — at least not right off the bat. But just how positive an experience you have taking over an occupied rental property depends on the quality of your tenants. Some real estate investors actually prefer to acquire vacant rental properties so they can renovate the units and select their own tenants.

In this chapter, I assume you've made your decision to purchase a rental property, and I focus on some of the important issues involved in taking over that property. Here you find out how to begin the all-important task of implementing your own policies and procedures with the existing tenants, who may be living under an entirely different set of rules. The proper procedures for taking over a rental property actually begin before you're legally the new owner. Ensuring your transition goes smoothly requires some know-how, and in this chapter I give you exactly that.

For more information on evaluating potential rental property acquisitions, proper due diligence steps, and property inspections, plus ideas on how to hold title to your rental properties, check out *Real Estate Investing For Dummies* by me and coauthor Eric Tyson (Wiley).

Knowing What to Get Upfront

If you're thinking about buying a rental property, you need to start by investigating all aspects of it and its current tenants, if any. After all, no one is going to represent your interests as well as you. During the *due diligence period,* which is when your *escrow* (an account for funds and documents held by a neutral third party in a real estate transfer until all the conditions have been met, per the written instructions of the seller and buyer) and purchase are pending, put on your Sherlock Holmes cap and ask lots of questions. Don't be shy. Talk to the tenants, the neighbors, the local government officials, and the property's contractors or suppliers to be sure you know what you're getting. When in this situation, remember my favorite motto: "No surprises."

Most sellers are honest and don't intentionally withhold information or fail to disclose important facts; however, the old adage "Buyer beware" rings particularly true in the purchase of rental real estate. Resolving questions and issues now through regular communication with your seller eliminates some very unpleasant and possibly contentious disagreements with your tenants in the future.

The due diligence period may be your best or only opportunity to seek adjustments if important issues have been misrepresented. When you sign your name on the dotted line, the deal's done. You can't go back and ask the seller where the tenant's security deposit is. So even though taking over your new rental property can be chaotic, don't fall into the trap of just verbally verifying the facts. Confirm all information in writing and begin setting up a detailed filing system for your new property.

In the following sections, I cover some items to make sure you have in writing *before* the deal is final. You can also check out the Property Takeover Checklist and Exterior Property Inspection forms on the accompanying CD.

A list of personal property included in the sale

Take an inventory of all the personal property included in the sale. This list may include appliances, equipment, and supplies owned by the seller. ***Remember:*** Don't assume anything is included in the sale unless you have it in writing and be sure to verify that all items indicated are actually at the property before you close the deal. One of the most significant disputes can arise if there's a misunderstanding about who owns the appliances in the rental unit. For example, if the seller says all the refrigerators belong to the rental property owner (as opposed to the tenants), you want to verify that in writing with each tenant. Otherwise, you run the risk of a serious dispute or loss in future years as tenants take appliances when they leave, claiming that fancy fridge belongs to them.

WARNING!

Be sure to record and maintain a list of all your appliances' serial numbers, because some ingenious tenants have been known to sell the new appliances in their rental unit and replace them with used appliances. Watch out for this tacky tactic when there's a change in ownership or management.

A copy of all tenant files

Make sure you have all the appropriate paperwork in the tenant files. These documents include rental applications, current and past rental contracts, move-in inspection checklists, full payment history and any rent increase documents, all legal notices, maintenance work orders, current contact information, and correspondence for each and every tenant.

A seller-verified rent roll and list of all tenant security deposits

A *rent roll* is a listing of all rental units with information on the tenants' names, move-in dates, current and market rents, and security deposits. Be sure you get a written seller statement that no undisclosed verbal agreements, concessions, or side agreements have been made with any tenant regarding rent or security deposits.

ON THE CD

When acquiring an occupied rental property, be sure you follow state or local laws in properly handling the tenant's security deposit. (See the accompanying CD for more info on state laws concerning security deposits.) Most state laws require the seller and/or purchaser of a rental property to advise the tenants *in writing* of the status of their security deposit. These laws usually give the seller the right to either return the security deposit to the tenant or transfer the deposit to the new owner. Here's why you want the latter to happen:

- If the seller refunds the security deposits, you now have the challenge of collecting them from tenants already in possession of the rental units. Avoid this scenario by strongly urging the seller to give you a credit for the full amount of the security deposits on hand in escrow and have each tenant agree *in writing* to the amount of the security deposit transferred during the sale. Close the loop by sending each tenant a letter confirming his or her security deposit amount.
- If your state doesn't require you to hold the tenant security deposits in a separate bank account, your credit from the seller lowers the amount of funds required at the close of your escrow. Of course, you must be able to refund the remaining balances (after taking proper deductions) of any tenant security deposits when the individuals move out.

WARNING!

Without written proof to the contrary, some crafty or desperate tenants may later claim they had a verbal agreement with the former owner or manager for a monthly rent credit or discount for maintaining the grounds, or that they were promised new carpeting or another significant unit upgrade. If this scenario happens to you, offer to get the former owner or manager on the phone to verify the tenant's story. In my experience, when you offer to verify the story, the tenant typically begins to backpedal, and the truth comes out. But to avoid any surprises, obtain a written statement from each tenant indicating that no verbal agreements exist, and no promises have been made by the former owner.

A copy of all required governmental licenses and permits

Rental property owners in many areas are now required to have business licenses or permits. Contact the appropriate governmental office in writing and make sure it's properly notified of the change in ownership and/or billing address. Often these governmental entities have stiff penalties if you fail to indicate the change in ownership in a timely manner. The office eventually learns of the change, because it monitors the local recording of deeds and receives notification of changes in billing responsibility from local utility companies. Don't delay the inevitable. Make sure you have current copies of all state and local rental laws and ordinances affecting your rental property.

Check out Appendix B and the accompanying CD for resources for state landlord-tenant laws.

A copy of all the latest utility bills

Get copies of all account and payment information for every utility that provides services to the rental property. These utilities may include electricity, natural gas, water/sewer, trash collection, telephone, cable, and Internet access. Prior to the close of escrow, contact each of the utility companies and arrange for the transfer of utilities or change in the billing responsibility as of the estimated escrow closing date. If provided with sufficient advance notice, many utility companies are able to have the final meter reading and/or billing cutoff coincide with the close of escrow, which prevents the need to prorate any of the utility billings between the owners.

Let me reiterate: Verifying the accuracy of all utility bills is extremely important. One of my expert witness cases involved a water utility improperly charging a property owner for sewer charges related to a water meter used only for irrigation. (Some water utilities allow for "irrigation only" meters that are exempt from sewer charges because the water never enters the sewer system.) In this case, the utility company had been collecting sewer fees for many years until the discrepancy was brought to its attention. The property owner did receive lower billings in the future, but state law protected the municipal utility company from refunding any overcharges beyond the previous 12 months. The owner's thousands of dollars in overpayments were a rather expensive lesson.

Some consultants actually offer to review utility bills to ensure you're being charged the proper amounts based on the correct billing rates. These professionals are usually compensated on a contingency basis through a percentage of the savings they're able to achieve.

A copy of every service agreement or contract

Make sure you obtain copies of all the service agreements and/or contracts. These documents may include agreements made with maintenance landscapers, pest control services, boiler maintenance services, laundry leases, and other providers. Review all current contractors and service providers the current owner uses.

If you plan to terminate the services of a particular contractor or service provider, the seller may be willing to voluntarily send a written conditional notice of termination indicating that, should the property sell as planned, the provider's services will no longer be needed as of the close of escrow. You are then free to make your own plans for services and can even renegotiate with the current company for better terms. Of course, if you find the seller already had favorable pricing from the contractors or service providers, you may be able to negotiate the same terms.

A copy of the seller's current insurance policy

One of the most important steps you handle when taking over your new rental property is securing insurance coverage. You need to make sure you have the proper insurance policy in place at the time that you legally become the new owner. Although the seller's policy won't protect you in any way, request a copy of her policy or declaration of coverage, because this information can be very helpful to your insurance broker or agent when analyzing the property to determine the proper coverage you may need.

REMEMBER

Always seek the advice of a professional insurance broker or agent when obtaining insurance coverage. Have your agent run a *loss history* on your new property to determine whether any losses have been claimed. You may find that the property has had significant claims in the past, which impacts your ability to find reasonably priced insurance coverage. The loss history can also show some of the problems that have occurred at the property, including several small instances that can indicate a larger problem, such as plumbing leaks.

A final walk-through can save you headaches

Before you close escrow, you want to take a final walk-through to make sure the property hasn't been damaged prior to closing. I was an expert witness in a case where the new buyers learned this lesson the hard way because they didn't visit the rental home before closing.

After the sale was complete, the new buyers excitedly went to see their new rental property, which had sat vacant for nearly a week during escrow. They were shocked to find the rental home completely flooded and severely contaminated with mold. The buyer sued the seller, claiming that someone had intentionally or inadvertently left the water supply line valve to the refrigerator ice maker open, allowing water to cover the entire first floor. The buyers were unable to prove that the damage occurred while the property was still owned by the seller, so the seller's insurance company denied the claim.

Ultimately the buyers' insurance company agreed to pay for some of the damage, but not before the buyers went through more than two years of expensive and emotionally draining litigation and lost a lot of money because the property sat vacant the entire time. Everything could've been avoided if the buyers had simply inspected the property just before the close of escrow and stopped the sale until the damage had been addressed.

Although you may trust your insurance broker or agent implicitly, don't allow your escrow to close until you have written documentation confirming that your insurance coverage is in force. Even though it may seem improbable, many times a property suffers a catastrophic loss or liability claim a mere matter of hours after it changes hands, and the new owner's insurance coverage isn't yet in place.

When you receive the current insurance information, take steps to verify the accuracy of all records. If certain representations about the types and amounts of coverage are made verbally but not given in writing, then you need to protect yourself by sending written documentation to the seller and all brokers and agents to confirm any information you've received. This step can be important in preventing future disputes about the representations made by the seller or any of the brokers or agents.

Working with the Current Tenants during the Transition

If you're like most rental property owners and you're acquiring property that's already occupied, the tenants are probably well aware of the pending ownership change. Tenants are typically full of apprehension when their rental unit is changing ownership, not because they think you'll be an unreasonable landlord, but because of the uncertainty of change. So be sure to begin your relationship with your tenants on a positive note. In the following sections, I guide you through the transition process step by step.

Meeting with the tenants in person

When you first acquire your new rental property, contact your tenants in person and reassure them that you intend to treat them with respect and have a cordial yet businesslike relationship. Deal with your tenants' questions honestly and directly. The most common concerns are usually the potential for a rent increase, the status of their security deposit, the proper maintenance or condition of their rental unit, and the continuation of certain policies, such as allowing pets. If you're not honest with the tenants, you'll lose credibility if you later decide to implement changes that you didn't acknowledge up front.

Provide your tenants with a letter of introduction during this brief in-person meeting. This letter provides your contact information, plus explains your rent collection policies, the status of tenants' security deposits, and the proper procedures for requesting maintenance and repairs.

Be sure to request an opportunity to perform a property walk-through with each tenant. Let the tenant know whether you'll be implementing your own standard lease or rental agreement form as well.

Inspecting the rental unit

Although you most likely had a brief chance to view the interior of the rental unit during the due diligence period before escrow closed, walking through again with the tenant now that you're the owner can be helpful. However, know your state laws. In most states, tenants don't have to let you enter their rental units unless you have a legal reason and have given proper advance notice. If you set a voluntary appointment, the tenant knows you're coming and can prepare.

Don't just knock on the door and expect to walk through your tenant's rental unit. But if you're already at the rental property delivering your letter of introduction, you can schedule a mutually convenient time to meet. Some tenants will be glad to meet with you right then, but don't necessarily count on that. Giving your tenants time to think about any issues they'd like to discuss is beneficial for you both.

The former owner of the rental property may have had a policy of documenting the condition of the rental unit at the time the tenant took possession of it. If so, you may want to compare the noted condition on the Move-In/Move-Out Inspection Checklist (see Chapter 11) when you actually walk through the rental unit. If proper documentation of the move-in condition wasn't made, consider preparing such information during your walk-through. This information allows you to establish some sort of baseline for the unit's condition to use upon the tenant's move-out, which then helps you determine the proper amount of the security deposit to return to him.

Using a new lease or rental agreement

Another first step to take as the new owner of a rental property is to begin converting your existing tenants to your own lease or rental agreement. If you have a single-family rental or a small rental property, implementing your own rental agreement as soon as legally allowed is relatively easy. However, with larger rental properties, you may want to gradually transition to a new contract upon tenant turnover.

Your tenants already have one of the following:

- A valid written lease
- An expired written lease that has become a month-to-month rental agreement
- A written month-to-month rental agreement
- A written rental agreement for some period of time less than a month
- A verbal agreement

REMEMBER

Although you may want to make some changes in the terms or policies, when you acquire an occupied rental property, your legal and business relationship is already established by whatever agreement the tenants had with the former owner. Wait until the expiration of the contract to change the terms — or provide the tenant with proper legal notice of any proposed changes.

TIP

Consider the potential impact of making significant changes in the rental rates or policies immediately after you acquire the rental property. For example, although you may have strong feelings against allowing pets on your rental property, your tenants may have pets already. Although you legally have the right to implement your no-pet policy upon lease renewal or upon giving proper legal notice, you're almost guaranteed a vacant rental unit if you do so. Impose your policies over a reasonable time frame, but be sure you're aware of the potential financial consequences in the short run.

The sooner you begin to convert your new property to your rental contracts, the better. Establish uniform policies at all your rental units so the terms and policies are consistent for all your tenants. This action is extremely important to avoid possible Fair Housing violations, as discussed in Chapter 10.

The tenant information the seller provided you during escrow may be outdated. One quick way to update your records is to have the tenants voluntarily complete your rental application form. In many states, you may not have a strong legal argument for requiring existing tenants to provide this information; however, many tenants will understand your reasoning and not mind. Other tenants may be reluctant to complete an entirely new rental application. Even if you receive initial resistance, seek this updated information prior to renewing any lease. You need to be able to properly determine the financial qualifications of your tenants, particularly if you anticipate future rent increases.

Evaluating the current rent

When you acquire a rental property, part of your research is to establish its fair market rental value. If a tenant's current rent is below market value, one of your toughest decisions as the new owner of a rental property is how to handle rent increases.

As the new owner, you often have much higher mortgage payments and typically higher expenses to make necessary repairs and upgrades to the property than the last owner did. Some tenants get very upset and antagonistic about any rent increase, however, and you won't be able to appease them.

Fortunately, the majority of tenants just expect to be treated fairly and honestly. They understand you may have higher expenses and will reluctantly accept a rent increase as long as two basic conditions are met:

- **You don't raise the rent beyond the current market rent for a comparable rental unit in the area.** Give tenants documented information on comparable rentals in your area to show them you're not asking for an unreasonable rent.
- **You're willing to make basic repairs to the rental unit.** Don't ask tenants to shell out extra cash without proving you're committed to maintaining and even improving the property.

Seek cost-effective improvements or upgrades that enhance the rental unit. Most tenants just want to be sure they're receiving some of the benefit of paying higher rent. And if you're asking for more rent, be willing to reinvest a portion of the rent increase into improving the rental property. Clean the carpet, repaint the interior of the rental unit, or send in a maintenance person for a few hours to repair the miscellaneous items that need attention. Of course, if you have a very good and stable tenant, you may want to consider more significant upgrades to the rental unit. Replacing the carpet, installing a new appliance or countertops, or adding a ceiling fan and microwave oven may be an incentive for your golden tenant to sign a new lease at a higher rental rate.

Although tempting, be wary of making significant renovation or repairs to the rental property before the close of escrow. If the sale of the property doesn't go through as planned, you may have spent considerable sums to upgrade the seller's property without any recourse.

Buying unoccupied rental property

The takeover procedure for an unoccupied rental property or one that has vacant rental units isn't much different than the procedure for taking over an occupied property. Many times you may actually prefer to have the property vacant so you can quickly implement a plan to upgrade and get the property rent-ready as soon as possible. If you want an occupied rental property vacant upon the change of ownership, make the vacancy of the rental unit a condition for the close of escrow. ***Remember:*** After you own the rental property, every day the rental unit sits vacant is lost income you can never recoup, so you want to work diligently during the escrow time frame to make as much progress as possible.

Begin your marketing and advertising of the rental property to coincide with the close of escrow and completion of the rental unit renovation. Time is of the essence if you want to minimize any lost rent.

Part II
Renting Your Property

The 5th Wave By Rich Tennant

"I'm well aware that I ask a lot from my rental applicants, Mr. Harvey. However, sarcasm is rarely required."

In this part . . .

The chapters in this part guide you through the process of actually renting your property — everything from getting your rental unit ready to setting the rent and advertising. I also give you some great tips for showing your property to prospective tenants and fill you in on the importance of good tenant screening policies. So if you have a vacancy on your hands — or you will soon — read on.

Chapter 5

Getting Your Rental Property Ready for Prospective Tenants

In This Chapter

- Knowing how to get the most from your property through internal and external improvements
- Developing a system for being rent-ready
- Making sure safety is a priority
- Working with a professional to prep your unit for rental

You may think of preparing your rental property as one of the most basic property management functions, but actually doing so is critical to your overall success. Because vacant rental units don't generate rental income, you need to fill your vacancies with good, stable, rent-paying tenants as quickly as possible. But how? By making sure the interior, exterior, and grounds of your vacant rental units are clean and in rent-ready condition when you show them to prospective tenants.

In this chapter, I help you figure out whether you need to upgrade your rental unit before a new tenant moves in. And I fill you in on the proper methods of preparing the rental unit so you can get the kind of tenant you want in as little time as possible.

Coming Up with a Plan to Handle Vacancies

The first step in getting good tenants is to develop a plan to get each vacant unit in top condition. Ideally, your vacating tenant will be cooperative and allow you access to the rental unit so you can determine what items need to be cleaned, repaired, replaced, or even upgraded. As you walk through the unit, take lots of notes on its condition and what needs attention in order to get it ready to rent again. Your notes are the foundation for a detailed plan to help you attract several qualified rental prospects who want to lease the unit at the rate you're seeking. The next few sections can help you put that plan into place.

Not everyone appreciates or values the same features in a rental unit as you. This is a rental property and, just as the old saying states, "Beauty is in the eye of the beholder." The features and amenities that appeal to you may not be worth the extra investment from the perspective of your target tenant market. For example, although you prefer expensive travertine floor tiles in your own home, you may soon find that more durable flooring products can tolerate the heavier wear and tear of rental units much better. Although cleanliness has universal appeal, some features such as ceiling fans and microwaves will appeal more to some prospective tenants than others.

Considering renovations and upgrades

Almost every rental unit has the potential for renovation or upgrades, giving you the opportunity to create real value in your units. When you have a dated rental unit, you have to decide whether to renovate it and increase the rent or leave it be and settle for the same old rent. Be sure to evaluate the cost of the renovation or upgrade versus the rent increase you can get out of a particular improvement *before* you start renovating. You need to be sure you'll get your money back from your investment. The following sections help you figure out how much to renovate, what features prospective renters like to see, and what you need to do to stay within the law.

Not convinced renovating is worth thinking about? You may think you're saving time and money by allowing a new tenant to lease a rental unit that hasn't been properly prepared. After all, if Bob doesn't mind that the unit isn't rent-ready, why should you? Unfortunately, this strategy isn't as problem-free as it seems on the surface. In fact, it's a big mistake. Why? Because the kind of tenant you attract with a rental unit that hasn't been properly prepared is someone who has lower standards and may even be desperate. New tenants who accept a dirty and poorly maintained rental unit surely won't make any extra effort to leave the property in good condition when they depart.

Determining whether to renovate: What's your return?

When you're considering making renovations and upgrades, you need to understand what they can and can't do for you. Many times renovations and property upgrades result in increased net income and higher property value. However, sometimes the renovations may not justify the investment.

To consider the *payback* of a proposed improvement, calculate the total installed cost of the upgrade and divide your answer by the monthly increase in rental income. For example, if you modernize your rental property and install a dishwasher for $400 and consequently increase your monthly rent by $25, the payback is 16 months. Whether 16 months is an acceptable payback and worth the initial investment of $400 is determined by each owner. Just remember that you're not only increasing your monthly gross income but also identifying your increased property value as a result of higher net income, a value that makes your rental property worth more to a buyer when you look to sell your rental property.

Every real estate investor has different expectations, but generally any payback of less than 24 months is good, especially when you look at the increase in property value that accompanies increased net income. See *Real Estate Investing For Dummies* by me and coauthor Eric Tyson (Wiley) for more discussion of ways to increase the value of your rental property.

Eyeing what prospective renters want

Some tenants value certain improvements more than others. So the main question is: What features and improvements do most prospective renters want (which in turn can give you more money in terms of a higher rent)? You can't come up with an exact answer to what amount of increased rent a particular upgrade will generate. For example, a new granite countertop in the kitchen or new light fixtures in the dining room or bathroom have a different impact on each prospective tenant; some are willing to pay more for those amenities, and others aren't.

Feeling a bit confused about what direction to take to figure out the features prospective renters want? Never fear! The following tips can guide you:

- **Keep in mind what features and strengths your prospective renters will find in competitive rental units.** Look for outmoded or outdated features in your own unit. Perhaps most of your competition offers dishwashers, but you don't have one in your unit. You may want to install a dishwasher so that you remain competitive. Or maybe your unit has a very old dining room light fixture that you can easily replace with a modern light fixture or ceiling fan with a light kit. Another simple upgrade is to replace your old electrical switches and outlets for a more modern look. New hardware on the kitchen cabinets is also a low-cost upgrade. Pay particular attention to those items that are quick, easy, and inexpensive to replace, but can really improve the overall look of your rental unit.
- **When upgrading or replacing your current appliances, standardize the brand and model wherever possible.** This advice is particularly true for certain appliances that have modular components that can be easily replaced to give the appliances a new look and extended life. Stoves, ranges, ovens, refrigerators, and washers and dryers fit into this category. When other appliances such as microwaves, dishwashers, and garbage disposals fail, it's simply more cost-effective to replace the units. So for this latter category of appliances, you want to take advantage of appliance vendors who have certain models on closeout or special pricing. Bonus: Tenants generally don't pay that much attention to the brand of the

garbage disposal, so you may as well take advantage of any specials. Buying a discontinued brand or model of a stove, however, may save you money up front but cost you much more in the long run, when you're unable to find replacement parts.

If you have an older rental property, renovating may be more difficult due to some of the hazardous materials used in your unit's original construction. Hazardous materials like asbestos or lead-based paint aren't cheap to remove. Often, you're better off just leaving the materials in place as long as they haven't been disturbed. Consult with hazardous materials removal experts before determining the extent of the renovation and the proper methods to ensure that all hazardous materials are safely maintained. Also, check with your local building code enforcement or health department for requirements regarding the proper handling and disposal of hazardous materials.

Obtaining the appropriate permits

When you're considering renovations or upgrades to your rental unit, make sure you get the appropriate building permits or licenses as required in your area. You don't need to be a code expert, but having a general understanding of both local housing codes and state housing laws is important. Evaluate your property and ensure that the planned work will meet current building codes. Every state and many local municipalities have building codes that dictate the minimum standards to which all buildings must comply. Often, they have housing, fire, and health and safety codes as well. Reviewing rental housing industry publications can alert you to significant changes in these codes.

If inspectors find that your rental property isn't in compliance with the proper codes, then you may receive violation notices and potentially expensive fines. Building codes are regularly updated and changed, and typically, properties aren't required to meet the new code requirements unless the properties are renovated, and new building permits are obtained. Be sure you or your contractors are aware of the code requirements and incorporate the necessary code-compliance measures in your renovations to ensure the safety of your tenants and to protect yourself from violations and fines.

Paying attention to the exterior and common areas

You want to make sure your rental prospects' first impression of your rental property is a positive one. If the property's exterior and grounds don't look nice, your prospect won't even bother to see the interior — where you've just installed new appliances and high-quality carpeting.

REMEMBER

A poor first impression of your rental unit's exterior is hard to reverse — regardless of how great the inside may look. That's why you want to make a great first impression. In order to do so, you need to think about *curb appeal,* or how your property looks to a prospective tenant when she first visits.

TIP

To attract tenants who'll treat your property properly and stay for years, keep the following suggestions in mind:

- **Start at the street and carefully critique your property as if you were entering a contest for the best-looking property in your area.** First impressions are critical, and one of the key areas seen by all prospective tenants is the front entry. Make sure the entryway is clean, well-kept, and well-lit. Clean the front door or apply a new coat of paint or stain. Buy a new welcome mat. Remove or replace a broken screen door or mailbox. Also, check the driveways and walkways and make sure they're as neat and tidy as possible.
- **Be sure your grounds and exterior areas are sparkling clean and the landscaping is well-maintained.** Believe it or not, you can renovate your grounds inexpensively by picking up trash and junk, removing weeds, properly watering the grass, and using the right fertilizer. A nice green lawn, healthy shrubs, and shade trees enhance any rental property. Savvy rental property owners know that landscaping is one of the most cost-effective ways to significantly upgrade a unit.
- **Check all patios, balconies, and entryways.** They should be clean, and the railings should be secure.
- **Make sure the building structure is presentable and inviting.** Although major architectural changes are often cost-prohibitive, you can do a lot with a little paint, landscaping, and cleanup. The good news is that these items generally don't cost much compared to the positive benefits you gain. Some specific exterior improvements to consider are ground-level or hanging planters, brass house numbers, awnings, or freshly painted fence or house trim. See *Flipping Houses For Dummies* by Ralph R. Roberts and Joe Kraynak (Wiley) for examples of exterior and landscaping renovations that can completely change a property's curb appeal and even reposition tired rental properties.

Making sure the interior is up to snuff

The most qualified, stable renters always have choices, no matter how good or bad the rental market. You're in competition for these excellent tenants, and you need to make sure your rental unit stands out from the rest. A prospective tenant's positive first impression of your rental property's exterior soon disappears if its interior isn't just as sharp and well-maintained.

REMEMBER

Curb appeal in a community association

If you own a rental unit in a community interest development (CID), commonly referred to as a community association or homeowners' association (HOA), the responsibility for the maintenance and repair of the common areas typically falls to the association. Contact the association or its property manager to advise someone of any common area concerns you have. The association has a vested interest in ensuring the proper maintenance of the premises, as well as maintaining a sense of desirability for owners and tenants, but it may require some persuasion to take action.

Community associations are nonprofit entities run by volunteer boards of directors who are often reluctant to assess their owners and spend money to upgrade or modernize aging properties. Rarely do you find an association with plentiful reserves and well-maintained property unless it has strong leaders willing to make beneficial upgrades a priority. So you may need to get involved as a member of the association and use your expertise to demonstrate to the other owners (many may be owner-occupants) that proper maintenance can actually reduce long-term operating costs as well as maintain higher property values, which is a concern to all owners.

WARNING!

Don't show your rental unit until it's completely rent-ready. Prospective tenants often have a hard time seeing a unit's potential. If you show them a dirty rental unit, they'll *always* think of it that way. Although you may lose a couple of potential showing days by taking time to prepare the unit, you benefit in the long run by signing a more conscientious tenant. Trust me when I say that tenants who are more careful in the selection of their new rental home are planning to stay longer, and this is exactly the type of tenant you want.

ON THE CD

When preparing a rental unit for a new tenant, don't overlook or forget a single item. I recommend using an inspection checklist (like the Interior Unit Inspection Checklist included on the CD) to guide you through the process and assist you with final inspection. Here's a list of what to go over in preparation for your new tenant:

- **When you have legal possession, remove any personal possessions and trash left behind by the previous tenant.** Be sure that you follow any state or local laws providing the former tenant an opportunity to reclaim any abandoned personal property.
- **Check all plumbing (toilets, faucets, and pipes) for proper operation.** Make sure nothing leaks, the plumbing has the proper pressure, and everything drains adequately.
- **Test all appliances for proper operation.** Run the dishwasher through a full cycle. Be sure the oven's drip pan, broiler pan, and racks are included.

- **Try out all hardware.** Rekey or change the locks and make sure they're operational. Pay attention to all latches and catches, doorknobs and pulls, doorstops, and sliding doors.
- **Check all windows, window or insect screens, and window coverings.** Verify that they're clean, unbroken, secure, and properly operational. Test all window locks to be sure they work as well.

  REMEMBER

  Window treatments can make your rental property look great. After all, what's not to like? You control the appearance of your rental property from the street, and your tenant receives attractive and functional window coverings. The various window treatments are now very affordable and can really make a difference, so be sure to explore all your options and find out what's most desirable in your local area. Choose window coverings that appeal to your prospective tenants and are easy to maintain. I recommend vertical blinds or drapes, because they're much easier to maintain and clean than miniblinds.
- **Inspect all walls, ceilings, and baseboards.** Confirm that the paint and/or wall coverings provide proper coverage, without holes, cuts, scratches, nail pops, or bad seams.
- **Examine all floor coverings.** Make sure floors are clean and in good condition. All flooring should be properly installed, without bad seams.
- **Check all bathrooms.** Thoroughly clean the toilet, tub, shower, sink, mirrors, and cabinets. Check the toilet paper holder and towel bars to be sure they're clean. Put a paper sanitary ring around each toilet seat and a new roll of toilet paper in each bathroom.
- **Look over all closets and storage areas.** Clean rods, closet dowels, hooks, shelves, lights, floors, and walls.
- **Examine all counters, cabinets, doors, moldings, thresholds, and metal strips.** Verify that they're clean, fully operational, and present no hazards.
- **Test smoke detectors, lighting, and electrical outlets, including all ground fault circuit interrupters (GFCI, also referred to as GFI) and circuit breakers, for proper operation.** Make sure all electrical components work at move-in; it's then the tenant's responsibility to notify you of any problems during the tenancy.
- **Check the fireplace.** If your unit has a fireplace, clean out ashes and debris. Have the chimney flue inspected periodically based on the amount of usage.
- **Inspect the heating and air conditioning unit(s) for proper operation.** Be sure the thermostat, filters, vents, and registers are all in working order. Contact a professional if necessary.

- **Perform a final walk-through of the entire rental unit for appearance and cleanliness.** Be sure to recheck the unit every few days because dust can settle quickly in a vacant unit. I've also seen an unpleasant surprise in the form of dead pests or insects that took their time expiring from recent pest control efforts. Nothing stops a good conversation with a great prospective tenant faster than stumbling upon a dead bug!

Preparing Your Rental Unit the Right Way

One of the best ways to maximize your rental income is to develop a system to improve your efficiency by completing your rent-ready process in minimum time. But you may be so overwhelmed by the amount of work you need to get done in the amount of time you have that you don't stop to consider the order you should do it in. I recommend you stick to the following order to maximize your time and efficiency:

1. General cleaning
2. Maintenance, including repairs and upgrades
3. Painting
4. Final cleaning
5. Carpet or floor covering cleaning

General cleaning

As soon as the old tenants move out, clean the vacant rental unit. During this initial cleaning, you should

- **Remove all trash left behind by the former tenants, including anything remaining in drawers, cabinets, and closets.**
- **Wipe down countertops and shelves.**
- **Sweep or vacuum the floors.**
- **Wash the windows, window coverings, and doors.**
- **Clean out the storage areas, including the attic, basement, or garage, as applicable.**

If you can't gain access before the tenants vacate, now's the time to walk through the unit and come up with your plan for getting it ready to rent again.

TRUE STORY

Forget second chances when it comes to showing a rental

Early in my property management career, I learned a valuable lesson about the importance of cleanliness and first impressions. I'd just arrived at a rental property for a management inspection and was speaking to the on-site manager when a prospective tenant entered the rental office and asked to see a vacant unit. She was a local college student out apartment hunting with her mother. I told my manager to go ahead and show the unit, and explained I'd just follow along if they didn't mind.

Together we left the rental office. The property grounds were very well-maintained, and the on-site manager did a great job getting to know the prospect's needs and determining the right unit to show. With the manager's help, the prospective tenant and her mother decided on seeing an upstairs unit, away from the street.

Everything was going great . . . until we got to the actual unit. A dirty, cobweb-filled entryway led us to an interior (that hadn't been tidied in at least a week!) where we could see a large tree branch hanging precariously over the balcony rail. Before seeing the unit, the prospective tenant and her mother had been very positive, even discussing how soon she could get approved and move in. Afterward, they stopped asking questions, barely answered any, and became very noncommittal.

Learn from my mistake: Remember that the cleanliness of the rental unit is paramount and *never* show a rental unit without having gone through it yourself just prior to the showing.

Maintenance and repairs

Maintaining and inspecting everything in your rental property while it's vacant is important. Properly completing this inspection doesn't mean you need to be a certified repair technician; just be able to ensure that the interior unit systems are operational for the standard day-to-day usage you expect from your new tenants. If you aren't certain what to look for or if anything seems awry, then be sure to contact a repair professional who's qualified for the building system that needs inspecting.

REMEMBER

The majority of the items requiring maintenance in your vacant unit are minor, such as sticking closet doors, loose door knobs and towel bars, and burnt-out light bulbs. But be sure to carefully and regularly evaluate the current condition of all systems and equipment, including plumbing, electrical, appliances, and heating, ventilating, and air conditioning (HVAC). Keep the following in mind:

- **Carefully inspect all plumbing fixtures.** Look for leaky faucets, clogged aerators, or running toilets. Test the angle stops or shutoff valves for all toilets, washers, dishwashers, and faucets, including under each sink, and look for signs of leakage. Even small leaks can be a major problem if not detected and repaired quickly.
- **Inspect and test the electrical components of the rental unit.** Make sure the circuit breakers or fuses are all in place and are operating properly. Replace burnt-out light bulbs and check light switches and outlets. If possible, verify that the cable or satellite television and telephone lines are working, too.
- **Inspect each of the appliances and make sure that they're operating properly.** Stoves and ovens contain modular parts, and you can replace the burner drip pans and control knobs very easily, because replacement parts are readily available for most major appliances. Run the dishwasher through a cycle and look carefully for any signs of leaks around the gasket or underneath near the pump housing.
- **Conserve energy by turning off the water heater, furnace, and air conditioning units at the breaker and setting the refrigerator/freezer to low.** Your turnover work should also include the cleaning or replacement of all filters. This simple, low-cost item greatly improves the energy-efficiency and lowers the wear on the equipment. Keep records indicating the date the filters were changed and be sure to remind your tenants when they should be changed again.

  Tenants are becoming increasingly aware of the importance of conservation and energy-efficiency when selecting their homes. If you install water-saving fixtures, pilot-less ignition gas stoves and water heaters or tankless water heaters, weatherproofing, insulated windows and doors, and energy-efficient appliances, you'll have a competitive advantage in the rental marketplace. Be sure to emphasize your "green" efforts in promoting your rental property.
- **Check the pool/spa.** If your property has a pool or spa, have a professional evaluate its condition and provide a written report documenting the findings, including the state of the equipment and the water quality. This evaluation establishes a baseline that can often head off any tenant complaints down the road.
- **Perform maintenance that will minimize the likelihood of pests.** Caulk all cracks around the windows, foundations, drains, and pipes that may afford entry into the rental unit. Almost every rental property will have the need for pest control at some point in time. An occasional cockroach or ants in search of water or food are commonplace, and there are consumer products available to handle these limited situations. However, use professional exterminators to treat more significant problems and talk to your exterminator about establishing a regular schedule for follow-ups to be sure your rental unit is free of pests.

Painting

The next step in getting your vacant rental unit ready is painting. The keys to success here are preparation and knowing what to paint when. Follow these steps to turn your unit into a rental work of art:

1. **Select and purchase the paint you want to use.**

   Remember, standardized colors are best, so you can easily and affordably touch up your rental unit instead of having to completely repaint it. One coat of a high-quality flat white latex paint is usually sufficient, so use this standard to help determine the quantity you need to buy. ***Note:*** You may require more gallons if you're changing the paint color to a much lighter shade than the current version. Try and use the same brand paint because colors can vary by brand.

   Plan to use a semi-gloss paint in kitchens and baths for easy cleanup and resistance to moisture. Although this type of paint may cost more, you save in the long run because purchasing higher-quality paint means you don't have to repaint the entire unit when it inevitably turns over.

2. **Take everything off the surfaces you're painting.**

   Remove all nails, screws, picture anchors, and other similar items. Detach all door hardware and electrical coverplates, too.

3. **Strip all dirt from the painting surfaces.**

   Make sure the walls in particular have been cleaned of any dirt. Treat grease, crayons, water stains, and other blemishes with products designed for that specific purpose.

4. **Check that walls are properly patched.**

   You may also need to do some scraping and sanding to ensure your new coat of paint adheres properly.

5. **Start painting.**

   Paint the unit in its entirety (yes, I mean walls, doors, door and window frames, baseboards, closets and closet dowels, and ceilings), unless you've recently painted the whole unit and only need to touch up one or two walls. Lucky you!

   If you have acoustic ceilings, be aware that these present special problems, particularly if they contain asbestos. Always consult with a professional painter or licensed acoustic contactor before attempting to patch or paint an acoustic ceiling and note that spraying paint is better than using a roller.

Don't paint damaged surfaces and/or those surfaces showing signs of moisture without determining the source of the problem and correcting it. Wet or moisture-damaged drywall indicates either plumbing leaks or water intrusion into the interior of the property. The sooner you identify the culprit and make the necessary repairs, the better.

6. **Replace everything you removed from your painting surfaces, after the paint has dried.**

   Reinstall all the switch plates and outlet covers, replacing any that are damaged or covered with paint.

7. **Clean up any lingering mess.**

   Remove any paint that has strayed or splattered onto the floor, windows, countertops, cabinets, appliances, and woodwork. Don't allow sinks or bathtubs to be used for paint cleanup.

Final cleaning

Cleanliness sells. And the only people you want as renters are the ones who only accept dirt in their home as a temporary condition. For many rental property owners, the thought of cleaning up after someone else is too much to bear. Luckily, many local cleaning services do a great job for a very reasonable price. ***Remember:*** You don't have to do everything yourself.

However, if you decide to clean the unit yourself, keep the following pointers in mind:

- **Pay particular attention to the kitchens and baths.** A dirty or grimy kitchen or bathroom can be a real turnoff to potential tenants. Be sure you clean and re-grout the tile, completely caulk around all countertops and bathroom fixtures, and clean the single dirtiest spot in most rental properties — the shower door track. For a final touch, install a new toilet seat and place a paper sanitary ring around the toilet to indicate it's been professionally sanitized.
- **Focus on smell.** If a rental unit doesn't smell clean, it won't matter how diligently you've cleaned it. Rental property owners often overlook the importance of the sense of smell. Consequently, you can have a real advantage over the competition for an amazingly small investment by recognizing this underappreciated sense's value. Here're a few ideas:
  - Use a pine oil or lemon disinfectant and cleanser to neutralize any bad odors from prior tenants.
  - Place baking soda in the refrigerator and drains, plus grind a lemon in the garbage disposal, to suppress any bad odors.

- Put a cinnamon stick in a shallow pan of water, and place it in the oven on low heat.
- Go to your favorite big box discount store to find many affordably priced liquid potpourris available in a variety of scents.
- Avoid certain fragrances that may be offensive to your prospective tenants.

In a short time, your rental unit will be filled with pleasant scents that remind your prospective tenants of Mom and apple pie. Why? Because this is a time when you want to go with something with a mass appeal rather than your personal favorite scent — essence of yak.

Carpet or floor covering cleaning

Cleaning the carpet or floor covering is the last step in preparing your rental unit for new tenants. Most floor coverings, such as linoleum or sheet vinyl, can be cleaned during the final cleaning stage; however, carpet cleaning should be handled only by outside contractors with professional truck-mounted steam cleaning equipment. The cost of professional carpet cleaning is very competitive, and you can't achieve the same results with the non-truck-mounted equipment that's readily available for rent at your local grocery or hardware store.

REMEMBER

Unless they're obviously damaged, thoroughly clean your floor coverings before deciding to make replacements. The best choice in floor covering material is determined by your tenant profile, your prospective tenants' expectations, and your competition in the area. Linoleum or sheet vinyl is very competitively priced, and the range of materials available is impressive. The most common problem with sheet vinyl is that any damage requires complete replacement. Some rental owners avoid sheet vinyl and prefer individual floor tiles that can be replaced as needed; however, these tiles quickly trap dirt at the seams and can look unsightly. Be sure to select neutral colors and basic patterns.

If the carpets are too dated, severely worn, or badly stained and damaged, replace them. Carpeting is a decorator item, and care should be taken to select colors and styles designed for use in rental property. I recommend selecting a standard carpet style in a couple of basic colors for all your rental properties. Although sculptured carpet works well for some units, a nonsculptured carpet with short *knap,* or fibers, available in one or two neutral colors has the broadest appeal. If you own a lot of rental units and have proper storage space available, purchasing your standard carpet by the roll can offer significant savings. The extra carpeting can be used to patch or even replace a full room if needed; however, be aware that each roll of even the same carpet style and color can be different, because the manufacturer's dye lot may vary slightly each time the carpet is produced.

TIP

Many rental property owners make the mistake of purchasing a higher grade of carpeting and trying to save money on the carpet pad. But the carpet pad can make all the difference in the world. Consider using a higher grade of rebond padding with a medium-grade carpet for competitively priced, yet excellent, results.

Inspecting Safety Items

Although tenants need to take an active role in and have the ultimate responsibility for their own safety, you need to check all safety items upon unit turnover. The most basic items found in virtually every rental unit include door locks, window locks, and smoke detectors. Be sure these items are in place and working before the new tenant takes occupancy. See Chapter 18 for tips on how to ensure your tenants are protected.

TIP

Focus your safety inspections on the following items:

- **A small fire extinguisher:** Even if not required by code, I recommend each rental unit should have one. Although there's always the potential liability that the tenant won't use the fire extinguisher properly, most lifesaving professionals advise it's worth having because quickly using a fire extinguisher can keep a fire from spreading. Of course, the tenant should first ensure someone is immediately contacting 911 or the appropriate agency before attempting to put out the fire.
- **Adequate locking mechanisms:** Many local and state building codes have specific requirements concerning the types and specifications of door lock sets. Recent trends in legislation are requiring that all windows that open and are accessible from the ground have proper window locks. Window or insect screens should be in place and in good condition. The primary purpose of window screens is to keep the elements and insects out; however, screens can also have some value as a crime deterrent.
- **Smoke detectors:** They're very inexpensive and extremely important to your tenants' safety. Check with your local fire department for its code requirements, because some departments expect smoke detectors to be electrically hard-wired, and others may still allow battery-operated units. Contact your local fire safety or building officials for the latest info on fire and safety codes. Many of the rules have changed in recent years, particularly regarding the number and locations of required smoke detectors. Consider complying with any recommendations, even if the action isn't required in existing rental units.

Make sure your records clearly indicate that you tested the smoke detectors and found them to be operating properly before your new tenant moved in. Afterward, the tenant must not disconnect or disable them in any way. The tenant is also responsible for replacing the batteries and regularly testing the smoke detector and alerting you in writing if they don't operate properly.

- **Other important items:** Your rental unit preparation work should also include testing of the ground-fault circuit interrupters (GFCI or GFI) in kitchens and baths, plus any other safety items, such as carbon monoxide detectors and radon detectors, if you have them.

WARNING!

At some rental properties, your tenants may be tempted to use portions of the roof area for personal activities like sunbathing, hanging clothes, watching fireworks, or hosting parties (just to name a few). Allowing tenants' roof access is never a good idea, because roofs are only designed to shelter the rental unit from natural elements, not to handle foot traffic. If you let tenants up on your roof, you risk potential premature damage to it and exposure to significant liability if someone gets injured.

TIP

Be sure the house number or address is clearly marked on the exterior of your rental unit with at least 6" alphanumeric characters so it's easy to locate the property from the street. This simple measure can be a huge help to lifesaving personnel in an emergency.

Using Outside Contractors

Determining how to handle the required turnover work in vacant rental units is one of the toughest decisions rental property owners have to make. Owners of large apartment buildings have maintenance personnel on staff and many contractors ready to assist them as needed. They routinely handle vacant units and just need to schedule the work. But owners of small rental properties are typically on their own to either handle the work personally or locate contractors to quickly prepare the vacant units.

Even if you're inclined to do your own turnover preparation work, understand that certain maintenance functions requiring specialized or licensed training are best handled by outside contractors. For example, it would be unwise for you to act as an exterminator or a contractor dealing with environmental hazards, or to attempt to recharge the coolant in an air-conditioning unit. Specific regulations are in place, and unique knowledge is required in these areas.

Your skill level, time constraints, and opportunity cost may help determine whether you do some chores yourself or hire a pro. For example, cleaning, painting, and light maintenance may be items you feel qualified to handle, can complete promptly, and believe won't cause you to forgo significant income in other areas. When in doubt, let others do what they do best while you focus on what *you* do best: managing your rental property investment.

REMEMBER

Every day your rental unit sits vacant costs you rental income you can never recover. If you decide to paint your own rental unit, it may take you six days working in the evenings and on weekends to completely paint a single-family rental home. If the rental market is strong and the daily rental rate is $50 per day, you're actually losing money you could've had if you'd hired professional painters for one day's work at $300.

Regardless of how much work you choose to handle yourself, you need to have a list of competent and competitively priced service companies and suppliers on hand for those times when you need a quick response. Your local affiliate of the National Apartment Association (NAA) or Institute of Real Estate Management (IREM) can often provide names of service companies. Carefully check references and the status of any bonds or licenses with the appropriate governmental agency and ensure the company has the proper insurance in place prior to commencing any work on your property. (Flip to Chapter 16 for more on the ins and outs of working with contractors.) If services exceed $600 in a calendar year and the vendor isn't a corporation or LLC, you need to file Form 1099 with the IRS.

Chapter 6

Rent, Security Deposits, and Rental Contracts: The Big Three of Property Management

In This Chapter

- Determining the appropriate rent for your rental unit
- Setting and using security deposits wisely
- Choosing the type of rental contract you want to use

Before you can begin to advertise and show your rental unit, you need to set your asking rent, determine the appropriate security deposit, and have a rental contract ready to go. Not sure where to start? Don't worry.

This chapter gives you some tips on figuring out what to ask for rent and determining an appropriate security deposit. It also guides you through the advantages and disadvantages of leases and month-to-month rental agreements and gives you recommendations on how to get the benefits of each.

Setting the Rent

Setting the rent is an important decision because your net income from your rental property is determined by the amount of rent you charge. Although you may be tempted to pull numbers out of the air, resist that urge. If your rent is too high, you'll have difficulty renting your vacant unit. If it's too low, you'll have plenty of prospective tenants, but not enough money to cover your costs and generate a return on your investment. Finding the optimum price takes time and effort, which is why it's one of the most critical steps in being a successful rental property owner.

You can use two common methods for determining how much rent to charge for your rental property — return on investment and market analysis. This section takes a closer look at these two options and helps you figure out which method is best for you.

Knowing how much money you need to break even is important for evaluating the potential return on your real estate investment. But the reality is that the amount you need or want to collect in rent is subject to market conditions, the desirability of your rental property, and your abilities as a rental property owner.

If you currently own a rental property, you probably already know how much rental income is necessary to cover your mortgage and other basic operating expenses. If you're looking to buy a rental property, determine your minimum income needs *before* the deal is final. If you purchase a rental property that already has tenants on a long-term lease, you don't need to address the issue of rent immediately because the tenants' rent is set through the end of their lease. If they're not on a lease or have a lease that's expired, then they're most likely on a month-to-month rental agreement — which only requires you to give sufficient written notice of a rent increase. (For more information on working with existing tenants, see Chapter 4).

Whichever category you're in, you need to determine market rents so you can calculate the appropriate rent when it comes time to renew a lease or consider increasing rents to market level.

Examining the return on your investment

The first step in determining your rent based on the return on your investment is to calculate your costs of owning and operating the rental property. Estimate costs for your mortgage, taxes, insurance, maintenance, leasing, management, and profit on invested funds.

For example, if your annual expenses per rental unit are $12,000 for your mortgage and tax payments and $7,000 for other annual operating expenses, plus you want a 10 percent ($5,000) annual return on your original cash investment of $50,000, you need to generate a total rent of $24,000 per year, or $2,000 per month. (Of course, this simple calculation doesn't account for increasing equity or other tax advantages of real estate, but it's a place to start.)

Although you may have calculated that you need $2,000 per month to achieve your estimated break-even point (including your 10 percent profit), if the rental market has determined that comparable units are readily available for $1,750, you may not be able to fully achieve your financial goals at this time. With most real estate investments, the initial returns may not match your original projections. Yet in the long run, rents often increase at a greater rate than your expenses, thereby improving the return on your investment.

To avoid surprises, use a conservative budget that anticipates rental income at $50 to $100 per month below the full market rent for a comparable rental unit, plus provides for a vacancy allowance of one full month each year. In my experience, some tenants don't fulfill their lease obligations, leaving you with a vacancy even if you had a 12-month lease, so be conservative in your expectations.

For example, if you feel that the comparable monthly rent for your rental property is $1,600, estimate your projected rental income based on a conservative asking rent of $1,500 per month. Then anticipate receiving this amount for 11 months rather than 12. After allowing for one month of vacancy, your gross rental income projection falls from $18,000 annually to $16,500.

Many new rental property owners make a major mistake by overestimating the potential income from their rental property. They develop unrealistic operating budgets or projections by using above-market rents, not allowing for rental discounts, and anticipating virtually no vacancy or bad debt. When reality strikes, they're faced with negative cash flow and the possibility of losing their rental property. Avoid this situation by playing it safe and staying conservative with your estimated income.

Setting the rent is particularly critical if you own single-family or condo rental units and other small rental properties because the rent loss from an extended vacancy or one bad tenant can seriously jeopardize your entire investment. If you're among this group of rental property owners, be conservative in setting your rents, cautious in screening tenants, and aggressive in keeping your rental properties in excellent condition to attract good, long-term tenants who pay on time.

Conducting a market analysis of rents in your area

You can determine the amount of rent to charge by calculating a desired return on your investment and setting the rent accordingly (see the preceding section), but typically the best way to set your rent is to conduct a market survey of comparable rental properties in your area. Why? The answer's simple: Most rental markets have a finite limit to what prospective renters want to pay for a comparable rental unit, and tenants don't care how much you paid for the unit or how much you continue to spend in operating costs.

Following are two schools of thought about performing a rent survey to determine the proper asking rent for your units:

- **Pose as a prospective renter, and ask all the typical questions a prospect may ask.** The owner or manager will give you only the information that a prospective tenant needs about the property.

- **Be honest and tell the owner you're a rental property owner doing market analysis.** This is the method I recommend, particularly if you have a small rental property. Most rental owners will cooperate and share the information you need. They may even be willing to give you additional important information you can't get otherwise, such as the length of time their rental units have been vacant, the number and types of phone calls they've received to date, the actual occupancy rate for the properties, and the feedback from their own research into rental rates and vacancies in the local rental market. This behavior is especially true if they've recently rented their properties and are no longer competing with you for prospective tenants.

  Keep in mind that the owners of competing large apartment communities probably won't provide you with any information about their current occupancy. This number is important, however, because it can provide a good indication of overall demand for rental units in the market. Over the years, I've discovered some creative ways to determine actual vacancy levels:

  - Talk with the mail carrier who delivers to the complex because he or she can tell you whether it's completely full or relatively vacant.
  - Ask a common vendor, such as a carpet-cleaning firm or exterminator, that services your property and the large apartment complex for the inside information you need.
  - Drive through the property at night to see how many parking spaces are being used.

TIP

In order to determine the market rents in your area, do your homework and locate comparable rental properties. *Comparable properties* are those properties that your tenants are most likely to have also considered when looking for a rental unit. They may be located right in the neighborhood or all the way across town. For example, many of your rental prospects may work at the hospital located six blocks west of your property. But your rental prospects are just as likely to choose a rental within six blocks of the hospital in another direction. So your comparable properties can be 12 blocks away. Don't assume your comparable properties are solely in your own neighborhood.

When you've determined which rental units are comparable, finding out the current market rent is easy. Begin by checking the For Rent signs in your area and calling for the asking rent and other details. The local or regional newspaper usually has ads listing the units for rent in the area along with some details and a phone number to call for more information. Although calling about ads gives you some good general information, you need to see the rental properties in person to truly determine whether they're comparable to yours.

WARNING!

Be careful to distinguish between the asking rents quoted on signs or by phone. Many landlords (especially those with single-family homes or condominium rental units) can be negotiated down from the asking rent pretty easily. Most owners of individual rental units can't afford vacancies for more than a couple of weeks and quickly lower the rent if qualified prospects show interest in their rental properties, so you need to base your decisions on signed leases, not asking prices.

Remember, rental rates can vary greatly from neighborhood to neighborhood and even from street to street, because many factors affect rents, including the following:

- Landscaping
- Property features, such as location, age, and size
- Reputation of the neighborhood or rental property
- Traffic noise
- Views

As a result, determining the proper asking rent isn't scientific. Setting your rent a little too high at first is better than setting it too low, because you can always reduce your asking rent slightly if you encounter too much resistance. Of course, be honest and make downward adjustments for aspects of your rental property that aren't as competitive or desirable as those of the comparable properties in your area.

When estimating the proper market rent for your unit, be careful not to make adjustments based strictly on your own personal preferences. The rental value of a particular property is subjective and can vary dramatically from one person to another. For example, you may prefer upstairs units and believe they should be priced higher than comparable downstairs units. Although many prospective renters may agree with you, just as many prospects may similarly value a downstairs unit because they may not want to climb stairs.

ON THE CD

The accompanying CD has a Market Survey form you can use to compare and contrast your rental property with other comparable properties and assist you in determining the appropriate rental rate.

The following sections break down some additional items to think about when conducting your market analysis.

Considering rental concessions in determining your rent

When you contact other rental property owners or managers to determine an *effective rent,* the actual net rent after all concessions and discounts, for your property, be prepared to receive a rent quote but don't expect to hear about rental concessions. A *Rental concession* is basically a discount given to entice a prospective tenant to sign a rental contract. Landlords tend to give concessions in softer real estate markets where the demand for apartments has slowed, so identifying potential concessions is important in your comparison because you need to know what the net or actual collected rent is. If you don't, you may overprice your rental units.

To find out the actual effective rents, with concessions included, I recommend you contact rental property owners or managers after they've rented their units and concluded marketing efforts. Now that their properties are occupied, they're more likely to cooperate and give you accurate, complete information regarding their agreed-upon terms.

Calculate the effective rental rate by dividing the total rent by the length of the rental period. ***Note:*** The total rent may be affected by various rental concessions. For example, say a competitive property in your area recently rented at $1,200 per month on a one-year lease, but the first month's rent was waived. Then the effective rent is $1,100 per month. Divide the total rent of $13,200 by the 12 months of the lease. The effective rental rate is thus $1,100 per month.

Without knowing about the rental concession, you may mistakenly think the comparable unit rented at $1,200 per month. As a result, you may set your asking rent too high or be hesitant to offer your own rental concessions to stay competitive with what you think is a higher price. Just remember that every day your rental unit sits vacant because your rental rate is higher than the competition's is money lost.

Deciding whether to market your rental property using gross rents or net rents

After completing your analysis of your local rental market and taking into consideration any concessions, you need to set your final asking price. You can do so by formulating a marketing strategy to ensure you get the best price for your rental property.

Here are your options:

- Quote a higher gross asking rent, which is similar to the "suggested retail price" that stores use, and then offer rental concessions to attract the attention of your prospective target market.
- Go with a lower effective asking rent that is the net of the rental concessions prevalent in the market.

If you like to negotiate and can sell the special offer, the gross rent method is for you. Inevitably, some prospective tenants are attracted to rental properties offering specials; at least that's the impression I get when some prospects call about a rental property and the first words out of their mouths are, "What's your special?" Be sure to watch out for tenants who are just looking for the special discount off the rent up front, because they likely aren't the long-term quality tenants you want (and need) to be a successful rental property owner.

TIP

Have you ever heard about the great bargains available on cruise vacations booked at the last minute? Well, the concepts of inventory management and lost revenue also apply to the rental housing industry. Units that sit vacant for too long are usually overpriced, and each day that passes with your rental property vacant is more lost rent you can never collect. Either re-evaluate your asking rent or concessions or see what you can do to make your rental unit superior to the competition to secure those long-term tenants.

Not into wheeling and dealing? Perhaps you prefer telling your prospective renters that unlike all the other landlords offering gimmicks and special deals, you're all about cutting the hype and offering them the best net monthly rental rate. In my experience, many tenants find a lower, straightforward rental rate quote more attractive, especially if they plan on staying for a long time.

WARNING!

Regardless of which marketing strategy you take, avoid the temptation to set your rent based on the number of occupants your rental unit can hold. Some landlords have a policy that the base rental rate is for a certain number of tenants; they then charge more for each additional tenant in the unit. This practice is sometimes called *per head* rent. However, the Department of Housing and Urban Development considers such policies violations of the Fair Housing Act. The only exception is if you can show a legitimate *business necessity,* or verifiable increased cost to maintain your rental property, such as higher water or sewage bills. If you think you can prove a business necessity, check with your landlord-tenant legal expert before setting rents. Otherwise, take my advice and avoid these turbulent waters.

Ultimately, your marketing strategy is often influenced by what's most commonly done in your local rental market, but don't be afraid to incorporate your personal style.

Dealing with potential rent control issues

Most areas of the country don't impose limits on the rental rate you set for your property. Rent control is currently only found in Washington, D.C. and a handful of states: California, Maryland, New Jersey, and New York. If you own a rent controlled property, you need to obtain a current copy of the ordinance and fully understand the implications of local rent control when setting your asking rent. You also need to know how you can implement future rent increases because rent control limitations may influence your initial asking rents.

If you're limited to only nominal future rent increases, be very patient to make sure you get the maximum rent possible for a new incoming tenant, because this base rent will be a factor in your rental income for the entire duration of the tenancy. In other words, if you lower your rent by $100 to quickly rent your property, you may be negatively affecting your income stream for many years.

Coming Up with a Fair Security Deposit

As an owner of rental property, you need to make sure the security deposit you collect adequately protects you from tenant damage or default. The *security deposit* serves as the protection you need before turning your real estate asset (the rental unit) over to a tenant. It needs to be large enough to motivate the tenant to return the rental property in good condition, plus serve as an accessible resource to cover the tenant's unpaid rent or reimburse the costs to repair any damage. If your security deposit's set too high, many qualified tenants may not be able to afford the move-in costs for your rental property, resulting in fewer applicants.

State laws typically limit the amount of the security deposit you can collect and regulate its return, along with any lawful deductions. If you collect the first month's rent upon move-in, this money is *not* considered part of the security deposit. Some states specifically allow certain small rental owners to be exempt from these rules. See the CD for more information on state laws about security deposits.

The next several sections help you determine the right amount for your security deposit.

Figuring what you can legally charge

Many states limit the amount you can collect as a deposit to the equivalent of one or two months' rent. The limit varies in each state depending on certain factors, such as whether the rental is furnished, whether the tenant is on a lease or a month-to-month rental agreement, whether the tenant has pets or waterbeds, or whether the tenant is a senior citizen.

In most rental markets, the security deposits are well below the maximum allowed by law. While staying within the legal limits, I recommend you collect as large of a security deposit as the market can bear.

Security deposits are more than just money you hold for protection against unpaid rent or damage caused by your tenant. Although the actual cash amount may be relatively small compared to the overall value of your rental property, the security deposit is a psychological tool that's often your best insurance policy for getting your rental unit back in decent condition.

When trying to determine how much to charge for your security deposit, make sure you avoid the following potential costly mistakes:

- **Don't lower the security deposit or waive a security deposit payment.** If the funds required to move in are too high, collect a reasonable portion of the deposit prior to move-in and allow the tenant, in writing, to pay the balance of the security deposit in installments. This type of written agreement usually indicates that any funds paid by the tenant are first applied to the security deposit and then applied to the rent. Don't allow the tenant to miss or delay payment of any subsequent security deposit installments. Take legal action immediately if the tenant misses making any security deposit payments or fails to pay the rent in full.

For single-family homes, I strongly advise getting as large of a security deposit as possible. Aside from the inherent increased value of the rental home itself, you likely have tremendous value in the grounds, landscaping, and pool or spa (if applicable) — meaning much more of your valued property can be damaged by tenants. Rental homeowners also tend to inspect or visit their property less frequently, and it takes only a few weeks of inadequate watering or shoddy landscaping maintenance to find you've suffered significant damage. See Chapter 17 for advice on ways to convince tenants that landscaping or pool/spa maintenance are best left to professional contractors.

- **Don't completely eliminate security deposits.** Property owners in *soft* or low-demand rental markets often offer free rent or "no security deposit" move-in specials. Prospective renters attracted by such offers typically aren't the types to become long-term stable tenants who treat your property with respect and care about peaceful, harmonious living with their neighbors.

  Although staying competitive is important, I recommend avoiding free rent or "no deposit" specials whenever possible. Offer to pay the prospective tenant's security deposit instead. You still receive the first month's rent when your tenant moves in, and he can potentially receive a security deposit refund if the property is in good condition at move-out. Essentially a form of free rent (because you're crediting the tenant, not receiving money), this move reduces the total funds your incoming tenant must pay. Unlike a risky move-in special, you're offering the concession at the *end* of the lease, not the beginning. As a result, you're less likely to attract tenants who move from landlord to landlord in search of up-front freebies. You also have a better shot at creating a strong psychological and practical motivation for the tenant to fulfill the terms of his lease. Why? Because that security deposit cash comes in handy for covering the costs of moving to a new residence . . . after several good years at your property, of course.

Keeping security deposits separate from your other funds

Security deposits are liabilities from an accounting point of view because these funds legally belong to the tenant. You hold them in trust as protection in case the tenant damages the property or defaults in paying rent.

Because the funds don't belong to you, several states require security deposits to be held in a separate bank trust account instead of being mixed in with other funds from your rental properties or personal resources. Some states even insist you provide your tenant with a written notice indicating the location of this bank trust account at the beginning of the tenancy.

Keeping the security deposits separate from the rest of your funds means they're readily available whenever a tenant moves out and is potentially entitled to the return of some or all of her money. Doing so, even if not required in your area, can be a great way to avoid cash flow problems. Say a tenant fulfills all contractual obligations before move-out and deserves a security deposit refund. If you commingled her deposit with your personal funds, you may find your current cash availability can't cover a large security deposit refund within the short time frame required by law in most areas. This situation can lead to legal action by the tenant and additional penalties and interest. The lesson? Always make sure you have available funds to cover the potential refund of security deposits.

Avoiding nonrefundable deposits

A *nonrefundable security deposit,* which is allowed in some states, is a portion of the deposit that you, the property owner, retain no matter what's allowed by state law. A nonrefundable security deposit may sound like a good idea, but it may also send a message to the tenant that he has to pay for the costs of preparing the rental property for the next tenant. My 30 years of experience with tenants leads me to question the benefits of nonrefundable security deposits in most instances because the incentive is gone for tenants to keep and maintain the property in the best condition.

In fact, I recommend avoiding nonrefundable fees in general in favor of seeking a higher, fully refundable security deposit so you have funds to cover damage repairs and cleaning, if necessary. It's a good day as a rental owner or property manager if your tenant vacates and leaves the rental property in good condition, so I prefer to have the entire security deposit be refundable.

Approximately a dozen states have specific laws permitting rental property owners to have nonrefundable security deposits or fees. These fees cover the costs of services such as cleaning, repainting, or redecorating. Some states have very specific limitations on these nonrefundable deposits or fees and don't allow charging for any excessive costs incurred. On the other hand, several states don't have laws specifically prohibiting nonrefundable deposits and leave such decisions to the mutual agreement of the property owner and the tenant.

Regardless of where you live, not using nonrefundable deposits allows you to avoid potentially time-consuming disputes with your tenants, such as what happens if the $150 nonrefundable cleaning deposit is insufficient to cover the $250 costs for cleaning a filthy rental property.

Paying interest on security deposits

Several states have laws requiring rental property owners to pay interest on a tenant's security deposit. You can find some basic information about security deposit interest on the CD, but check with your local affiliate of the National Apartment Association for the exact requirements in your area because the laws differ dramatically from state to state.

The method of calculating interest varies greatly, with some states providing a formula tied to the Federal Reserve Board rates or flat percentage amounts. Most states require interest payments to be made annually and at termination of the tenancy.

No laws prevent you from voluntarily paying interest on deposits, and some owners offer to pay interest as a competitive advantage or an inducement to collect a larger security deposit. If you're able to get a much larger deposit, I recommend paying interest on it. The additional peace of mind is worth the relatively small amount you'll pay in interest.

Last month's rent

Until recently, many rental property owners collected the first month's rent, the last month's rent, and a security deposit from new tenants, a method that has some disadvantages. I strongly recommend you collect the first month's rent, plus a security deposit equal to or greater than one month's rent, because collecting the "last month's rent" can create unnecessary problems.

If the rental rate increases during the tenancy and you've already collected a lesser amount as the "last month's rent," upon move-out, the tenant (and often the court) will likely take the position that the "last month's rent" has already been paid in full, even though the rental rate has increased. When giving rent increases, many owners fail to also require the tenant to increase the amount held as the "last month's rent." Plus, in some states, the designation of "last month's rent" limits your use of these funds to only that specific use. Thus, even if the rental unit is extensively damaged and the security deposit is fully exhausted, the "last month's rent" can't be used to cover those damages.

Set your security deposit to an amount that's different than the monthly rental rate to minimize your tenant's chance to claim he thought the security deposit would cover his last month's rent. Ideally, you can collect a security deposit that's higher than the monthly rental rate. But even if you collect a deposit that is $25 to $50 less than the monthly rent, you effectively eliminate any tenant attempt to claim the deposit was for the last month's rent.

Increasing deposits

If you have a long-term tenant and your rents have increased significantly over time, you may want to consider increasing your security deposit amount. This move is legal as long as you comply with the normal requirements for any change in the terms of the rental agreement.

For example, if you have a fixed-term lease in effect, you must wait until the lease expires or rolls over to a month-to-month rental agreement before requiring an increase in the security deposit. If you have a month-to-month rental agreement, then you can increase the security deposit the same way you raise the rent, typically by giving the tenant a written notice 30 days in advance. Either way, remember that you're subject to the maximum security deposit amounts as set by state law, if any.

ON THE CD

The accompanying CD has information on some of the basic state requirements for security deposits such as interest, if any; the maximum amounts you can request; and the time limits to return deposits, plus links to all state landlord-tenant laws for other legal issues.

Choosing the Type of Rental Contract You Want

Another important decision you need to make before you begin advertising and showing your rental is whether you want to use a lease or a month-to-month rental agreement. The *rental contract,* whether a lease or a month-to-month rental agreement, is the primary document that specifies the terms and conditions of the agreement binding the property owner and the tenant. It's a contract between the owner of the rental property and the tenant for the possession and use of the rental property in exchange for the payment of rent. The following sections give you the lowdown on the two types of agreements.

Contemplating a lease

A lease is a fixed-term contract that obligates you and the tenant for a set period of time, and some owners like the commitment required from the tenant. The most common lease terms are for 6 months, 9 months, or 12 months, and the majority of leases are written to automatically convert to a month-to-month rental agreement after the expiration of the initial term. However, some leases are for fixed terms, and the owner and tenant must agree to sign a new lease for the tenant to stay.

A lease is advantageous for tenants because it locks the rent in place for the term of the lease, and it's potentially advantageous for you because you can theoretically count on having a tenant for a set period of time.

Rental property owners generally charge a lower rental rate for leases than for month-to-month rental agreements, because tenants on a lease aren't associated with as high a risk of turnover as individuals on short-term agreements. Yet in 15 years of writing a nationally syndicated landlord-tenant Q & A column, I've received hundreds of inquiries from tenants seeking suggestions for a compelling story or legal argument to break their long-term leases. Whether they just wanted the lower up-front cost offered by a lease or their personal needs changed, all of them wanted out of their long-term commitments. So be cautious and don't offer more than a $10 per month discount for long-term leases, unless your local market conditions warrant a higher amount.

With a lease, you can't increase the rent or change other terms of the tenancy until the lease expires. Also, you can't terminate or end the tenancy before the lease expires, unless the tenant doesn't pay his rent or violates another term of the lease. Should you wind up in court, you'll have the burden of proof, meaning you're the one who has to prove the tenant didn't live up to his part of the contract.

Although the lease legally binds both you and your tenant, the current landlord-tenant laws in virtually every state favor tenants. A tenant can walk away from a lease without difficulty, and in most states, the owner has the duty of mitigating or minimizing the potential damages. This legal mumbo jumbo means you must make a reasonable effort to re-rent the premises and can only charge for the rent incurred until the new tenant begins paying rent.

Eyeing a periodic rental agreement

Some owners prefer the flexibility offered by a month-to-month rental agreement over the rigidity of a lease. A *month-to-month rental agreement* is commonly used by rental property owners. It's essentially a 30-day lease that automatically renews each month, unless the owner or tenant gives the other proper written notice (usually 30 days) to terminate the tenancy. Month-to-month rental agreements give you much more freedom than leases, because you can increase the rent or change other terms of the tenancy on 30 days' notice. They can also be easily modified for short-term rentals by converting the rent payment period from monthly to weekly or biweekly.

Of course, month-to-month rental agreements have their downsides:

- Your tenants may be concerned about the possibility of changing rental rates or policies.

- Your tenants may worry about having to relocate on short notice, leaving you to wonder whether you're likely to have a tenant locked in for a certain lease term.
- Your tenants may not like moving and want to stay somewhere long-term.

Although the month-to-month rental agreement does allow your tenants the right to move at any time merely by giving a 30-day written notice, the reality is that most tenants don't like to move and will often stay long-term. The majority of tenants only move because of a job transfer or another significant reason, or because the rental owner doesn't properly maintain the property.

The wide variations in laws regarding notice requirements for changing or terminating month-to-month rental agreements clearly illustrate the importance of knowing your state and local landlord-tenant laws. Some states don't have any statutory requirements for giving notice; others mandate a time frame such as 10 or 15 days. The majority of states require 30 days' notice, but four states (California, Delaware, Georgia, and Hawaii) currently require property owners or managers to give more than a 30-day written notice when changing agreement terms or terminating a month-to-month tenancy. For example, in California, property owners with tenancies greater than one year must provide a 60-day termination notice, whereas the tenant only needs to provide 30 days' notice. Rent increases in California can also be subject to either 30 or 60 days' notice, depending on the amount and timing of the increase in conjunction with previous increases. Check out the accompanying CD for more information on state landlord-tenant laws and acquaint yourself with the laws in your particular area.

Get familiar with and respect the types of agreements typically offered in your local rental market. If competing properties are all offered on month-to-month rental agreements, you may find it difficult to attract plenty of well-qualified rental applicants if you're insisting on a 12-month lease.

Getting your contract in writing

No matter which method you use, never allow a tenant to take possession of your rental property without fully executing your written rental contract. Some tenants refuse to sign documents so they can claim they had a verbal agreement that's much different than the one you had in mind.

The CD contains both a standard Lease Agreement and a Month-to-Month Rental Agreement. Be sure to have an attorney specializing in landlord-tenant law review these documents and all other forms in this book or on the CD before using them in your area. In some states, special language must be included in the leases and rental agreements. For example, Florida has required language about radon, and many states have required information that must be given to tenants concerning access to a sexual offender or child molester database.

ON THE CD

Standard lease forms are great, but they don't allow you to add your own clauses. However, you can modify the terms of your rental agreement fairly easily with the Addendum to Lease or Rental Agreement shown in Figure 6-1 and included on the CD. Perhaps you want to add the requirement that the tenant acknowledges receipt of the rules and regulations of the community or homeowners' association and is responsible for any fines or assessments resulting from his or her breach of the rules. This condition can be easily incorporated into the lease by using the Addendum. ***Remember:*** Be careful about adding additional clauses or language to your lease or rental agreement without seeking the advice of an attorney.

Although oral rental agreements of up to one year are binding, make sure all your leases or rental agreements are in writing, because so many issues surrounding those agreements involve monetary considerations. Memories fade and disputes can arise that are usually resolved in the tenant's favor should legal action be required and proof to the contrary can't be found in writing. Courts expect the property owner or manager to operate his or her rental housing business in a professional manner and to have clear documentation at all times.

Addendum to Lease or Rental Agreement

This Addendum to the lease or rental agreement entered into this _______ day of ________________, 20 ___ between _______________________________ (Tenant) and _____________________________ (Owner) for the premises located at: ____ (Rental unit).

This Addendum shall be and is incorporated into the Lease or Rental Agreement dated the ____ day of _______________, 20 ___ between Tenant and Owner.

Tenant and Owner agree to the following changes and/or additions to the Lease or Rental Agreement:
____
____
____
____
____
____
____
____
____

This Addendum to be effective as of _________________________________, 20 ___.

Dated: _____________________________ Dated: _____________________________

OWNER: TENANT(S):
Property Name:______________________

By________________________________ ___________________________________
Owner or Agent for Owner

____

____

Figure 6-1: Addendum to Lease or Rental Agreement.

Oral agreements create the potential for charges of discriminatory treatment. Always put all terms and conditions in writing, even if you intend to have only a short-term agreement, or you know the tenant personally. Oral agreements often can't be substantiated and aren't always enforceable.

ON THE CD

Seeking the best of a lease and a rental agreement

In my experience, the number one reason tenants insist on a lease is that the rent's locked in for a minimum period of time. But in most instances, especially in rental markets where rent increases aren't likely, owners want the flexibility and latitude afforded by the month-to-month rental agreement. If the tenant doesn't abide by the terms of the lease, she can simply terminate the rental agreement without having to prove the breach in a court of law.

Despite this discrepancy in desires, it's possible to achieve both goals. I strongly recommend using a month-to-month rental agreement in conjunction with a Rental Rate Guarantee Certificate (found on the accompanying CD). This method affords your tenant the benefits of a stable rental rate for a minimum period of time *without* restricting your ability to change other rules or even ask the tenant to leave in 30 days if problems arise.

If your local market conditions dictate a longer fixed rent term than what's indicated on this certificate, you can make an even more significant impression on a great prospective tenant by using a black marker or felt pen to clearly cross out "six months" and fill in a longer term. Be sure to print this certificate onto specialty paper to give it a valuable look.

Rental Rate Guarantee

This certificate is to guarantee ______

"NO RENT INCREASE" on ______ at ______

for a minimum of 6 months from ______.

You are renting with the flexibility of a month to month agreement with the right to move out at any time (giving proper 30 day written notice) and have the security of a fixed rental rate for at least six months provided that you do not violate any conditions set forth in the rental agreement and attached rental addendum.

______

This guarantee is non-transferable

Chapter 7

FOR RENT: Generating Interest in Your Rental

In This Chapter

- Planning your marketing strategy
- Figuring out the role advertising plays
- Making sure you don't violate any Fair Housing laws in your marketing efforts
- Finding the advertising tactics that best meet your needs

More than almost any other single item, locating and renting to good-quality tenants makes your experience as a property manager enjoyable and profitable. But finding a good tenant can be a long process if you don't know how to do it. So in this chapter, I take you through the process from beginning to end — from creating a marketing plan (which helps you narrow your focus and set goals) to writing solid print ads to using the incredible resources of the Web to broaden your reach for prospective tenants. Start here if you just found out one of your units will be vacant in a month or if you've already had a vacancy for twice that long. It's never too late to start advertising effectively, and in this chapter, I give you all the tools you need to do exactly that.

Developing a Marketing Plan

A *marketing plan* can be anything from a formal written outline of your marketing strategies to some general marketing ideas you keep in mind as you try to find renters for your property. If you own only one or two properties, or if you own 20 or 30 rental units in multiple locations, you may not think you need a marketing plan. Developing one may seem like an unnecessary use of your time and energy. But the basic concepts of a marketing plan are important for *all* rental property owners, regardless of the number of rental units you own.

The key to success in owning and managing rental properties is to keep your rental units full with long-term paying tenants who treat your rental property and their neighbors respectfully. But first you need to determine the best way to attract and retain these highly desirable tenants. The following sections help you develop a marketing plan to do just that.

A good marketing plan consists of strategies for attracting prospective tenants and retaining your current tenants. Keeping your current tenants is so vital to your long-term success as a rental property owner that I devote Chapter 13 to figuring out how to make it happen.

Determining your target market

One of the first steps in developing a basic marketing plan is to determine the *target market* for your rental property. The target market consists of rental prospects who are most likely to decide that your rental unit meets their needs. Your target market can be relatively broad or fairly narrow, depending on the location, size, and features of your rental property. If you have multiple rental properties, you may find that each property has a different target market or that the target markets overlap.

The likelihood of finding responsible renters is often a numbers game. The more prospective renters you're able to attract, the greater your opportunity to carefully evaluate their qualifications and select the most qualified applicant.

In order to identify your target market, make sure you carefully evaluate your rental unit by looking at the following features that make it unique:

- **Location:** What are some of the benefits of your property's location? Is it located near employment, medical services, shopping, schools, or other important neighborhood or regional facilities? Paying attention to your property's location may provide you with a target market that includes employees of certain companies or people who need to live near certain local facilities.
- **Size:** Larger units tend to be more attractive to families or roommates, whereas studio units are more suitable to single renters or couples.
- **Amenities:** A property that allows pets and has a large yard typically appeals to pet owners and/or renters with children. If your rental property has storage space or a garage, some hobbyists may be particularly interested in what you have to offer.

When you compare the attributes of your rental property to the needs of all prospective renters in your rental market, you'll probably discover that certain renters may find your rental unit meets their needs more than others. You can use this knowledge to target specific audiences, but your rental efforts must never discourage, limit, or exclude *any* prospective renter from having an equal opportunity to qualify and rent from you.

If you don't attract and retain tenants, you can rest assured your competition will. You're competing with other owners and property managers for the best tenants, even if you only have a few rental units. In most rental markets, prospective tenants have many options, and the most responsible tenants are very selective, because the rental unit they choose will be their home sweet home.

Thinking about what your renters stand to gain from your property

After you've established who your most likely rental prospects are, you need to shift your focus to incorporating and implementing the concept of a target market into your rental marketing plans. This time is when I usually think of the WIFM concept. *WIFM* stands for *what's in it for me,* and this theory represents the thought processes of virtually all consumers (including your potential tenants) when evaluating a purchase decision. (I discovered this important idea at the national faculty training sessions of the Institute of Real Estate Management.) The WIFM concept reminds you that, in general, people are most interested in the benefits they personally receive in any given relationship or business transaction.

When it comes to marketing and advertising your rental property, the important concept of WIFM can help you see the rental decision process through the eyes of your prospective tenants, making your goal of finding long-term, stable tenants more attainable. Unfortunately, rental property owners and managers are human, and they often fail to critically evaluate the advantages and disadvantages of the product they're selling — their rental housing unit. As a rental property owner or manager, you have a competitive advantage if you understand the opportunities and challenges presented by your particular rental property and the specific rental unit that's available. You can also beat out the competition if you find ways to improve your property's weaknesses or narrow your marketing focus to those specific types of tenants who'll be attracted to your rental property.

Understanding the Importance of Good Advertising

Tenants rarely come looking for you. Your local newspaper may have a column for "Housing Wanted" (if so, lucky you!), or one of your current tenants may contact you inquiring on behalf of a friend who's looking for a rental unit. These scenarios are the exception, not the rule. The majority of your tenants come from the efforts you make to locate qualified rental prospects.

Advertising is how you let people know you have a vacant rental property available. If people don't know you have vacant units, then they can't rent them. When advertising is done well, the money you spend on it is extremely worthwhile. But when it's done poorly, advertising can be another black hole for your precious resources. Advertising is more of an art than a science at times, because what works for one particular rental property may not work for another. The next few sections give you the lowdown on the role of advertising in renting your property and what you can do to get your property rented.

TIP

Review the information from your marketing plan about the most marketable features and attributes of your rental property and present it to rental prospects in your advertising.

Eyeing the different approaches

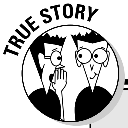
Advertising for rental properties is no different than advertising for large superstar corporations with market research firms. The key to success in any type of advertising is determining how you can reach your target audience. In the case of rental property advertising, you want to reach that very small, select group of qualified renters who'll be interested in your rental property when it's available to rent.

REMEMBER

Although you can creatively and effectively advertise your rental property in many different ways, two of the fundamental differences between the advertising methods at your disposal are the precision with which you reach your target audience and the ultimate cost involved.

Consider these two different approaches:

- **Rifle approach:** This type of advertising is very specific and targets a narrow group of prospective renters. The best rifle approaches to advertising are word-of-mouth referrals and "For Rent" property signage. But if you rely solely on these approaches to find tenants, you may end up with vacant properties much longer than you want.
- **Shotgun approach:** This type of advertising blankets the market with information to renters and nonrenters, qualified and unqualified alike. Although their circulation numbers have been declining, many of the major daily newspapers in most metropolitan markets can still deliver impressive readership numbers — especially on weekends. However, they can't tell you how many of those readers are actually reading the rental property ads or looking for an apartment on the specific day your ad runs.



Looking at your property through your prospective tenants' eyes

I once had a rental property located near a major university. The property had several vacancies in the 2-bedroom/1-bath units. Because I was wary of renting to large numbers of undergraduate students interested in only short-term leases for the school year, my marketing plan was to attract university faculty or graduate students whom I thought would have a roommate and be perfect for the 2-bedroom units on a year-round basis. Although many prospective tenants looked at the units, my actual rentals were very slow and the 2-bedroom vacancies remained unacceptable. Clearly, I was trying to define and force the rental market and prospective renters to adapt to my perception of their needs.

When it became obvious that my rental efforts weren't having much success, I began carefully reviewing the comments of prospective tenants. I found that my target faculty and graduate students preferred to live alone on a long-term lease so they could have a quiet place to work or study without roommates. With this new view of my prospective tenants' needs, I quickly realized I could market my 2-bedroom/1-bath units to my target market with a new approach.

Armed with this knowledge, I revised my marketing efforts by changing my advertising in the college newspaper to read, "1 bedroom plus den." This move led to an increased interest in the property as well as a greater occupancy percentage and more long-term leases. Just by changing the way the units were advertised, I found that I was able to reach my original target market of faculty and graduate students who wanted to live off campus.

Remember: While observing all Fair Housing laws, look at your rental property from the perspective of the most likely tenants. Then promote and accentuate the features of your rental property that are of greatest interest to that market. But always be careful not to discourage prospective tenants from renting your property.

Many methods of advertising your rental property fall into the shotgun category; very few methods fall into the rifle category. Regardless of which method you choose, remember that advertising is, for the most part, a numbers game. Reach enough readers and you're bound to find a few who're looking for a rental property like yours on a given day. In an ideal world, you pay only for the ability to reach that limited number of qualified renters in your area who're looking for a rental property just like yours and who want it the day it's ready to rent. Of course, this ideal isn't reality, but it gives you a goal to strive for when you evaluate the different ways you can advertise.

Knowing which approach gives you the most bang for your buck

Creating interest in your rental property used to be as simple as putting up a sign or placing an ad in the local newspaper. Although the methods of informing potential renters in your area about your rental property may still include these tried-and-true techniques, the success and broad reach of the Internet means you have many other excellent options to consider. The target market for your rental property has a lot to do with which method of advertising works best for your particular rental unit.

One of the best ways to determine your rental property's most desirable features for your target market is to use the *what's in it for me* (WIFM) concept and ask your current renters what they like about where they live. You may also figure out from talking with the qualified *rental traffic* (all the people who look at your property, not just those who agree to rent) what they find of interest in your rental property. The key is remembering your rental property has different features that appeal to different prospective renters. Over a period of time, you can determine certain common factors that most prospective tenants desire. Incorporate these selling points into your marketing and advertising efforts.

One size rarely fits all. When it comes to advertising a rental property, you need to employ a combination of both the shotgun and the rifle approach (described in the preceding section) to be successful. Clearly, both methods have advantages. Referrals and property signs often give you good exposure to renters in your local area, whereas newspaper and Internet ads have the ability to let people relocating to your area know about your rental property as well. Check out Table 7-1 for the pros and cons of various advertising tactics.

Table 7-1 Pros and Cons of Different Advertising Tactics

Approach	*Pros*	*Cons*
Community bulletin boards	Inexpensive	Narrow market
Direct mailings	Inexpensive	Low response rate
Flyers	Allow more details	Limited distribution
Internet	Ease of use; decreasing cost	Uncertain effectiveness for smaller properties
Local employers	Qualified prospects	Narrow market
Newspaper	Broad reach	Potentially expensive
Property signs	Very effective; inexpensive	Narrow market
Rental publications	Widely used by prospects	Expensive for small properties
Word-of-mouth	High credibility; inexpensive	Narrow market

Getting your property to rent itself

Before you spend money on advertising, take another look at your property with a critical eye or ask someone you know to critique it. You probably have a relative or friend with a sharp eye for finding little details that aren't quite right. So put these individuals to work helping you identify and correct those nagging items that detract from your rental unit. Even the best advertising campaign in the world can't overcome a poor physical appearance. Making sure your property looks good on the outside as well as the inside significantly improves your chances of finding just the right tenants.

The best advertisement for your rental unit is its curb appeal or exterior appearance. *Curb appeal* is the impression created when a prospective renter first sees the building from the street. The importance of a good first impression is well documented in business and clearly applies in rental housing, too. A property that has well-kept grounds with green grass, trimmed shrubs, beautiful flowers, and fresh paint is much more appealing to your prospects than a property that looks as though it's seen better days.

Curb appeal can be positive or negative. Positive curb appeal can be generated by having litter-free grounds, well-manicured landscaping and lawns, well-maintained building surfaces, a clearly identifiable address, and clean windows. Any property amenities (such as a swimming pool and parking lots) should also be clean and well maintained.

Properties with negative curb appeal can be rented, but finding a tenant often takes much longer. You may have fewer qualified prospects to choose from, or you may have to lower the rent. Because time is money in the rental housing business, the lost revenue caused by poor or negative curb appeal is often much greater than the cost to repair or replace deficient items. Besides, a well-maintained and sharp-looking property often attracts the type of tenant who treats your rental property with care and respect — and pays a higher rent.

Keep in mind that poor curb appeal is the direct result of poor management. There's no excuse for poor curb appeal, and no one benefits from it. You can never regain your lost revenue, and your property value ultimately declines.

Being Aware of Fair Housing Laws

Whether you're the owner of a single rental unit or a small- to medium-size multiple unit rental property, you're subject to Fair Housing laws whenever you advertise. These laws prohibit advertising that indicates any preference, limitation, or discrimination based upon race, color, ethnicity, religion, sex, familial status, or physical or mental disability. Consequently, any discrimination in rental housing advertising is illegal and can result in very severe penalties.

The 1988 Federal Fair Housing Amendments Act also states that rental property owners and managers can't

- Target certain groups by advertising in select media only
- Imply a preferred type of tenant through the use of discriminatory language, locations, logos, or models in advertising
- Refuse to show, negotiate for, or rent housing
- Refuse to supply rental information or accept applications
- Make housing unavailable
- Determine discriminatory applicant qualification or selection criteria
- Set different rental rates, terms, conditions, or privileges for the rental of a dwelling
- Direct people to certain parts of a community, building, or floor
- Provide different housing services, facilities, or maintenance
- Enforce restrictions or different provisions in rental contracts
- Falsely deny that housing is available for inspection or rental
- Persuade owners to rent or deny anyone access to or membership in a facility or service related to the rental of housing
- Post discriminatory notices or statements, or evict a tenant on the basis of protected class

Following Fair Housing regulations begins with advertising to all qualified prospects, continues throughout the screening and tenant selection process, and remains a key issue during the entire tenancy. If you plan to be in the rental housing business, make sure all your advertising, tenant screening, and selection, plus your management and maintenance policies, reflect both the intent and the letter of the law. Also, be aware that Fair Housing laws are constantly being redefined and expanded. Ignorance of the current law isn't an acceptable excuse if your policies and procedures are challenged.

TIP

Whenever you have the space available in your rental advertising, be sure to include the Equal Housing Opportunity logo. This logo may not be an option in certain ads, such as newspaper classifieds, but it should be included in all other advertising, like flyers, brochures, community bulletin boards, direct mailings, and Web ads. You can download the logo for free at HUD's Web site. Just go to www.hud.gov, type **Equal Housing Opportunity logo** into the Search bar in the upper right corner, and navigate to the logo homepage. Then download to your heart's content!

TIP

If you have any questions about discriminatory housing practices, contact the Department of Housing and Urban Development's Office of Fair Housing and Equal Opportunity, which oversees the creation and enforcement of federal Fair Housing laws. Find it online at www.hud.gov/offices/fheo or call 800-669-9777. (If you're hearing impaired, call the TTY line at 800-927-9275.)

ON THE CD

All rental property owners must comply with federal (and often state and local) Fair Housing laws. Know the laws for your area and make sure you don't violate them, even inadvertently. Check with local landlord-tenant legal experts, your local apartment association, or the National Apartment Association (NAA) for more information about Fair Housing laws in your area. To contact the National Apartment Association, write to 4300 Wilson Boulevard, Suite 400, Alexandria, VA 22203, or call 703-518-6141. You can also visit the NAA online at www.naahq.org. Find the location of the NAA's Affiliated State or Local Association in your area by checking out the CD or by visiting the NAA Web site.

Analyzing Your Advertising Options

When it comes to advertising, you need to think like a tenant. Most rental property owners have been renters at some point in time. You may have personal experience as a renter looking for the right place to live. Perhaps you found the search frustrating, or maybe you developed a successful system for finding quality rental properties at a fair price. Your experience as a renter can be helpful as you place your ads.

Many rental property owners may remember that, when they began looking for their own rental years ago, they either drove around the area or sought out advertising specific to a particular geographic location. Although most prospective renters nowadays still practice these methods of researching their rental area of interest, many tenants have realized the advantages of online rental shopping. These renters ultimately go out to see each rental property that meets their needs — but not before narrowing their search to just a few properties via the Internet.

REMEMBER

Most renters dislike moving to an unfamiliar area. Although moving is enough of a disruption in your daily routine, adapting to a completely different neighborhood is even worse. Thus, the majority of renters relocate within the same geographic area, unless they're faced with a major change in employment, school, or another significant factor that requires a distant relocation.

The following sections outline the different ways you can reach your prospective tenants, from word-of-mouth to the Internet. Use more than one form of advertising and find your new tenant even quicker.

Talking the talk: Word-of-mouth referrals

Often the best source of new tenants is a referral from one of your rental property's neighbors, one of your other tenants, or possibly even the tenant who just vacated your unit. Many times, referrals also come from coworkers or friends. Word-of-mouth is often your most effective and least expensive method of finding new tenants, especially if people like your rental property or where it's located.

In the long run, your best source for new tenant leads is other satisfied tenants. So keep your current tenants content and treat your departing tenants properly with timely accounting and return of any remaining security deposit balance. Tenants talk, and bad news travels faster than good news.

Many of your tenants or other people who own or rent in the area may have a family member or friend looking to relocate. Creating a sense of community in which your tenants have friends in the immediate area can lead to longer tenancies and lower tenant turnover. This combination translates directly into improved cash flow for you.

If your tenants or neighbors give you referrals, you may consider rewarding them or thanking them in a couple of different ways. Regardless of the kind of reward you give to referring tenants, the key is to make them feel appreciated for the referral. Here are some ways to reward your referring tenants:

- **Referral fee:** Typically, referral fees are $50 to $200 in cash or rent credit, and are only paid after the new tenant has paid the full security deposit and the first month's rent and has actually taken occupancy. In a soft rental market, where the supply of vacant apartments exceeds the demand, some owners and property managers may even offer referral fees of up to 50 percent of the first month's rent. The market conditions in your area dictate the appropriate level of referral fee for your rental property. You can also offer a higher amount for multiple referrals.

  Some property managers or owners give half of the referral fee upfront and the other half after the new tenant has lived in the unit for a specified number of months, in order to ensure the tenant plans to stay a while. In my experience, however, the referral fee is more effective if the full amount is paid immediately upon the new tenant taking occupancy. Although on some occasions the referred tenant doesn't stay for more than a month, this situation is usually nothing that the referring tenant can control, so he shouldn't be penalized.

As with all policies, be sure to offer your referral fees consistently and equally to all tenants to avoid any Fair Housing concerns.

- **Improvements or upgrades to the tenant's rental unit:** When cash or a rent credit is inappropriate (like in states where a real estate license is required for referrals), you can offer enhancements to the rental unit, such as installing a new ceiling fan, hanging new wallpaper, cleaning the carpet, or repainting the unit. Certain types of improvements may have a long life and stay with the rental unit after the current tenant leaves, making your rental unit more marketable and justifying a higher rental rate to a future tenant.

The psychological impact of giving an immediate reward for a referral can be very motivating. You can also adjust the amount of the referral fee for certain rental units that may be more difficult to rent or for certain times of the year when you have more trouble renting vacancies. For example, if you normally offer a $100 referral fee, you may want to consider offering a $200 fee for any referral given between Thanksgiving and the middle of January, because this time of year is often very slow for rental traffic. (No one likes to move during the holidays or in inclement weather!)

Have any rental applicant referred by word-of-mouth go through the same tenant application and thorough background check as any other applicant. Any deviation in your normal application and tenant selection process can support later allegations that you favor certain incoming tenants. Always screen every referral carefully, but be particularly careful if the referring tenant has a poor payment history or has created other problems. Just as a referral from an excellent tenant often leads to another excellent tenant, a referral from a problem tenant often leads to another problem tenant.

Showcasing your site: Property signs

A property sign is the first step in most rental property advertising programs, because it's one of the most economical ways to promote your vacancies. The use of a simple "For Rent" sign can be very effective and can generate great results for minimal cost. In certain areas with limited availability of rental units, a sign on the property is all you need to generate multiple qualified rental applicants. In the following sections, I explain how to determine if property signs are an appropriate tactic in your area and, if so, how to make them work for you.

Weighing the weight of a sign on your marketing efforts

An advantage of the property sign is that callers already know the area and have seen your building's exterior. Consequently, the attractiveness and aesthetic qualities or curb appeal of a rental property are essential. The rental property must look good from the street or else rental prospects won't even bother to stop and see the property's interior.

A disadvantage of signs is that they announce to the world that you have a vacant rental unit. In some areas, this proclamation can lead to vandalism or the unwanted use of your property for parties or criminal activity. For this reason, many rental property owners post rental signs while the unit is still occupied by the outgoing tenant and then remove the signs when the unit's empty. Depending on your tenant and her level of cooperation, you may also want to indicate on the sign that the current tenant shouldn't be disturbed.

Often the current tenant is very cooperative and glad to show the rental unit. But be sure to consider whether the current tenant is your best representative. Obviously, if she's leaving under difficult circumstances or her housekeeping or demeanor isn't the best, then you may be better off waiting and showing the rental unit after the tenant has vacated.

Making your signage stand out from the competition

If you choose to put up a property sign, do so as soon as you find out you have an upcoming vacancy, unless your property's curb appeal is poor or signs aren't allowed. Be sure to use rental signs that are in perfect condition, with large, crisp lettering that's easy to read. The condition of the sign reflects the image of your rental property — whether good or bad. A well-maintained sign provides a good first impression. A faded, worn out, or tacky sign is worse than no sign at all. Consider the following when developing and placing your signage:

- **Visibility:** Make sure your signage is clearly visible from the street and the lettering is large enough to read. Ideally, a two-sided sign should be placed perpendicular to the street so passing vehicles can view it more easily.

  TIP

  Drive by your property from both directions at the usual speed of traffic and make sure your sign can be seen and understood easily. The main objective of property signs is to get the driver's attention with the words "For Rent," or a similar basic message. You want the driver to pull over and write down the details and the phone number.

- **Content:** Don't get carried away or put so much info on the sign that it can't easily be read from the street. Include the phone number and date of availability in a very clear spot. You can also add the number of bedrooms and bathrooms, as well as any special features. Clearly indicate your rental rate on the sign, because you need to make sure prospective tenants know what to expect. Including the rental rate can even prescreen tenants who aren't financially qualified.

  On the other hand, when the exterior of the property doesn't do justice to the actual rental unit, you're better off *not* including the rental rate on your property sign. Because you're usually not there to show the rental unit at the time the prospective tenant sees the sign, she may think the rent is either too high or too low and immediately decide not to call. The value of some rental units can't be appreciated until a prospect has seen the unit's interior.

- **Location:** Place your signage in a prominent location. Property signs don't work as well if your rental unit isn't on a busy street or if your sign isn't easily noticeable from a main road. Property signs on dead-end streets or cul-de-sacs are still worthwhile, but don't expect the kind of response you'd get if your sign were on a major thoroughfare or arterial roadway.

  If your property is on a side street that's relatively close to a major road, you may be able to obtain the cooperation of the owner of a nearby property with a high-visibility location, unless such signage placement is prohibited by local law. Approach the owner about the possibility of placing a rental sign for your property on his land — either on a temporary basis only when you have vacancies or on a more formal ongoing basis (with a formal contract drafted by an attorney, outlining rights and terms and a financial incentive for the owner). Typically, you can expect to pay the landowner $25 to $100 per month to put your sign on his property, depending on the size and location of the sign.

  Any off-site rental sign should clearly indicate the location of your rental property. Make sure the property where you place your sign is comparable to your rental property in terms of curb appeal. A property that's vastly superior to yours can actually deter potential renters. Naturally, a property that has poor curb appeal discourages prospective renters from any further inquiry into your rental property, even if your property is in much better condition. As with all signs, first impressions are very important and leave a lasting image in the minds of your prospective renters.

Broadening your horizons: The Internet

The Internet is available to almost everyone, making this medium an exceptional source of prospective tenants for owners of medium to larger rental properties. But even for owners of small rental properties, the Internet can be a useful tool to augment the more conventional advertising methods discussed throughout this chapter. The next two sections break down how to make Web-based advertising work for you.

Where to advertise online

In the past, major online resources didn't cater to the small rental property owner. Now, many online advertisers have seen the success of Craig's List, a Web site that features free advertising in many major metro areas (unless you're a broker, then you have to pay), and have realized the significant number of potential advertisers they're missing. Prospective tenants want the option to search specifically for the larger, professionally managed apartment communities, as well as rental homes and condos or small rental properties, so most online rental property advertisers have expanded their listings to include all types.

The opportunities to promote your rental vacancy online have exploded over the past several years to boast a number of choices both locally and nationally. Although this list is dynamic with new firms and mergers among competitors, here are some of the more popular and successful online advertising venues:

- ***Apartamentos Para Rentar:*** `www.pararentar.com`
- ***Apartment Guide:*** `www.apartmentguide.com`
- ***Apartments.com:*** `www.apartments.com`
- ***Craig's List:*** `www.craigslist.org`
- ***For Rent:*** `www.forrent.com`
- ***Rent.com:*** `www.rent.com`
- ***RentalHomesPlus:*** `www.rentalhomesplus.com`

TIP

The Internet also allows you to establish your own Web page. You can post your marketing pieces on your site and refer potential tenants to the Web page address right in your advertising. That way, prospective renters can go to your site and gain additional information at their convenience. Moreover, when a prospective renter calls, you also have the option of referring him to the Web page for more information.

What to include in an online ad

The online rental info you can offer is unlimited. Of course, you need to make sure you get the basics out there before trying anything flashy:

- **General geographic location of the unit:** Prospects want to know whether your property is near the places they frequent the most or whether it's in a safe part of town. In many cities, the name of your neighborhood makes an immediate impression on your prospect, which can be good or bad for you depending upon the reputation of the particular neighborhood. So if the address may give a negative impression, leave it out.
- **Number of bedrooms and bathrooms:** This number is often a major determining factor for many renters. Always let prospects know what to expect from your property.
- **Major features or amenities:** Inquiring minds want to know what makes your rental property better than all the others in the area.

- **Monthly rent:** Listing your monthly rent in your ad lets prospective renters know your requirements right upfront. Most prospective renters are scanning through rental ads trying to eliminate the ones that aren't worth calling about. Generally, any ad that doesn't give the prospect enough information to determine his level of interest is immediately disqualified.
- **Telephone number and e-mail address where you can be reached:** If prospective tenants don't know how to reach you, then you definitely won't receive any inquiries about your unit.
- **Who pays for the utilities:** This bit of info can be a key factor for renters on tight budgets.
- **Whether the unit is furnished:** Some renters may not want to hassle with providing their own furniture; others may not want to use a recliner or dresser that's been around the block a few times.
- **Address of the property:** Include the address unless the rental unit doesn't have excellent curb appeal.

With a digital camera, you can place photos of your rental property online. If you have a wide-angle digital camera, you can even put interior photos online, which is very helpful if the property is currently occupied and you can't or don't want to bother the current tenant by showing the place. You can also provide floor plans and detailed directions.

If you're really computer savvy or know someone who is, you can provide a narrative soundtrack that augments your online info, or you can just include some music. Keep in mind though that music can be annoying to many Web site viewers. The last thing you want to do is run potential tenants off with your favorite Barry Manilow song, so either choose something more generic or give your prospects a muting option.

Reading all about it: Newspapers

Until recently, the most commonly used medium for advertising rental properties was newspaper classified ads. The Internet has since taken over as the best source for prospective tenants in many metropolitan areas, but local newspaper ads can still be very effective if you follow these basic advertising rules:

- Attract the reader's attention.
- Keep the reader's interest.
- Generate a desire to find out more about your property.
- Convince the reader to contact you for more information.

Important considerations when using newspaper advertising include where to advertise, the size of your newspaper ad, what to include in the ad, and the schedule on which your ad should run. I cover each of these issues in the following sections.

Which newspaper should you advertise in?

In most metropolitan areas, you have several newspapers to choose from for advertising your rental unit's availability. Typically, you have one major regional newspaper and one or more neighborhood newspapers as well. Local or neighborhood newspapers are often more reasonably priced and can reach the renters already in the area. Some local or neighborhood newspapers even offer free ads. So do you advertise in the local weekly throwaway or the regional major daily? Unfortunately, there's no right answer to this question. You really need to try each newspaper and see which one works best for a particular rental property.

REMEMBER

The key to effective advertising isn't the overall number of calls you receive, but the number of dollars per qualified renter you spend on advertising. Effective advertising in most major metropolitan areas typically costs $20 to $50 per qualified prospect. So if your Sunday newspaper ad costs $100, you want to receive inquiries from two to five qualified prospects every time the ad runs. Of course, you can expect to receive additional inquiries from unqualified prospects, but you can measure the effectiveness of your ad by noting how *few* unqualified prospects call in response to it.

Many of the larger newspapers have online editions or relationships with Internet firms that specialize in advertising rental properties. For example, the *Chicago Tribune* partners with Apartments.com so it can offer you a print ad in its local newspaper and an online ad that can generate calls from around the nation.

How big should your newspaper ad be?

Newspapers typically offer two different types of rental housing ads: display and classified. Display ads are much more effective and visually eye-catching; they're also significantly more expensive and beyond the needs and budgets of most small-time rental property owners. Usually, only the owners or managers of large apartment buildings in your area use display ads on a regular basis.

Owners or property management companies with multiple properties in a certain geographic area also use display ads, because they're able to combine several of their rental properties into one large display ad, making the ad more cost-effective. If you're a small rental property owner, unless you have multiple properties with vacancies in the same general geographic area, use the classified rental housing advertising section of your newspaper.

Wondering how to make a less flashy classified ad stand out to prospective tenants? The trick is to develop a classified rental ad that's efficient but doesn't place a higher priority on low cost while sacrificing the ability to attract and keep a prospective renter's attention. Your rental ad needs to be easily readable. One of the best ways to achieve readability in an ad is through the use of *white space.* White space is the blank space that makes your ad stand out from the others, many of which are so crammed with information that readers instinctively skip them.

REMEMBER

Consider yourself lucky if a prospective renter spends more than just a few seconds looking at your rental ad. If you can't attract and keep his attention in those brief seconds, he'll move on to the next ad. So when it comes to writing your ad, you want to provide as much information as possible, while also keeping the ad readable. But know that the overall size of the ad needs to be kept to a minimum, or you risk a major shock to your advertising budget.

TIP

Most renters actually prefer to rent from small-time rental property owners, which is why classified ads can be very effective. Classified ads need to be directed to a specific target market and should stress the particular advantages of a rental property from the tenant's point of view.

What should you include in your newspaper ad?

Effective newspaper ads (like the ones shown in Figure 7-1) provide the basic facts (see the earlier section on what to include in an Internet ad for more on these), plus a *hook,* which is a call to action that helps your rental ad stand out from the rest. The hook can be monetary, or it can be an improvement to the rental property — basically anything that makes your ad grab the prospect's attention. Offering a tenant the opportunity to select new tile floor covering in the kitchen or entryway or providing a ceiling fan as an extra bonus are both excellent hooks.

TIP

Even in tight rental markets, providing an incentive for the prospect to immediately call on your ad is smart. For example, you can offer to waive the fee for the tenant's credit report if the prospective renter calls the day the ad runs. The credit report typically costs you less than $20, but this kind of offer makes your ad much more interesting to most cost-conscious renters.

#1 Rated Schools!

Hidden Valley executive home. 4 bedrooms, 3 baths, 2250 sq. ft., 3-car garage pool/spa, fenced yard, lush landscaping, a/c, washer/dryer, f/p, gardener incl, pets welcome. $1,995/mo. Avail. 7/1. 423 Sycamore Lane. 555-1212

Cherry Hills Close to Everything

Lg. 1 & 2 BR townhouse apts, on bus route. Walk to schools, stores, medical center. Tennis, pool, spa, no pets. Owner-paid utilities. Furnished units avail. From $575. Maple Grove Apts. 575 Watson Rd. Mention ad for free credit check. Daily 9-6. Call (800) 555-1212

Figure 7-1: Good newspaper ads like these can help you find the right tenant quickly.

Although leaving out some information saves you money in the cost of a classified ad, don't forget that incomplete information either leads to qualified prospects skipping over your ad or to many unqualified prospects calling and asking you every question under the sun.

WARNING!

Be careful with abbreviations in newspaper ads. Although abbreviating some words can stretch your advertising dollar without cutting into your message, the use of abbreviations often discourages tenants from reading your ad. If your ad can't be understood, it won't generate the phone calls you want. And if your ad doesn't generate phone calls, you've wasted your time and money. I recommend using basic abbreviations only if most rental property advertisers in your area commonly use them.

How often or on which days should your newspaper ad run?

Although the Saturday or Sunday editions of many major metro papers have the most rental ads, running your ad on these days can be quite expensive. Newspapers often have specials that encourage you to run your ad for longer periods of time, which gives you more exposure.

WARNING!

Be sure to change your ad weekly, at least. Tenants often skim ads for several weeks when they're beginning to look for a new rental unit. If they see the same ad for more than a week, they may assume your rental unit is undesirable. This advice is also true if you have many rental properties and run the same ad each week. Potential tenants may incorrectly think it's for the same unit every time.

To address or not to address

Opinions tend to differ about including a rental property's address in a newspaper ad, but I generally recommend including it. This information gives prospects the exact location of your property and helps them independently determine whether it's one they're interested in renting. The only situations in which you shouldn't indicate the address in the newspaper ad are when the curb appeal isn't up to your high standards or when the exterior appearance of the rental unit is deceptive and gives the impression that the unit is small or undesirable in light of the asking rent.

If you include directions with your address, make sure they're correct and easily understandable. Ask someone who's not familiar with your rental property or the area to proofread your ad to make sure the landmarks, cross streets, or directions provided make sense. If rental prospects can't find your property, you can safely assume they're not going to be interested in renting it. Although a more direct route to your rental property that goes past the local landfill may exist, have your prospects take the next freeway off-ramp and backtrack somewhat to your property to avoid any unpleasant areas of town. This first impression can be very important. The advertising and presentation of your rental property is marketing, and when it's done properly, it'll make your job as a rental property owner much easier.

Some newspapers offer discounts if you run the same ad for consecutive days, but doing so can be expensive. Instead, run a larger ad on the primary rental housing advertising day and then run a reference ad the rest of the week to lower your overall cost. For example, if the Sunday edition of your local newspaper is the primary day for rental housing ads, place a large ad on that day. Then on Monday through Saturday, run a small, two-line ad that simply states, "Kensington — 2bd/2ba available soon. See last Sunday's ad."

When your ad first appears, be sure to check the newspaper yourself to confirm it's listed in the proper classification and is worded exactly the way you wrote it. Newspaper ad reps are very skilled at taking down complicated ads with abbreviations, but mistakes can and do occur. There's nothing worse than not receiving any phone calls because your ad was placed in the wrong classification or because the phone number was listed incorrectly.

Checking your ad for accuracy may be relatively simple if you regularly subscribe to the newspaper. However, if you don't subscribe to it, be sure to have your newspaper ad rep send you a *tear sheet,* a sample of the page on which your ad ran. If the newspaper makes a mistake in your ad, be sure to notify it at once and ask for a corrected ad to run at no charge.

Some newspapers offer special ads for guaranteed results. For example, if your rental property doesn't rent after your ad has run for a week, a paper may give you up to an additional week of ads for free. Check with your newspaper sales rep for planned special sections featuring rental housing articles and news features. These special sections are written with the renters in mind and can increase your ad visibility to prospective tenants.

If your rental unit is located near a military installation, be sure to run an ad in a military newspaper. The military also has housing referral offices at many bases, and all branches require transferees to register with the housing referral office. Contact this office with your information.

Papering the neighborhood: Flyers

Distributing and posting flyers informs the neighbors that you have a rental unit available, which can be helpful to them because they may know someone who wants to live close by. You can use flyers to direct people to more information (including maps and additional photographs) on a Web site. See the earlier section, "Broadening your horizons: The Internet," for the scoop on using the Net to advertise your property.

Flyers allow you a lot more space in which to describe your rental unit. You can go into detail and list many of the features that aren't cost-effective to list in a newspaper ad.

The cost to reproduce flyers is very nominal and can run about $5 for 500 black-and-white flyers on white paper stock. For an extra $5, consider printing your black-and-white flyer on colored paper. If you really want to stand out, you'll need to pay about $25 for 500 color flyers. The extra money is well worth it. Although keeping your costs low is always important for rental property owners, remember that you may be losing $20 to $40 each day your rental property sits vacant — and that's money you never get back again! So if you have a rental property that looks great with a four-color flyer, spend the extra $20 and generate those important rental leads today!

In the following sections, I explain how to create and distribute flyers for the maximum positive impact on your rental property.

Making high-tech flyers

TIP

With the wide availability of word processing programs, making great-looking rental flyers that contain all the pertinent info, plus a photo and a map, is very easy. Although the widely used word processing programs have everything you need to make basic flyers, I highly recommend you invest in basic desktop publishing software. Several great desktop publishing programs are available, but three of the easiest to use are *Microsoft Publisher, PrintMaster Gold,* and *Broderbund's PrintShop.* These programs have templates that simplify the process and provide you with the graphics and additional features to make your flyer look sharp.

Another invaluable tool for all rental property owners is a digital camera, which helps you prepare advertising that works! A high-quality photo can easily separate your rental property flyer from the others that may be circulating at any given time. Check out Figure 7-2 for a great example of a flyer that effectively uses photos to draw attention to a property.

TIP

Some people think a handwritten flyer actually has greater appeal and implies that the owner is a nonprofessional who has a rental unit at a below-market rental rate. This reasoning may be true, but I believe having a sharp, easy-to-read, typeset flyer with a high-quality photo and detailed map provides superior results.

Although your goal is to rent your property quickly, the reality is that you'll be marketing your rental unit over a couple of weeks. This guideline is particularly true if you're able to start your marketing during the current tenant's notice period. One of the problems with flyers (just like political placards) is that it's difficult to know which ones are current and which ones are stale. I recommend putting a date on your flyers and keeping them fresh. You should also consider having a series of flyers with a different look, each promoting a different open house. Include the monthly rent on your flyers so prospects can immediately determine whether your rental property is in their price range.

Executive Home for Rent

The top-rated Horizon school district and plenty of room! 4-bedroom, 3-bath executive home with over 2,250 square feet of living space and a 3-car garage. Master bedroom suite has over 500 square feet and large walk-in closet. Other bedrooms are oversized with large closets. Plus, a large home office with shelves. Large fenced backyard is perfect for children and pets. Pets are welcome! Separate fenced pool and spa. Lush, mature landscaping, air conditioning, full-size washer and dryer included. Fireplace in family room, formal dining room with bay window, upgraded appliances. Side-by-side refrigerator, double oven, range top, dishwasher, disposal, trash compactor, shutters, intercom, and CD stereo system throughout home, built-in bookcases and lots of storage. Available on 7/1. 423 Sycamore. $1,995 per month. First month's rent plus $2,000 security deposit will move you in!

Call 555-1212 today and mention this flyer for a free credit check.

Figure 7-2: Flyers are a great way to attract attention to your property.

Distributing flyers

The key to success when it comes to flyers is distribution. Either pass out your flyers personally or consider hiring a reliable individual to distribute them door-to-door in the area where your rental unit is located. You can also have the flyers distributed to locations that current and prospective renters are likely to visit.

WARNING!

Make sure your flyers are never placed into the official U.S. mail receptacle, because doing so is illegal. If you're considering direct mail distribution, contact a firm that specializes in direct mail services.

Although it's often suggested that renters look for a new rental in the last two weeks of the month, I've noticed that in most areas you can always find renters on the market throughout the entire month. Begin distributing your flyers as soon as possible. Each week, distribute the latest version with the current info and dates so that they're fresh.

Flyers can be targeted to a specific geographic area and can be very effective in reaching good rental prospects. You can distribute flyers to local employers who often have housing referral offices or employee bulletin boards, or you can post them in the housing referral offices at local military installations and universities. Be sure to receive permission before posting your flyers or else they'll quickly disappear, and you'll have created enemies instead of allies who can help you fill your vacancies! Flyers, like all forms of advertising, are only as good as their distribution, so be sure to distribute them in the high-traffic areas where renters are most likely to see them.

Focusing on rental publications

Most major metropolitan areas have one or more rental publications that offer display advertising of rental properties. Following are two widely circulated rental pubs (both of which also have a presence on the Web):

- *For Rent* offers biweekly, full-color rental advertising for most major cities with 61 publications covering more than 190 markets. It offers 1/4-, 1/2-, and full-page ads, which are generally listed by geographic area. *For Rent* has a handy index that allows prospective tenants to search for certain features. This pub promotes the fact that its biweekly format allows owners and property managers to change ad content more often. *For Rent* also offers a Spanish language publication called *Apartamentos Para Rentar* in many areas of the country.
- *Apartment Guide* is available monthly with more than 90 editions for the major metropolitan areas in 39 states. Its page format is smaller than *For Rent,* and it says that its size is an advantage, because it's easier for rental prospects to carry and use. *Apartment Guide* offers full-color 1/2- and full-page ads, and it categorizes the ads in sections that relate to certain geographic segments of a metro area.

TIP

Rental publications are primarily designed for the larger rental housing communities and are a cornerstone of these communities' marketing programs. Most rental publications offer smaller display ads designed for medium-size rental properties. However, unless your rental property has several vacancies at the same time, using a rental publication may not be cost-effective.

Strategic distribution equals success in all advertising. Rental publications demonstrate this truth clearly as they battle for positioning on the shelves of major grocery stores and convenience store chains. They race to get the best locations for their curbside racks and make sure that all the major employers and military bases have a good supply of their latest issues. In most major metropolitan areas, rental publications are a dominant source of rental traffic.

TIP

If you're thinking about advertising in a rental publication, take the time to determine which one has the best distribution in your area for your target market. For example, you may have determined that the local hospital and medical services facilities just a few blocks from your rental property are potentially a great source for rental prospects. If you find that only one rental publication is distributed on-site to employees, start evaluating it to see whether it can offer you advertising that meets your needs and is within your budget.

Creating chat: Community bulletin boards

Community bulletin boards can be very effective advertising avenues in certain small areas or college towns. Often the local self-serve laundries, pharmacies, hospitals, or grocery stores have bulletin boards where you can post information at no cost. You may find that you're limited to a 3-x-5 card, but you can tailor your posting to the people who'll be most interested in and attracted to your rental property. Post several identical cards so that interested prospects can simply take a card with them. This tactic also allows you to use the back side for more information, including a detailed map and directions to your rental property.

If your rental property has unique features, like a garage or large backyard, you may have some additional promotional opportunities. Carefully evaluate your rental property and determine its unique aspects and the specific target market most interested in these specific elements. For example, a rental property with a large yard appeals to renters with pets, so a listing on the bulletin boards found at the local pet store may reach that specific target market. Likewise, a rental property with a garage appeals to patrons of an auto supply or hardware store.

As with any ad in which the property address is clearly stated, a disadvantage to this advertising technique is that you may be promoting your possibly vacant rental unit to some people who may be more interested in having a party or stealing your appliances than renting the unit. One way to minimize this problem is to post on community bulletin boards while the unit is still occupied and clearly state that the rental property will be available at a future date. You should also consider indicating that the current tenant shouldn't be disturbed.

Going where the jobs are: Local employers

The local employers in your area are a great source for rental prospects. Employees of these companies most likely have stable jobs and are looking for long-term rentals. Many companies have employee assistance or housing referral offices that work with their employees to help them find reasonably priced housing. Most rental properties located in metropolitan areas are located near at least one major employer. As a sharp rental property owner, you may have already determined that the employees of certain major firms are part of your target rental market.

Likewise, the major firms in your area have a vested interest in their employees being able to find good-quality and affordable rental housing in close proximity to their location. Progressive employers are always looking for inexpensive ways to assist their employees and improve morale. To capitalize on this desire, you can offer all employees of companies that participate in your corporate referral program an incentive to rent at your property. This incentive can mean waiving the application fee, allowing the security deposit to be paid over the first 90 days, or even discounting the monthly rent.

Meandering through other tactics to try

If the other marketing tactics listed in this chapter don't appeal to you, you may find success through property brochures, direct mailings, leasing agencies, or broker referrals. Although most owners of small- to medium-size rental properties don't find these services advantageous, you may want to consider the following as part of your marketing plan:

- **Property brochure:** A property brochure isn't necessary for most small rental property owners. However, if you have a rental property with more than ten units, you should seriously consider developing a basic one. The benefit of a rental brochure is that the prospective tenant can take the information with her and easily share it with a coapplicant. I recommend a simple tri-fold brochure that can be printed on both sides of 8 1/2-x-11-inch paper. With a basic word processing or desktop publishing program, you can easily create a customized brochure for your rental property. It should include a floor plan and an area map that highlights the key places for employment, shopping, schools, and transportation.
- **Direct mailings:** The key to success with direct mailing is to have a good flyer or brochure combined with a mailing list that reaches your target market. If you've already developed your flyer or brochure, using this same marketing piece in a direct mail advertising campaign is a natural next step. Of course, like all advertising, direct mail is only effective and cost efficient if you can get your specific marketing piece into the hands of a prospective renter for your rental property when he's looking for a place to rent. Use an outside direct mail firm for the most time- and cost-efficient handling of direct mail.
- **Leasing agencies:** *Leasing agencies,* or rental locator firms, often have working relationships with major corporations and relocation services and have excellent tenants looking for high-end rentals, usually in major metropolitan areas. Some offer their services for no charge to the renter and are compensated by the property manager when the prospect signs a rental contract. Other leasing agencies charge tenants for their service and are only compensated when they find a rental unit that meets the renter's needs.

  Tenants relocating to an area typically don't have the time to search for a rental property and want the leasing agency to handle matters for them. They also aren't often candidates for purchasing a home, because they're only staying for a specific assignment or because they want to rent in the area before making a purchase decision. You often encounter a trade-off with these renters: They're usually very well qualified, but they're not as likely to rent long-term. But the reality is that not all tenants stay for a long period of time anyway, and if you know that a certain tenant will only be with you for a set period (such as a one-year lease) you can adjust the rental rate to reflect this rental term.

- **Broker referrals:** Besides selling real estate, many real estate agents are also in the business of referring renters to property managers. Many of the calls real estate agents receive are from individuals relocating from other areas who contact an agent inquiring about a future home purchase. Although they may have long-range plans to purchase, they often rent while they become familiar with the area.

  Real estate agents don't mind referring renters to an owner or property manager, because they know that today's renter may likely be tomorrow's home purchaser. Real estate agents are also very interested in referral fees from owners or property managers. Although the referral fee may be a small amount of money compared to the potential commission the real estate agent can earn on a sales transaction, agents are willing to be patient and accept a small reward in the short run, knowing that the big money will be earned down the road.

  Check the laws in your state, because some states prohibit the payment of commissions to anyone other than real estate licensees.

Chapter 8

Handling Prospects When They Come A'Calling

In This Chapter

- Realizing the value of first impressions
- Using technology to your advantage
- Making the most of your phone
- Getting your prospects to visit your rental property

In virtually all instances, the landlord-tenant relationship begins with the initial rental inquiry. This inquiry can be a traditional phone call or an electronic communication, such as an e-mail. If you successfully master the proper handling and prequalifying of rental prospects and become skilled at selling prospects on your rental property, you'll find owning and managing rental property to be a profitable and pleasant experience.

Armed with the info in this chapter — and some practice — you can become adept at quickly screening prospects and convincing the qualified ones that you have the rental unit they want. In this chapter, I explain the importance of preparing for communication with prospects, using the phone and electronic media as effective marketing tools, and handling prospects all the way from the first contact to the rental showing.

Understanding Why First Impressions Are Important

Most everyone knows the old adage that you only get one chance to make a first impression. That's sage advice for most businesses, but it's especially true when people are looking to make such an important decision as which rental property will be their next home.

As a rental property owner and manager, it's easy to see that the correlation between successfully attracting and securing long-term tenancies with qualified tenants can be influenced by that first impression. Your rental property isn't the only one on the market, and your rental prospects have many options, so remember that you're competing for the best renters with everyone in your area who has a vacant rental property. You need to make a positive impression to stand out from your competition.

Do you ever go to a restaurant and feel like everything is so chaotic that you're never going to get the best service or meal? You probably leave and don't even give the restaurant a chance to surprise you with a good experience. This behavior is human nature, and the same concepts are true in rental housing. Everyone's looking for the piece of mind and reassurance that they're making the right decision about something very important — where to live.

Being organized and professional from your very first contact through the entire rental process instills confidence in your prospective tenants that you have the ability to meet their housing needs. A professional attitude and presentation also let them know that if problems occur with the rental property, you're likely to address their concerns promptly.

The way you advertise or promote your rental property is part of making the first impression in rental housing, but the chief impression-making factor is that very first time you have contact on the phone or in person with prospective tenants. One way to make a positive first impression is to be organized and professional, and using technology helps you achieve this state by being easy to reach and responsive to rental inquiries. Nothing turns off rental prospects faster than an inability to get in touch with you. Even the most diligent prospects only call once or twice before giving up and moving on to other rental properties. Of course, if you answer prospects' calls promptly on your cellphone but are distracted because you're at the grocery store or your child's soccer game, don't expect to secure a rental property showing.

You also need to be prepared with all the information necessary to present your rental property in the best light to your prospects and to answer their questions. Remember each of your contacts with every rental prospect by taking good notes on tracking forms so that you can recall which features prospects like most about your rental property, as well as any concerns they express. People like to feel important and that they're really being listened to. Being able to recall prior conversations or correspondence can be a powerful tool in ultimately closing the sale and securing a rental contract.

After your prospects are willing to make a commitment and apply for your rental property, you need to have your rental application and rental contract, with all addendums, ready for their review. A disorganized rental property owner doesn't get a second chance. Being prepared allows you to focus your energies on evaluating each rental prospect to find the most qualified applicant who'll be your next long-term tenant.

Making the Most of Technology

The goal of advertising your rental property is to reach the pool of qualified prospective renters who're currently looking for a new rental property and inform them that you have one that may be desirable to them. When your advertising and promotion generate interest in your rental unit, expect a ringing telephone or a flooded e-mail inbox. Many of the online advertising options explained in Chapter 7 allow prospective renters to immediately contact you via e-mail, or even submit their rental applications electronically. This e-submission is a great feature for rental prospects from out of town, but it most certainly doesn't replace the benefits of the traditional telephone.

If your rental prospects can't reach you, they immediately lose any potential interest in you and your rental property. So you need to make sure you can be easily reached by prospective tenants — and current tenants — at all times.

Advances in telecommunications technology have made rental housing management much more efficient today than it was even just a few years ago. However, with so many options, you need to know how to use communications technology effectively and efficiently. In the following sections, I cover the basics of doing just that. Later in this chapter, I share more specific information on using the telephone in particular — because the telephone is still your main link to your prospective tenants.

Using your phone to your advantage

The telephone is traditionally your primary way of staying in touch with prospective tenants. Although the recent trend toward electronic communication, especially for an initial inquiry in response to an online ad, has made keeping in contact with prospective tenants much easier, the telephone is still your main communications tool.

Because of the limitations and misunderstandings that can occur with short, cryptic e-mail messages, the telephone will forever have an important role. Its direct, instantaneous form of two-way communication still offers the best means of communicating when a prospect is considering your rental property. Prospective tenants have many questions that can't be simply answered via e-mail. Likewise, you want to be able to ask them important questions to make sure they meet your rental criteria.

Using the telephone isn't just about putting your phone number in your classified ad or on your rental sign. Today's telephone comes with all kinds of special features that can help you manage your property more effectively. I cover these features in the following sections.

The telephone's importance in property management

Some property management books recommend never placing your phone number in your rental ads. Instead, they suggest you market your rental property strictly by advertising and by holding open houses where interested tenants can all view the property at the same time. The concept of an open house is very good, but not until you've prequalified the rental prospects.

In my experience, omitting your phone number from your ads eliminates a large number of qualified rental prospects who don't have the time for or interest in racing all over town to attend open houses at rental properties that may not even meet their needs. Your most qualified rental prospects are often people who value their time very highly. Consequently, the Internet and e-mail can be useful for your prospects by helping them solidify their interests in your property. But that's where the usefulness of electronic communication ends. Ultimately, your prospects need the type of specific information they can only receive through a phone call.

You may think that you're able to conserve some of your *own* time by not accepting phone calls, but you'll have a different opinion after your first three-hour open house where only a couple of unqualified rental prospects show up. Or, even worse, you may not get any prospects at all. Now *that* is a counterproductive afternoon!

Spend the necessary time talking with your prospects. Don't just take the quick and easy route offered by electronic communication. E-mail plays a prominent role in communications during a tenancy, but the telephone is your primary business tool when dealing with prospective tenants.

Call forwarding

If you're advertising a property for rent and the only contact number you provide is your home number, for example, but you work outside of the home all day, you won't be available to take the incoming calls you need. If this is the case, you may want to consider using a cellphone where you *can* be reached during the day, or where you can at least be immediately notified of incoming calls.

If you don't want to list your work phone number in your advertisements, you can still use your personal cellphone, your home phone (if you have one!), a separate rental property phone line you've established, or a pager by enabling the *call forwarding* feature available through most phone companies. With call forwarding, you simply set up your phone to forward all calls to another phone number — basically any number where you can be reached. And you can turn the call forwarding off when you return home.

Caller ID

Another great phone feature you can use to increase your time management efficiency and lower your costs is caller ID. When you pay for caller ID through your telephone company, your phone displays the phone number of the party placing the incoming call. Caller ID is a great way to get the return phone number of your prospective renters in case they neglect to leave their contact information for you. But remember that when you call your prospective tenants, they likely also have caller ID, so be sure to call from a phone number you don't mind revealing to them. If you don't have a number like that, you can enable the feature that blocks your phone number from being displayed.

TIP

Why do you need to have the telephone number of a prospective renter? Having a prospective renter's number allows you to call her back and follow up with more information or get an update on her rental status. You can also use her number to reconfirm an appointment to see the rental property. And later, during the applicant screening process, you can use the phone number as a cross-check when she submits her rental application to be sure she's giving you the correct information.

Voice mail

As a rental property manager, you should have a voice mail system or an answering machine that can handle calls 24 hours a day. The outgoing voice mail or answering machine message should provide callers with your digital pager number or your cell number in case of emergencies. (This info is important for current tenants, and it lets prospective tenants know you'll be there for them if they need you.) You can also record detailed info about the rental property for your prospective tenants; this tactic helps tenants prescreen themselves. They won't waste their time — and yours — if the property you describe is out of their price range.

REMEMBER

Most renters spend quite a bit of time browsing online and looking through various rental housing publications. They typically make many phone calls before beginning the process of physically looking at a rental property. As a result, you want to make the information-gathering process as smooth and efficient for your prospective renters as possible because you're competing for the top qualified prospects.

Renters are interested in knowing certain basic information up front, allowing them to narrow their choices. Many renters may not even be aware of this fact, but subconsciously they're often looking for any excuse to eliminate your rental property from their list. To keep their attention, you need to develop an information system for your rental property that makes renters feel relaxed, comfortable, and interested in actually seeing your property.

TIP

In addition to your name, include on your voice mail system or answering machine recording the following information about your rental:

- Location, including directions
- Number of bedrooms and square footage
- Rental rate and security deposit requirements

- Qualifying information, such as minimum income and whether pets, excluding service animals, are accepted
- Property features and benefits

Provide callers with a Web site address, if you have one. On the site, you can include photos, plus the preceding information, and allow prospective tenants to prequalify if they're interested in learning more about your rental property or seeing it in person.

As with all forms of communication, if your rental prospects leave messages, you need to be able to return their calls promptly, or you can expect to lose them to your competitor. The most qualified renters are the ones who get snapped up first, and these are the tenants you really want. Don't let them get away!

Knowing which devices you need

In addition to the telephone, standard equipment for many rental property owners includes the following:

- **Cellphone:** A cellphone is virtually mandatory for rental property owners. It's an invaluable way to instantly keep in touch with your current tenants, as well as prospects responding to your ads or signs.
- **Personal digital assistant (PDA):** When you're planning appointments with contractors or prospective tenants, you can immediately record your schedule on your PDA, which is a small, hand-held computer. With many PDAs, you can download and synchronize your mobile database with your main PC back at your home or office.
- **Digital pager:** A digital pager allows callers to leave either a voice message or an alphanumeric message entered through the caller's telephone or typed into a computer keyboard.

Preparing for Rental Inquiry Phone Calls

Whether you were ever a Boy Scout or not, you're probably familiar with the Boy Scout motto, "Be prepared." This motto applies to the management of rental properties in many ways, but one of the most important is being prepared when the telephone rings. If you handle rental inquiry calls properly, you not only make your life much easier but you also get the tenants you want. In the following sections, I discuss the importance of preparation and the steps necessary to make sure you're ready when the phone rings.

Working vacation

I enjoy traveling and need to stay in touch with my property management office, so I always like to have the latest high-tech communication devices. Throughout the more than 30 years I've been in property management, I've seen a tremendous evolution in technology — from the large brick that was my first cellphone in the late '80s to the latest-generation BlackBerry I now use. Today's PDA combines e-mail, cellphone, contact database, calendar, and Internet all in one — something unheard of in the early days of cellphones.

The ability to be contacted anytime, anywhere has its pros and cons, but I feel this increasing communication technology allows me to travel more than in the past and still be available as necessary to properly manage my rental properties and interact with my tenants, vendors, and staff. Now I can travel to most parts of the globe and still receive e-mail messages and phone calls on my trusty PDA. Of course, this accessibility can lead to unpleasant surprises on your bill when you receive a nonemergency call from your tenant that was billed at $8 per minute. Be sure to check with your communications provider about roaming charges before traveling and find out the most effective way to communicate from your anticipated travel destination.

An alternative to having your own PDA is making use of Internet cafés or the expanding number of locations offering wireless Internet access. With these sites, you can find inexpensive Internet connections virtually anywhere in the world and access Web-based e-mail through a number of services (such as Google Gmail, Microsoft Hotmail, and Yahoo! Mail).

Trust me when I say that the advances in technology are extremely important for efficiency in owning and managing your rental property, and allowing you the opportunity to find some rest and relaxation. Isn't technology at work a wonderful thing?

Even though it may not be the first information your prospects receive about your rental property with so much now found online, the rental inquiry phone call is a critical step that marks the beginning of the rental process. The purpose of this call is to get to the next step: showing the rental unit. Master the art of the rental inquiry phone call, and most of the time you can set appointments with only qualified rental prospects. And that's the name of the game in property management!

Having the basic tools ready

Advertising costs you a lot of time and money, so you don't want to begin looking around for a pen, some paper, and your notes about the rental property when the phone starts ringing. You also don't want to take phone calls on your PDA or cellphone if you're not in a position to devote the proper attention to the caller. Rental prospects can tell the difference between the prepared rental property owner and the one who doesn't seem to have a clue. They also form an impression of how you're likely to handle any problems they may encounter with the rental unit in the future. Most sharp renters (and those are the ones you want) are looking for a professional, businesslike rental property owner, so that's what you need to be.

The benefits of a professional phone technique are one of the main reasons I recommend having a separate business location for the management of your rental properties. This location doesn't have to be a separate office in a commercial setting; it can simply be the corner of your bedroom or an office at home. Consider having a separate phone line as well. A separate phone line allows you to quickly distinguish between personal phone calls and rental business phone calls. It also helps you treat each kind of call accordingly.

You can find many great resources on the proper use of the telephone in business, and the very first advice these resources typically offer is how to answer the phone and what to say. But when it comes to the management and leasing of rental properties, I believe that success with the telephone begins with being prepared to use it *before* your first rental inquiry call. In the next few sections, I cover some basic tools to have on hand before your first call comes in.

Telephone Prospect Card

A *Telephone Prospect Card,* like the one shown in Figure 8-1 and available on the CD, can assist you in gathering information from your rental prospect such as his name and telephone number, how he heard about your rental unit, and his particular needs in terms of move-in date, size, and other requirements. This information can help determine whether your rental property meets the needs and wants of your prospect.

You can also use the Telephone Prospect Card whether you show your rental property to a prospective tenant or need to follow up on qualified rental prospects. Finally, you can use it to track the rental advertising source, which allows you to make sure you continue using only the advertising media that pay off.

One of the primary reasons to track your rental calls is so you can clearly see the results generated by your advertising. The number of generated phone calls isn't the most important factor in determining which advertising medium is the best for your rental property. The key factor is the number of *qualified* rental prospects. In an ideal situation, getting just a few calls from very qualified prospects is much better than getting a number of rental inquiries from unqualified prospects (which is just a waste of your valuable time).

Telephone Prospect Card

Name ____________ Date of initial call ________ Time ______
Current address ____________ City ________ Daytime Phone ________
Rental location (s) discussed ____________ Cell Phone ________
How did you learn about our rental? ____________ Email ________
When will you need to move in? ________ How many bedrooms do you need? ______
How many people will be living in the rental? ______ What size rental are you looking for? ______
What would you feel comfortable with as a monthly rent? ____________
What do you do for a living? ________ Do you work? ___ Where? ________
Where are you living now? ________ How much parking space do you require? ______
What is wrong, if anything, with your current rental property? ____________
Why are you looking to move at this time? ____________
What types and sizes of pets do you have? ____________
When can you drive by the rental property? ________ Mentioned Equal Opportunity Housing? ____
What other rental properties have you seen/plan to see? ____________
Notes
____
____
____

Follow-up

Rental location(s) shown ________ Date shown ______ Quoted rent/deposit ______
What did prospect like best about the rental unit? ____________
Objections, if any? ____________
Most important features and amenities to prospect ____________
Rental application completed? ______ Holding deposit? ______ Date to follow-up ______

Figure 8-1: Telephone Prospect Card.

Property Knowledge Sheet

One of the best ways to answer your rental prospect's questions is to prepare a *Property Knowledge Sheet* for each rental property location. This document (check out Figure 8-2 and the CD for an example) contains all the basic information about your rental property, such as the size and type of the unit and the unit number if it's in a multi-unit property. Additionally, it should include the unit's age, type of construction, and other important details.

A thorough Property Knowledge Sheet also contains important information about the local neighborhood and general area. Just like the Chamber of Commerce or Visitor's Information Bureau, you want to be able to answer questions about your locale. Rental prospects are very interested in knowing about employment centers, transportation, local schools, childcare, places of worship, shopping, and medical facilities. You can really make a positive impression on your rental prospect if you can tell him where the nearest dry cleaner or Thai restaurant is located.

You want to have all this vital info from your Property Knowledge Sheet at your fingertips so that you can be ready to answer your rental prospect's questions. The more you know about your property and the surrounding area, the more easily you can find some important reasons for your rental prospect to select your unit over the competition's.

Property Knowledge Sheet

Property Information

Rental address ______________________ **Unit #** ______ **City** _______________ **Zip code** ________
Office hours (if any) ____________ **Square footage of unit(s)** ______________________________
Unit mix—Studios ____ **1 Bedroom** ____ **2 Bedroom/1 Bath** ____ **2Bedroom/2 Bath** ____**Other** _______
Rent—Studios _____ **1 Bedroom** _____ **2 Bedroom/1 Bath** _____ **2Bedroom/2 Bath** _____ **Other** _______
Application fee _________ **Security deposit** ______________ **Concessions** ____________________
Age of rental __________ **Type of construction** ______________ **Parking** ____________________
Recreational facilities _______________________ **Laundry** ______________ **Pets** _____________
Storage _____________________ **Utilities (who pays?)** ________________ **AC/Heat** ___________
Appliances ______________________________________ **Floor coverings** ___________________
Special features/comments ____
____
____

Community Information

School district _________________ **Grade school** ______________ **Jr. high** ___________________
High school ___________________ **Jr. college** ________________**College** ___________________
Trade school __________________ **Pre-school (s)** ______________________________________
Childcare _____________________ **Places of worship** ____________________________________
Police station ________________ **Fire station** ________________ **Ambulance** _______________
Electric ____________ **Natural gas** ____________ **Telephone** ______________ **Cable** ____________
Water _____________ **Sewer** ________________ **Library** ____________ **Post office** ____________
Hospital ______________________ **Pharmacy** _________________ **Vet** _______________________
Other medical facilities ____
Nearby employment centers ____
Transportation ____
Groceries ______________________**Other shopping** ____________________________________
Local services ____
Restaurants ____
Comments ____
____

Rental Market Information

Rental competitors/rental rates/concessions ____
____
____
Our competitive advantages ____
____
Our disadvantages ____
____

Figure 8-2: Property Knowledge Sheet.

This document can definitely give you the edge over your competition. Particularly with the advent of the Internet, many rental prospects know more about the area and the other rental options than you may know without doing your research. Because you often find yourself competing with large multi-family rental properties, you need to be prepared to answer important questions about both your rental property and the surrounding area. Often immediately knowing a detail, such as whether your prospect can find a certain childcare center locally, can make the difference between success and failure.

TIP

The time you spend answering all the rental prospect's questions can provide you with useful information. Be sure to take good notes about the source of your rental traffic and any important comments made by each prospect. Then you can improve your results by incorporating this feedback into your future advertising for that same rental property.

For example, maybe prospective renters indicated that they had trouble finding the property. This is a common problem and one that successful rental property owners know is a serious challenge to success. If your prospective renters can't find the property, it's unlikely they'll rent from you. ***Remember:*** You're competing with a lot of other rental property owners, and the best-qualified renters don't need to make extraordinary efforts to find a good-quality rental property.

Comparison Chart

You may find that you have a vacancy in a *soft rental market,* when the rental market has a lot of rental units available for prospective tenants. Using a *Comparison Chart* can be very helpful in this kind of market, especially if your rental property has distinct advantages over others nearby. A Comparison Chart is really a marketing strategy commonly used by the owners and managers of large rental properties, but the concepts of it are very helpful for the owners of small- to medium-size rental properties too.

REMEMBER

A Comparison Chart can

- **Provide very useful information to prospective renters who may not be aware that they're comparing apples to oranges when looking at various rental properties:** Comparison Charts are particularly useful to rental property owners who may have a competitive advantage that's not readily apparent to uninformed prospects. For example, your rent may be slightly higher than the rent charged by your competition, but you may pay for the utilities, whereas tenants at your competition's apartments have to pay for their own utilities. This scenario is becoming a more likely example with the advent of many larger properties installing submetering for utilities, as discussed in Chapter 17.
- **Level the playing field and allow you to inform your prospective tenants of the actual costs of your rental housing (and the competition's housing):** Another potential advantage of your property may be that your rental property has reserved parking, but the competition requires its tenants to scramble for parking spaces on the street. Or maybe your rental units have much more square footage than the competition. Many older properties are more aesthetically pleasing, with mature landscaping and beautiful shade trees. These are all factors that may not be readily apparent to prospective renters, and they can give you the upper hand over the competition.

Check out Figure 8-3 for an example of a Comparison Chart highlighting four properties. In looking at the chart, prospective tenants can see that although Sunshine Apartments has the lowest rent, when you add in the $75 monthly utilities, its tenants are paying $25 more per month than they'd pay at Maple Grove, and they don't get the reserved parking, on-site maintenance, lush landscaping, or free credit check. In this situation, Maple Grove Apartments is the obvious better deal for tenants, even though the monthly rent is higher. Madison Avenue Apartments and Camelot Townhomes, however, when the utilities are taken into consideration, both level out at $700 per month. But Madison Avenue Apartments has better landscaping and Camelot Townhomes has reserved parking. In this situation, tenants would need to decide which of these perks is more important. The key point: By providing an honest Comparison Chart, you're saving your prospective tenants legwork and highlighting the advantages of your apartment over others. The CD has a blank template you can use when making your own comparisons.

Comparison Chart

Property	**Rent**	**Owner Paid Water and Heating**	**Tenant Paid Water and Heating (with estimated costs)**	**Reserved Parking**	**Onsite Maintenance**	**Lush Landscaping**	**Free Credit Check**
Sunshine Apartments	$600	No	Yes ($75/month)	No	No	No	No
Madison Avenue Apartments	$625	No	Yes ($75/month)	No	No	Yes	No
Maple Grove Apartments	$650	Yes	No	Yes	Yes	Yes	Yes
Camelot Townhomes	$700	Yes	No	Yes	No	No	No

Figure 8-3: Use a Comparison Chart to highlight your property's competitive advantages.

Answering the phone

As your key marketing tool, when your rental phone line rings, you need to stop what you're doing. Take a deep breath and even close your eyes briefly so you can be focused on the call. Be sure to answer the telephone no later than the third ring; rental prospects generally have a list of calls they plan to make, so they're rarely patient. If you don't answer in the first few rings, they'll begin dialing the next phone number on their list and probably won't take the time to call you again.

Because positive first impressions are always very important, remember that the goal of your initial contact is to project a friendly, helpful, and professional image. These two pointers can help:

- **Have a smile on your face and speak clearly.** This is one phone technique that really does make a difference. Your positive attitude and enthusiasm can make a very important first impression. Even if you're not in the best of spirits at the moment the phone rings, don't sound rushed or hurried. You don't want your rental prospects to feel that they're imposing upon you.

  If you sound disorganized and hesitant on the phone, the prospects will likely feel that you're incompetent and not the type of rental property owner whom they can trust and count on if they have a problem or need a repair. However, if you come across in your initial contact with the rental prospects as polite, knowledgeable, organized, and confident, they'll respect your skills as a rental management professional. Prospects will see that you treat the rental of your property as a business, not a casual hobby.
- **Control your atmosphere to maintain a professional image.** If you run your rental management business from your home and your rental prospect calls and hears children screaming in the background or other distracting noises, you'll be making a very unprofessional impression. Controlling your environment can be especially challenging with the advent of cellphones, which are great for improving your availability, but often you may not be in a location where it's conducive or safe (if you're driving) to take phone calls. In these situations, let the call go to voice mail and call the prospect back at your earliest convenience.

As with any business, you may find that a rental inquiry call comes in when you're right in the middle of another situation that can't wait. Or you may think that if you're not prepared, it may actually be better to let your voice mail system or answering machine take a message. I suggest you still answer the call right away and give your caller the choice to be placed on hold, or let her know you can call her right back if she prefers. The majority of rental prospects aren't willing to leave a message, and you lose an opportunity to speak with them personally as a result. Asking the caller if she can call back in a few minutes is a very risky strategy and one that I don't recommend, because the odds of her calling back are remote. Remember that the majority of calls made by rental prospects to small rental property owners require leaving a phone message, and you can really stand out by answering your calls personally.

If you're fortunate enough to have an exciting and chaotic home life, then you need to take steps to make sure your rental inquiry calls can be distinguished from general household calls. For a nominal charge, many local phone service providers offer a call waiting service that gives you two phone lines for one phone number. You can also have two separate lines or a service with distinctive ring tones so you can distinguish your personal calls from your rental business calls. If other members of your household pick up the phone during your conversation, you can easily get distracted, so let the people in your household know how to tell the difference between regular calls and business calls.

Providing and obtaining the basic info

Rental inquiry calls are different from most of the calls you normally make in business. I often find that both parties are simultaneously trying to eliminate the other as a prospect and trying to get as much information without giving out any information of their own. But this approach isn't the best because you're trying to make a telephone presentation of your rental property. Instead, you need to have a give-and-take approach whereby you share the basic information that prospects need while making an initial assessment of their qualifications.

The beginning of many rental inquiry phone calls follows a standard pattern. Being aware of this pattern and knowing where your parts fit in can help you successfully make a professional and positive impression in the first few minutes. Here's how to handle the start of a basic rental inquiry call:

1. **Let the caller inquire about your rental unit and whether it's still available.**

   The caller also typically asks about the size of the unit and the rental rate. Always answer his questions directly.

2. **Greet the caller by name to develop a rapport.**

   People generally like to be called by their names. If the caller hasn't already volunteered this information, you may want to mention your first name again and ask for his name. If he gives you his name, be sure to ask his permission for you to call him by his first name. Often a prospect provides his last name only. In this case, show respect by using an appropriate title when you call him by his surname.

3. **Ask the prospect for a return phone number.**

   If you have caller ID, verify that you have the best telephone number to reach him.

After you get past the initial formalities, begin prompting the caller for the information you both need. For example, you need to know when the rental prospect is looking to move in, how many people (and the number, type, and size of pets, if applicable) will be residing in the rental, and what he's comfortable with as a monthly rent.

An easy way to remember the basic questions you need to ask are to remember the six *w*'s — who, what, where, when, why, and how (yes, I realize that's technically five *w*'s and one *h,* but you get the point). Remember to use your notes and provide the prospect with immediate feedback so that he knows you're interested in his call and are really trying to determine whether your rental unit meets his needs.

Following are some examples of questions you can use to help determine your prospect's requirements:

- When will you need to move in?
- How many bedrooms do you need?
- How many people will be living in the rental?
- What size rental are you looking for?
- What would you feel comfortable with as a monthly rent?
- How long do you intend to live at this property?
- How much parking space do you require?
- Where are you living now?
- What's wrong, if anything, with your current rental property?
- Why are you looking to move at this time?
- Where do you work?
- What do you do for a living?
- What's your gross monthly income?
- What types of pets do you have?
- When can you drive by the rental property?
- How can I reach you by phone?

This basic initial give-and-take of questions and answers quickly determines whether the rental inquiry conversation is worth continuing. The prospect is looking for the opportunity to eliminate your rental property if you don't have what he needs at the time that he needs it. Likewise, if it appears that your rental property may be a good fit, you still need to explore whether the rental prospect is qualified and meets your screening requirements.

Take notes on this Q & A so you can summarize each prospect's needs and wants during the initial phone conversation. Bring these notes to rental showings so that you know what aspects of your rental property are of greatest interest to each renter. Plus, people really appreciate the fact that you care enough to write down what they're looking for instead of just trying to sell them what you have to offer.

Selling the prospect on your property

A key element to success in selling a rental prospect on your rental property is your ability to build rapport with the prospect on the phone. As you answer her initial questions, take the opportunity to highlight some of the desirable or unique aspects of your rental. For example, if the prospective renter asks about the number and size of the bedrooms, you can reply, "The house has four bedrooms, each with a separate closet. The master bedroom is very large at 15 feet by 12 feet. Will this accommodate your needs?" Or maybe you can say, "The backyard is completely fenced and is very large. Do you have any pets?"

Your goal is to turn the features of your property into benefits for the prospective tenant. You need to do this by painting a picture of the property in her mind. For example, if your rental property has a swimming pool, you can talk about how nice it is to come home at the end of the day and enjoy a refreshing swim or a favorite beverage.

WARNING!

The entire goal of the rental inquiry call is to get the qualified prospect to see your rental property. You can't — and shouldn't — sign a rental contract on the phone!

As the rental property owner, you definitely want to tell your story about what a great rental property you have. Then, when you've grabbed the prospect's interest and determined that your rental unit meets her needs, you want to begin evaluating her qualifications in light of your requirements and needs. If you fail to hook the prospect, you never get to the next step. Of course, you want to be sure to prescreen the prospective tenant during this initial phone call so that you invest your valuable time only with qualified rental prospects.

Prequalifying the prospect over the phone

After you pass a prospective tenant's basic needs requirements, begin asking your own qualifying questions. You need to confirm when the prospect is looking to move, the size of the rental he requires, and his financial qualifications. Both you and the rental prospect need this basic information, and together you go through this ceremonial dance with the goal being to advance to the next stage — the showing of the rental unit.

But how do you know what to ask or what to watch for when prequalifying prospects? Read on for some guidance to help you find the best tenants for your rental property.

Holding a balanced conversation

Think of a rental inquiry call as a tennis match, with each side taking a turn presenting questions and gathering the answers needed to make a decision. Ultimately, both parties must agree that the rental unit may meet the needs of the rental prospect, and the rental prospect may meet the owner's established tenant screening criteria. This is the first step toward achieving your main objective of the call — getting a commitment from the prospect to make an appointment to see your rental unit in person.

Using open-ended questions and a pleasant manner, obtain basic information from the tenant to determine whether he meets your rental requirements. You should also determine whether you're speaking with the actual decision-maker, or whether this prospect is really gathering information for someone else. Although you always prefer to deal with the primary decision-maker from the initial contact on, you need to be skillful in prequalifying all the prospects without alienating your immediate contact, because the immediate contact is likely to have considerable influence on the decision as well.

The answers to your basic questions determine whether you need to go on to the next step. For example, if currently you have only a studio apartment available, there may be no need to show this particular rental unit if the prospect says six applicants are planning to live in it. However, some Fair Housing advocates may claim you're discriminating on the basis of familial status or national origin if you don't show a studio apartment to applicants with six people proposed to live in the unit.

REMEMBER

Your goal during the rental inquiry call is to give the caller enough information about your rental property that he can determine whether he has enough genuine interest in the property to make it worth his time to actually see it in person. Likewise, you want to obtain enough information about the rental prospect and his coapplicants to prequalify them for your rental property. Matchmaking is a two-way street.

Naturally, not every rental property is a match for every rental prospect. Your goal isn't to convince *all* the callers that they must see your rental property in person. Showing a rental unit to an uninterested or unqualified rental prospect is one of the most frustrating experiences in a rental management career. Showing property to qualified and interested prospects, however, is one of the most important factors in successful time management for rental property owners and managers.

Eyeing the qualities of desirable (and not-so-desirable) tenants

You can begin the process of prequalifying your rental prospect over the phone instead of having to wait until you meet him when he tours the rental property or completes a rental application. By chatting with a prospective tenant during the very first phone call, you're starting the all-important screening process right then and there.

TIP

Determining you're on the phone with a qualified rental prospect is easy if you know what to look for. Of course, you need to verify this information before making a commitment to rent your property, but if you can say, "Yes" to each of these statements, chances are you have a qualified prospect:

- You have a rental of the appropriate type and size available when the prospect needs it.
- The prospect meets your minimum qualifying standards for income, credit history, and employment history.
- The prospect has enough cash to pay the entire first month's rent and the full security deposit.
- At least one of the prospects is of legal age to sign the rental contract.
- The proposed number of occupants is appropriate for the particular rental unit.
- The prospect has an acceptable rental history and is vacating current living accommodations legally.
- The prospect is willing to live within your property guidelines, such as no pets or no smoking allowed in the rental unit.

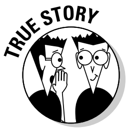
When trying to identify qualified prospects, you also want to watch out for less desirable prospects who don't meet your rental criteria. During the rental inquiry call, make sure you're not dealing with a *professional tenant,* someone who jumps from rental to rental frequently. Even during your first call, certain red flags may indicate you're dealing with someone who's trouble. A potential sign is a rental prospect who asks very few questions about the property and the area but is very interested in things like your move-in special or whether you can lower the rent or allow the security deposit to be paid over the first three months.

WARNING!

If a prospect seems interested in moving in too quickly, watch out. Although you may think that finding someone who wants to move in right away is great for cutting your rent loss, this eagerness may be an indication that the person has something to hide or is just looking for his next landlord victim. Maybe his current landlord just served him with eviction papers for nonpayment, and he needs to leave before he's physically removed. It can take up to two or three months for eviction actions to become a matter of public record, so your prospective tenant's credit report may turn up clean initially even if he's had recent problems. Be wary of subtle hints of trouble as early as the first phone call.

Handling phone objections

If you've done your homework, you're well prepared and know the answers to questions about the rental unit and the surrounding area. Being prepared for rental inquiries includes anticipating reasonable objections and providing honest answers to your prospect tenant. Your goal isn't to convince the unqualified prospect who truly isn't a good match for your property to waste everyone's valuable time and come see the rental unit when it obviously won't work. Instead, your goal is to anticipate some of the more common objections and have info ready that allows you and the prospect to determine whether the mutual interest is high enough to warrant going to the next step — showing the unit.



I once managed a rental property with a centralized location, but it was also right under the flight path of a major airport. The ideal location near major employment and recreational centers made our property very desirable, but the proximity to the airport was quite obvious, and it was well-known that many rental properties in the area had significant problems with noise. Logically, almost all our rental prospects who visited the property raised this concern, but even many of the callers brought up the noise because they were familiar with the area. What they didn't know was that when the property was built, the architects had designed the rental units with special double-pane soundproof windows and extra insulation so that interior noise wasn't a problem. Knowing the perception of rental properties in the area, we incorporated the soundproofing features right up front in our phone rental presentation.

You may hear the complaint or concern that your older, 20-unit rental property doesn't have individual washers and dryers in every unit, as found in competitive properties in your area. Instead, your property features a centralized laundry room with new washers and dryers and a large folding table for tenants' convenience. Anticipating that some prospects are looking for individual washers and dryers and will raise an objection when you don't have this feature means you're prepared. You know that the competitors also have smaller units with less storage, because the washer/dryer takes up important closet and storage space. You also know that your competitor's tenants have to pay for the water, whereas you pay for the water usage at your property. These are important facts that you can politely mention to the prospect over the phone. When showing the rental unit to a prospect, you can provide her with the Comparison Chart covered earlier in this chapter.

Converting phone calls to rental showings

If your initial phone conversation goes well, the prospect will want to tour your rental property. You've already invested a lot of time and energy into the rental inquiry call, so this is the moment of truth when you find out whether your prospect is really interested in your rental. Maybe he's just gathering information for a future move, or maybe he's checking out similar rental properties to determine if the rent increase he just received from his current landlord is justified.

You've answered a lot of questions, taken careful notes highlighting the prospect's needs and wants, and built up a rapport. You wouldn't have invested this much time in a prospect unless you felt that your rental met his needs and that he was very likely to pass your tenant screening criteria. So now isn't the time to become passive and tell him to call you back if he's interested. Nor is it the time to sheepishly suggest, "Stop by the open house this weekend, if you're in the neighborhood."

You need to be assertive and come right out and ask him to visit your rental property so you can personally show him your rental unit. If the prospect shows any signs of hesitating, you need to directly ask him if something's wrong. Your prospective tenant may then admit that he's just filed bankruptcy or that he plans to use your rental property for an iguana farm. Asking questions is one of your best tools; be sure to do it.

The rental prospect may indicate that he's interested in the rental property based on your conversation, but he wants to drive by it before actually making an appointment for a rental showing. This caveat is fine and can be another useful tool in maximizing your efficiency as a rental property owner. Two scenarios can happen if the prospect wants to do a drive-by before scheduling a rental showing:

- He calls back and asks for an appointment, or asks for the time of your next open house, and you can rest assured he'll show up.
- He drives by the property and finds that it's not suitable for him.

In both cases, allowing the prospect drive-by is a positive step. In the former case, the prospect isn't presold on the area and curb appeal of your rental property alone; in the latter, the prospect doesn't waste your time scheduling a personal tour.

Many rental management advisors suggest you improve your efficiency by allowing prospective tenants to tour your rental property on their own. These advisors suggest giving prospects the combination to a lockbox at the rental property or allowing them to drop by and pick up a key. These advisors usually recommend that you ask for a $25 cash deposit or that you hold a prospect's driver's license as an incentive to return the key. Be extremely careful in this kind of situation, because you may find that a prospective tenant has stripped the appliances or severely damaged the property while inside. Or worse, a prospect may decide your rental property's perfect and just move right in!

Many prospects make a rental showing appointment only to drive by the property a few minutes before the actual appointment and then skip the appointment if they don't like what they see. Another common scenario is one in which the prospect has already decided that your rental isn't going to be his next home, no matter how great the interior and how competitively you price the rental. But he feels guilty and doesn't want to skip out on you, so he shows up for the appointment and goes through the motions of looking at everything for close to an hour. Just imagine how many hours are wasted because your prospect may have taken the opportunity to gauge the neighborhood and curb appeal of the rental property before meeting for a scheduled rental showing.

Planning Ahead for Open Houses and Walk-Throughs

One of the most time-consuming aspects of owning and managing rental property is the time spent filling vacancies. And the biggest time trap for most owners who don't have a system already in place is the rental showing. If you were to schedule a separate appointment with every interested rental prospect, you'd be making trips back and forth to the property constantly. Unless you live or work very close to your rental property, you can quickly find that you're spending hours showing the rental to one prospect after another. That's why having a strategy for showing your rental — whether you plan to have an open house or set up individual appointments — is the best way to go. The next few sections can help you formulate that strategy.

Holding an open house

Because your time is valuable and you have many qualified prospects interested in seeing your rental property, you may want to consider holding an *open house.* An open house allows you to efficiently show the rental property to several interested rental prospects within a couple of hours. A successful landlord doesn't make a dozen trips to show property to a dozen different rental prospects. Open houses are also beneficial because having multiple prospects viewing the property can create a sense of urgency and competition, which often generates multiple applicants for your rental property.

One of the other benefits to holding an open house is that many rental prospects feel more comfortable touring a rental property with other prospects around. These folks may be concerned about meeting someone they don't know in a vacant rental property. And you, too, should be very concerned about your own personal safety for the same reasons. Holding an open house can eliminate, or at least reduce, any safety concerns you — and your prospects — may have.

TIP

Creating a sense of urgency

When you ask your prospect to come out and see your rental property, you may get a noncommittal response or an excuse that she can't make it no matter how many different appointment times you offer over the next week. Of course, the most popular excuse you can expect to hear is that she's just begun calling, and your rental ad is the first one she called on. This statement may be true, so you need to be polite and patient. But if you're truly her first call, then it's likely she called you first for a reason — your advertising made your rental sound like her best option. So patience can be a virtue, as long as you're not *too* patient.

Be honest, but don't hesitate to let the prospect know you already have or will soon be receiving many more rental inquiry calls. Let her know that it's your intent to sign a rental contract with the most qualified rental prospect but that you also process the rental applications in the order in which they're received. So if you have two or more qualified applicants, you may lean toward the first qualified rental prospect who submitted an application. This knowledge creates a sense of urgency for the caller.

If you anticipate receiving interest in your rental property from multiple callers, set up one or two open houses so you can show the rental property to several interested prospects in just a couple of hours instead of making multiple trips. In tight rental markets, this method often creates a competitive or even auction-like environment, in which one prospect doesn't want to lose out to another. There's nothing like a little competition to instill a call to action in potential renters!

TIP

Select a time for your open house that's convenient for you and most working people (preferably during daylight hours). For example, an open house on Saturday from 11 a.m. to 2 p.m. usually gives rental prospects a good opportunity to see your rental property at a convenient time for them, while saving you from having to make multiple trips. In the summer months, a weekday afternoon from 4 p.m. to 7 p.m. may be a good option. Combining a weekday afternoon open house with one on the weekend can also be very effective. That way, virtually all prospects can fit the rental showing into their busy schedules.

REMEMBER

An open house promoted strictly in a newspaper ad isn't a good idea, because you may end up with many unqualified renters walking through your property. But an open house where you invite all qualified prospects whom you've spoken with in response to your ad is a good way to efficiently lease your rental and create that sense of urgency and competition among prospective tenants.

Scheduling individual appointments

If you're in a depressed rental market or find that you need to fill a vacancy during the holidays, you may not be able to generate enough interest from prospects to schedule an open house for multiple renters. In this case, you need to be prepared to show your rental unit in the evenings and on weekends, because that's often when prospects are available. Of course, you can still try to consolidate your appointments to a certain time frame, but don't push this scheduling too far. Asking prospects to conform to your calendar may turn them off.

TIP

If you have to schedule individual appointments to show your property, be sure you have the phone numbers for your prospects. Almost everyone has a cellphone these days, so call each person to verify the rental showing before making a special trip to the property. By calling, you're also reassuring the prospect that you'll be there and won't be delayed.

WARNING!

Crime is a concern in virtually all parts of the U.S. Making an appointment to show a stranger your rental property can be an opportunity for someone criminally inclined. Be alert and take reasonable steps to protect yourself. If you ever have an uneasy feeling about a prospective tenant, decline the rental showing rather than risk personal injury. Limit your rental showings to daylight hours and bring someone with you, if at all possible. If you'd prefer, tell your rental prospect to meet you outside, right in front of the property or at another public location, and require a picture ID before showing the unit. You can then use your cellphone to call a family member or friend and tell that person the name and driver's license number of your rental prospect. If you want, have someone call you on your cellphone to check in throughout the showing. Of course, if you ever feel uncomfortable, be polite yet firm, end the rental tour, and leave immediately. Don't ever put yourself in a dangerous situation!

Providing directions to the property

When you have a commitment from the rental prospect to come to the property for an open house or rental showing, make sure you can provide clear and easy-to-follow directions from anywhere in your area. Many Internet sites can provide your prospect with personalized directions from her location to your rental property. Because many of your prospects likely have Internet access, the need to provide directions to your property may not seem to be a priority.

However, giving directions may not be quite as simple and unimportant as you may think. Often the online directions don't offer the most scenic or time-efficient path to your rental property. You always want to offer your own directions, or at least suggest a route that approaches your rental property from a certain direction.

Carefully consider the best route for your rental prospect. Take into consideration the traffic conditions she faces at the time of the open house or appointment. Think about which route presents the neighborhood in the best light. You want the route to be direct, but don't hesitate to have the prospective tenant come in from a different direction if doing so provides her with important information, such as the great shopping, schools, or other benefits of the area near your rental property.

Chapter 9

Strutting Your Property's Stuff: Making Your Property Stick Out

In This Chapter

- Making a good first impression on prospective tenants
- Signing up high-quality tenants for your rental property
- Knowing how to give tenants the scoop on the environment and safety of your property

To successfully rent your property, you need to show prospective renters why yours is better than all the others on the market. After you take the steps to prepare your property (see Chapter 5) and market it (check out Chapter 7), it's time to let prospective renters see what you have — and entice them to sign on the dotted line in the process.

In this chapter, I cover the proper way to show a rental unit, handle objections (which are really a sign of interest by your prospective tenants), and close the deal. I also make sure you're aware of important governmentally required disclosures that all rental property owners or managers must share with their tenants.

Showing Your Rental Unit

When your rental prospects arrive, you want to make a good first impression before you even open the door to your rental unit. Be sure to greet your prospects with a smile and introduce yourself. Ask for their names and shake their hands. Refer to the notes you made on the telephone prospect card during your initial phone conversation to let them know you remember speaking with them (flip back to Chapter 8 for tips on how to conduct this conversation). This thoughtfulness gives prospective tenants a good feeling that you're not just going through the standard rental spiel.

Listen to any questions or concerns that may have come up since you spoke on the phone. Ask your prospective tenants whether they found your directions accurate and easy to use. Also, ask whether they have any other needs that they're looking for in a rental property that haven't already been discussed.

Don't just let your prospects wander through the rental unit by themselves. (Of course, this general rule is particularly true if you're showing an occupied rental unit.) Listen carefully to your prospects and anyone accompanying them as you informally guide the party through the rental unit. Pay close attention to the features your prospective tenants indicate are of particular interest or any comments they make during the walk-through. But be careful not to come across as too pushy or overselling because this behavior turns off a lot of qualified prospects who dislike pressure-selling techniques. For more information on preparing your rental for walk-throughs, see Chapter 5.

No matter whether you're showing a vacant rental or an occupied rental, the next two sections focus on what you need to do to get your property rented.

Showing a vacant rental

If you're showing a vacant rental, act more like a tour consultant than a tour guide during the unit tour. Don't be too controlling; instead, let the prospects view the rental in the manner that suits them. Some prospects go right to a certain room, which gives you a clue about the importance they place on that aspect of the property. Of course, if the prospects hesitate or are reluctant to tour on their own, you can casually guide them through the rental property yourself.

There are as many different ways to show a rental unit as there are rental property owners. Remember the information provided by each prospect and customize the tour by beginning with the feature or room you feel has the most interest for him. Don't head straight to *your* favorite feature. When in doubt, start with the kitchen, then transition to the living areas and the bedrooms.

Keep the following pointers in mind when showing a vacant rental:

- **Encourage your rental prospects to see the entire rental property.** Don't overlook any garage or storage areas and the exterior grounds or yard, if applicable. You want to be sure prospective tenants have an opportunity to observe the conditions of all portions of the rental property and ask any questions. Doing so minimizes future claims that you discriminated against a prospect by selectively showing your rental property.

- **Listen and observe the body language and facial expressions of your prospects while they walk through the property.** When you begin showing the interior of your rental, avoid making obvious statements such as, "This is the living room" or, "Here's the bathroom!" You don't need to oversell if your prospective tenants seem pleased, but you should feel free to point out the benefits of your rental property. (Take in prospects' reactions and comments; then chime in with something along the lines of, "It sounds like this neutral-colored carpet will go great with your living room furniture" or, "The view of the sunsets from the kitchen is so relaxing.")
- **Have a tape measure with you.** Vacant rental units look smaller than occupied ones, so a tape measure can assist your prospects in immediately determining that their bedroom set will fit in the master suite.
  If your prospects express concerns that their furniture won't fit in your rental, consider this strategy: Set up a partially or fully furnished model rental unit to demonstrate what furniture will fit inside. Although this tactic may not be feasible for most single-family home or condominium rental units, it can work quite well for medium to larger apartment properties that regularly have vacant units or have a market for furnished rentals. Smaller rental properties can use a *vignette,* which is a rental unit that has been decorated with towels, books, and knickknacks to give the unit personality. Sometimes you can even close the sale by offering to give new renters these small items.

TIP

If you're holding an open house, you can quickly find yourself dealing with multiple prospects who all seem to have better timing than a synchronized swimming team. Do your best to courteously greet and speak with each prospect individually. At the very least, cover the basic information and get the first prospects started on the property tour before beginning to work with the next prospects. Be sure to communicate clearly that you'll answer all questions and treat all prospects openly and fairly to avoid any allegations of favoritism or discrimination.

Showing an occupied rental

If you're showing an occupied rental unit, be sure to consider the inherent advantages and disadvantages. On the plus side, your current tenant can be a real asset if she's friendly and cooperative and takes care of the property, because prospective tenants may want to ask her questions about her living experience at your property. But not all tenants take the same level of care with your rental property or want to help you re-rent it when they're getting ready to move.

Always keep these tips in mind when showing an occupied rental unit:

- **Consider your current tenant's attitude.** If she's being evicted, isn't leaving on good terms, or has an antagonistic attitude for any reason, don't show the rental unit until the property is vacated. Your tenant's cooperation will be required, but you may be able to complete your rent-ready preparation work and any rental unit upgrades at this time as well. This strategy also works if your current tenant hasn't taken good care of your property's grounds or landscaping, or if her furnishings may be objectionable to some prospective tenants.
- **Know your local laws regarding showing occupied units.** In most states, if the tenant is at the end of her lease or has given a notice to vacate, the rental property owner is specifically allowed to enter the rental property in order to show the unit to a prospective tenant. Of course, you must comply with state laws, which require you to give your current tenant advance written notice of entry prior to showing the unit. She may agree to waive the notice requirement, but make sure you have this agreement in writing.
- **Work with your tenant to coordinate scheduling.** Do your best to cooperate with the current tenant when scheduling mutually convenient times to show the rental. Be sure to respect her privacy and avoid excessive intrusions into her life. To ensure the cooperation of your tenant, you may even want to offer her a small bonus after she vacates, as a part of her security deposit disposition.
- **Try to get copies of recent utility bills from your current tenant.** Having current bills on hand is helpful if your prospective renters have any questions about utility costs. Prices for electricity, natural gas, water and sewer, and trash service are becoming significant items in the budgets of many renters. You don't want your new tenant to be financially unable to handle the typical monthly utility costs of your unit, because this difficulty may impact her ability to pay your rent. If your rental property has "green" or energy-efficient features or appliances, you may be able to use low utility costs as a marketing tool.

Although the current tenant may legally be required to allow you and your prospects to enter the rental unit for a showing, she doesn't have to make any effort to ensure the property is clean and neat. Nor is she required to help you in your efforts to impress the prospect. Keep this fact in mind when deciding whether you want to show your rental unit while it's still occupied.

Taking the First Steps to Get the Renter Interested

Although some rental units may rent themselves, the reality is your success as a property manager may be directly enhanced if you become skilled in properly presenting the best features of your rental unit. You should use the meeting with your prospective tenant to evaluate whether the rental unit will be a good fit for the tenant.

This section walks you through the steps of prequalifying your tenant, handling objections, and closing the sale with a completed rental application. I also cover the advantages of priority waiting lists and holding deposits.

Prequalifying your prospect during the rental showing

While you're touring the rental, prequalify the prospective tenant for your unit by verifying the information he provided during your initial phone conversation. Refer to your notes and confirm his desired move-in date and employment, the number of occupants, the rental rate, and other important information. Also, make sure the prospective tenant is aware of your rental policies and any limitations on pets or other important issues.

You don't want to be abrupt or refuse to let the rental applicant begin looking at the property until he answers numerous questions. However, verifying the basics upfront can save a lot of time if there's a misunderstanding or if the prospect's needs have changed.

If you don't take the time to review the information a prospect provided to you on the phone, as well as your rental terms and expectations, you may find some the prospect glossed over certain problems or indicated your rental policies were just fine when really they weren't. Of course, this individual's strategy is to wait until you think you've successfully rented the unit and are just about to sign on the proverbial dotted line when he springs the truth on you. Maybe his dying aunt has suddenly asked him to care for her 200-pound Doberman or his paycheck was delayed and he can only pay your security deposit in installments. You don't need these surprises, so confirm all the basics sooner rather than later!

Resolving your prospect's objections

Almost every rental prospect expresses some concerns or reservations about some physical aspects of the rental property, the area, your rental rate, or other terms. No rental property exactly meets the needs of each prospective tenant, so don't be caught off guard when you inevitably run into objections.

Objections come in many forms. Some are a test to see whether you'll lower the rent or make some improvements to the rental property. Others are sincere issues that are generally more tangible and specific in nature.

If you've been listening carefully to the prospect and taking notes, then you can anticipate and handle some objections before she even brings them up. In many instances, objections can actually present an opportunity to reassure your prospect that your rental property meets her needs.

If the prospect raises a question and you don't know the answer, make a note and promise to get back to her as soon as possible. Avoid the temptation to give an immediate answer that may not be right. Why? Because some rental prospects ask questions they already know the answers to just to test your sincerity. Most objections can be overcome if you discuss them openly with the prospective tenant and provide honest feedback. Giving the prospect a response and attempting to answer positively is important.

Convincing your prospect

After you qualify the prospect, you need to convince him that you have the best rental unit available. Renters want more than just a place to live. They want to feel they can communicate with you if a problem arises. They also appreciate when someone shows an interest in their lives. And by showing an interest, you're clearly setting yourself apart from other property managers. I believe prospects accept rental units that aren't exactly what they're looking for if they have positive feelings about the rental property owners or managers.

I realized how important the property manager can be to renters when I transferred a popular manager from one property to another very early in my property management career. Ginny had been our on-site manager at a 300-unit rental property for nearly five years before we gave her a promotion to a 400-unit rental community a few miles away. I was shocked when more than 50 of Ginny's current residents decided to give notice and move with her to the larger property (despite the higher rents and hotter summers at that location).

I've never seen a rental unit that can rent itself; *you* need to make the difference. No matter how closely your rental unit meets the stated needs and wants of your prospects, they often hesitate and doubt their own judgment. You don't need to be pushy, but you should be prepared to actively convince prospective tenants that your rental property is right for them.

The best way to avoid problem tenants who pay late, damage your property, or disrupt the neighbors is not to rent to them in the first place. Screening your next tenant begins with the very first phone call. Tell the prospect you'll run his credit report and call his references. Don't waste your time convincing prospects who don't seem to fit your criteria for a high-quality tenant.

Inviting your prospect to sign on

When you've convinced your prospect that your unit is the right one for her, it's time to close the sale. This is one area where many rental property owners and managers suddenly get cold feet. They can do a great job handling the initial telephone inquiry, preparing and showing the rental property, and even resolving objections, but when it comes down to asking the prospect to commit — they become shy and freeze.

TIP

Your goal is to receive a rental commitment from the prospect by having her complete your rental application and pay any pre-move-in screening fee, her first month's rent, and a full security deposit on the spot. Of course, you still need to thoroughly screen the prospect and confirm she meets your rental criteria before asking her to sign a rental contract.

If despite your best efforts, the prospect is still undecided, make sure she gives you a holding deposit. Remind her that you may make a deal with the very next prospect, and she'll be out of luck. Of course, if you have a lot of demand for your rental units, you should develop a priority waiting list, which is covered later in this chapter.

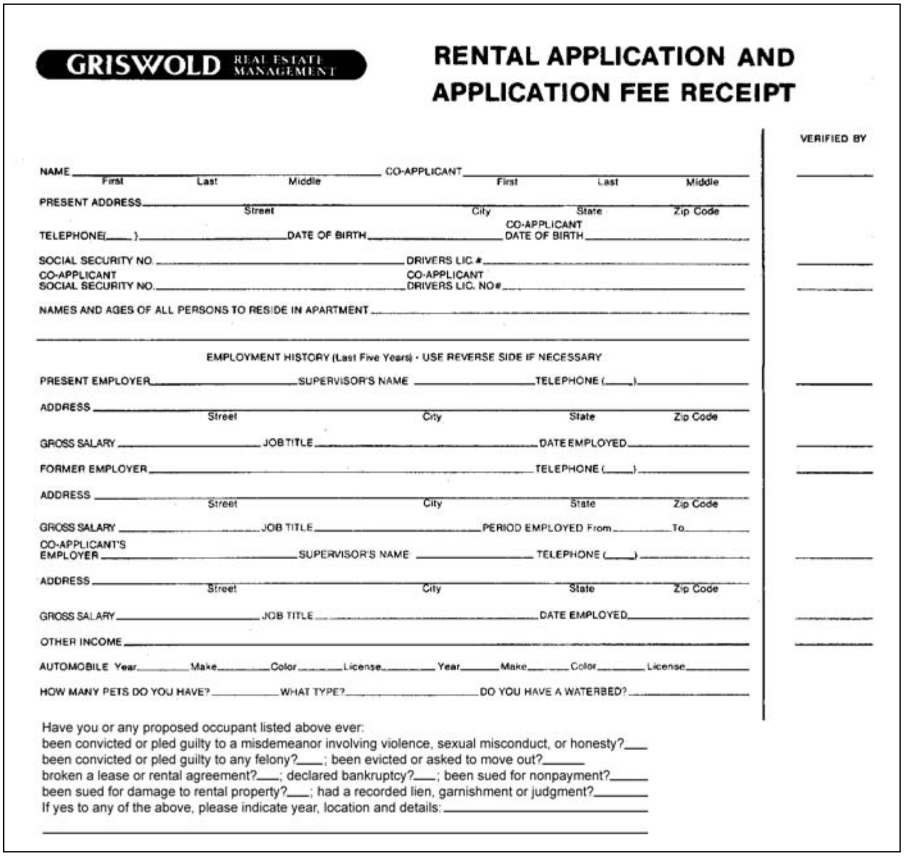
Having your prospect complete a rental application

You need to offer every interested prospect the opportunity to complete a written rental application for two important reasons:

- **You want to have all the information so you can begin the screening process and select the best tenant for your rental property by using objective criteria and your rental requirements.** The rental application is the key document you use to verify information and conduct your entire tenant screening procedure. I cover tenant screening in more detail in Chapter 10.
- **You want to avoid having prospects accuse you of discriminating against them by not permitting them to fill out the rental application.** Don't prejudge an applicant. The prospect may have already volunteered enough information about his financial situation and tenant history that you believe it would be a waste of time and effort for him to complete an application. Even in such a situation, always be sure to offer your rental application to every rental prospect of legal contracting age.

ON THE CD

Figure 9-1 shows you the first page of a standard rental application. Check out the accompanying CD for a full Rental Application you can use.



GRISWOLD REAL ESTATE MANAGEMENT

RENTAL APPLICATION AND APPLICATION FEE RECEIPT

VERIFIED BY

NAME ______ First Last Middle ______ CO-APPLICANT ______ First Last Middle

PRESENT ADDRESS ______ Street City State Zip Code

TELEPHONE(___) ______ DATE OF BIRTH ______ CO-APPLICANT DATE OF BIRTH ______

SOCIAL SECURITY NO. ______ DRIVERS LIC.# ______

CO-APPLICANT SOCIAL SECURITY NO. ______ CO-APPLICANT DRIVERS LIC. NO# ______

NAMES AND AGES OF ALL PERSONS TO RESIDE IN APARTMENT ______

EMPLOYMENT HISTORY (Last Five Years) • USE REVERSE SIDE IF NECESSARY

PRESENT EMPLOYER ______ SUPERVISOR'S NAME ______ TELEPHONE (___) ______

ADDRESS ______ Street City State Zip Code

GROSS SALARY ______ JOB TITLE ______ DATE EMPLOYED ______

FORMER EMPLOYER ______ TELEPHONE (___) ______

ADDRESS ______ Street City State Zip Code

GROSS SALARY ______ JOB TITLE ______ PERIOD EMPLOYED From ______ To ______

CO-APPLICANT'S EMPLOYER ______ SUPERVISOR'S NAME ______ TELEPHONE (___) ______

ADDRESS ______ Street City State Zip Code

GROSS SALARY ______ JOB TITLE ______ DATE EMPLOYED ______

OTHER INCOME ______

AUTOMOBILE Year ______ Make ______ Color ______ License ______ Year ______ Make ______ Color ______ License ______

HOW MANY PETS DO YOU HAVE? ______ WHAT TYPE? ______ DO YOU HAVE A WATERBED? ______

Have you or any proposed occupant listed above ever:
been convicted or pled guilty to a misdemeanor involving violence, sexual misconduct, or honesty?___
been convicted or pled guilty to any felony?___; been evicted or asked to move out?___
broken a lease or rental agreement?___; declared bankruptcy?___; been sued for nonpayment?___
been sued for damage to rental property?___; had a recorded lien, garnishment or judgment?___
If yes to any of the above, please indicate year, location and details: ______

Figure 9-1: Rental Application.

TIP

Have several rental applications and pens available at the property. Although you want to make sure you offer an application to every prospect, you don't just want to hand them out and let the prospects leave without making commitments.

TIP

Here are some important guidelines to remember when having prospects complete rental applications:

- **Every prospective tenant who is currently 18 years of age or older should completely fill out a written application.** This rule applies whether the applicants are married, are related in some other way, or are unrelated roommates.
- **Before accepting the rental application, carefully review the entire form to make sure each prospect has clearly and legibly provided all requested information.** Pay particular attention to all names and addresses, employment information, Social Security numbers, driver's

license numbers, and emergency contacts. Any blanks should be marked with an "N/A" if not applicable so that you can tell those items weren't inadvertently overlooked.

- **Each prospective tenant must sign the rental application authorizing you to perform your pre-move-in screening, verify the provided information, and run a credit report.** You can't legally obtain and review a consumer credit report without an applicant's permission.
- **All prospective tenants need to show you a current driver's license or other similar photo identification so that you can confirm that they're providing you with their correct names and current addresses.** Identity theft is a growing concern; make sure you know exactly who you're renting to.

You may be asked by the prospect — or you may decide on your own — to go over the rental application with him and assist him in providing the information. If you do so, be very careful to ask only questions that are part of the rental application. Avoid asking questions that may directly or indirectly discriminate. Don't ask the rental applicant about his birthplace, religion, marital status, children, or a physical or mental condition. You *can* ask him if he has ever been convicted of a crime and whether he is at least 18-years-old.

Holding your prospect's deposit

Some rental prospects are willing to make firm commitments, but they either won't or can't give you the full security deposits and first month's rent. Maybe they just don't have the funds at the time, or maybe they want to reserve your rental while looking for a better property. In these situations, you may want to ask for a holding deposit to allow you to take the rental unit off the market for a limited period of time while you obtain a credit report or verify other information on the rental application.

Don't allow the prospective tenant to reserve your rental property with a small holding deposit for more than a couple of days. Two days gives you more than enough time to screen the prospect; any additional time the rental unit is off the market often translates into rent you never see. After you approve the rental prospect, try to have her sign the rental contract. If the prospect still insists she needs additional time, have her agree to pay the daily rental rate or refund her holding deposit and continue your search for more interested prospects.

By taking the rental unit off the market, you're forgoing the ability to rent it to someone else. If the prospective tenant fails to rent your property for any reason, you've potentially lost revenue while the unit has been vacant and reserved. On the other hand, rental prospects don't want to pay rent while you're running them through your tenant screening process. The solution is to use a written Holding Deposit Agreement and receipt, like the one shown in Figure 9-2 (also available on the CD), which outlines the understanding between you and the prospective tenant.

Holding Deposit Agreement and Receipt

On the date below, ______________________________________ (Owner) received $ ________________ from

___________________________________ (Applicant) as a Holding Deposit for the premises located at:

____ (Rental unit) on the terms and conditions set forth herein.

1. Rent of $ __________ per month shall be payable in advance on the first of each month. The tenancy will begin on the _____ day of _______________, 20____, but subject to any present tenant vacating or the unavailability of the rental unit.
2. Of the total funds hereby received by Owner, the sum of $ ________ is an Application Fee that the Applicant understands and agrees is nonrefundable. The Application Fee represents the estimated costs incurred by the Owner in obtaining and verifying the credit information, employment and references of the Applicant and similar tenant screening functions.
3. Of the total funds hereby received by Owner, the sum of $ ________ represents a Holding Deposit.
4. The Applicant has paid the Application Fee and Holding Deposit to the Owner in the form of cash, cashier's check, money order or personal check. Owner is free to deposit all funds received herein and shall maintain this Holding Deposit in liquid funds subject to review by Owner or its agents of the Applicant's rental application.
5. Applicant shall be entitled to a full refund of the Holding Deposit within ________ days if the Owner determines that:
   a) The Owner does not approve the Applicant's rental application; and/or
   b) The premises are not available on the agreed date
6. Upon notification by the Owner to the Applicant that their rental application has been accepted, the Applicant agrees to execute all lease or rental agreement and related documents and pay any balance still due for the first month's rent and full security deposit. Applicant understands that once their rental application has been approved, the rental unit is being taken off the rental market and reserved for the Applicant and any or all other potential Applicants will be turned away.
7. If after acceptance of the Applicant's rental application, the Applicant fails to comply, the Owner may immediately deduct from the amount received the sum of $ _______ per day (daily rate) for each day the rental unit is vacant from the date the Applicant's tenancy was to begin through the date the rental unit is rerented to another tenant, but not in any event to exceed 30 days. It is agreed that the daily rate is calculated as an amount equal to 1/30th of the above monthly rental rate. In addition, the Owner shall be entitled to retain reasonable administrative fees and advertising expenses associated with remarketing the rental unit. The Applicant agrees that the daily rate plus the actual incurred administrative expenses and advertising costs are reasonable and liquidated damages since the actual damages would be difficult or impossible to ascertain.
8. The Owner, within ______ days after the rental unit is rerented, shall return to Applicant, to the Applicant's address shown below, any remaining balance of the Holding Deposit and shall include an itemization of the Owner's damages.
9. If any legal action or proceeding is brought by either party to enforce any part of this agreement, the prevailing party shall recover, in addition to all other relief, reasonable attorneys fees and costs. By signing below, both the Owner and Applicant acknowledge and accept all terms contained herein.

_______________________________	_______________________________
Applicant's Signature	Applicant's Signature
_______________________________	_______________________________
Applicant's Name (print)	Applicant's Name (print)
_______________________________	_______________________________
_______________________________	_______________________________
Applicant's Address	Applicant's Address
_______________________________	_______________________________
Date	Owner/Agent

Figure 9-2: Holding Deposit Agreement.

If you use a holding deposit, you must have a written agreement or else you're very likely to encounter a misunderstanding or even legal action. State laws regarding holding deposits vary, yet they're almost uniformly vague and can easily lead to disputes.

Developing priority waiting lists

If you have several qualified rental prospects interested in your rental unit, you'll only be able to rent to one of them. Use the tenant selection criteria covered in Chapter 10 to select the most-qualified prospect.

If you have other qualified prospective tenants, you may have other rental units at the same property, or in close proximity, that would interest them. If those other units aren't available right at the moment, you may be able to offer your prospects a spot on your *priority waiting list,* which is just a way for you to keep track of qualified tenants for whom you simply don't yet have available rentals instead of turning them away. Being in this situation is a dream come true for many rental property owners or managers.

If potential tenants express a desire to rent your property at a future date, and you know other rentals are available in the area, the prospects may be interested because your rents are lower than market value. (Otherwise, they'd simply find another comparable rental somewhere else instead of waiting.) If you have a long waiting list, make sure it's because your rental property is desirable — not because you're charging too little in rent.

Some prospective tenants are simply looking for a great rental property several months in advance. Although you can't hold your rental property vacant and off the market until these folks are ready to rent, you can lock them in for one of your rental units that may be coming available at the time they're prepared to move. This situation is especially typical for prospects relocating from out of town and making a trip to look for a rental a few weeks or months before they officially move. You may be able to pre-rent your rental units even before they become vacant (and that's a great position for any property manager to be in).

When you create a priority waiting list, don't just write the prospective tenants' names on a piece of paper, because this approach gives you no commitment, and the chances of those prospects returning to rent from you are slim. Prospective tenants' levels of commitment increase if you prequalify them, take partially refundable deposits, and give them written confirmations that they're on your priority waiting list. You may even want to offer to lock in a rental rate if they rent from you within a certain number of months.

Inform your prospective tenants they're on the waiting list. Also, if you own multiple rental units, be sure to let your prospects know you can't guarantee that a certain property or rental unit will be available when they're ready to move in, because you can't control when your current tenants will vacate.

Give prospective tenants the right to cancel and let them know that the portion of their deposits not used for the tenant screening process are fully refundable at any time.

As with all rental policies, you need to apply your priority waiting list policy uniformly to all prospects. So if you have a priority waiting list, be sure to let all prospective tenants know about it and don't restrict anyone from being added to the list. Otherwise, you can be accused of discrimination.

Handling Mandatory Disclosures and Environmental Issues

One of the major challenges to being a successful rental property owner is keeping abreast of the constantly evolving health and safety requirements in your state that affect rental properties. In addition to providing your tenants with a clean and habitable rental property, you need to take precautions to ensure the rental is a safe and healthy environment.

Although failing to meet required state and federal disclosures leads to definite legal implications and substantial liability, most rental property owners genuinely don't want to see their tenants get sick or injured. In the following sections, I cover some of the most common issues facing rental property owners today.

New federal, state, and local legislation is constantly under consideration, and rental property owners must stay current with all requirements or face serious consequences. Check the CD for links to state landlord-tenant laws to find out about any state disclosure requirements.

Lead-based paint

As a rental property owner, you need to be aware of the dangers of lead and the federally required disclosures regarding it. More than 40 states now have lead hazard reduction laws in place, some of which require testing and careful maintenance, in addition to the federal disclosure requirements.

Although lead-based paint isn't a hazard when in good condition, it can be a serious problem (particularly for young children) when it cracks, peels, or turns to chalk due to age. Lead has been banned from paint since 1978, but even to this day, older rental housing units may contain paint manufactured before that time. You can't tell whether paint contains lead just by looking at it; a special lead test is the only way to verify the existence of lead.

Lead-based paint isn't easy to remove. If your rental property has lead-based paint, hire a licensed contractor to address concerns about lead.

Unfortunately, removing lead can be quite expensive. Often the best solution is to manage the lead in place rather than completely remove it, because the removal processes of sanding and scraping can release large amounts of lead dust.

If you have any concerns about lead hazards, review the extensive resources available from the Environmental Protection Agency (EPA) and the National Lead Information Center (NLIC) by visiting `www.epa.gov/lead` or by calling 800-424-LEAD (800-424-5323).

Most rental property owners use a Lead-Based Paint Disclosure Form (see Figure 9-3) to ensure they have complied with the Residential Lead-Based Paint Hazard Reduction Act of 1992 (see the nearby sidebar for more info). Pull this form from the CD, print it online at `www.epa.gov/lead/pubs/lesr_eng.pdf`, or contact the NLIC at 800-424-5323 for a copy.

The Residential Lead-Based Paint Hazard Reduction Act also requires you to provide tenants with an information pamphlet by the EPA entitled "Protect Your Family From Lead In Your Home." You can get this pamphlet online at `www.epa.gov/lead/pubs/leadpdfe.pdf` in both English and Spanish. You can receive clarification on the law from the NLIC by calling 800-424-5323. California and Massachusetts are currently the only states with their own pamphlets on lead-based paint hazards that the EPA has authorized for distribution in lieu of the EPA pamphlet.

Whichever pamphlet you provide your tenants, be sure you comply with the federal law and keep a copy of the disclosure form signed and dated by the tenants. This written record of compliance with the disclosure requirements must be kept on hand and readily available for review in case of an investigation or audit for a minimum of three years. Remember that you only need to make the required disclosure once, even if a tenant renews an existing lease.

Rental property owners or managers who fail to follow the federal regulations for lead-based paint can face significant fines. To enforce these regulations, the federal Housing and Urban Development (HUD) agency and the EPA are working together to investigate complaints from prospective tenants and/or current tenants who believe they may have been exposed to lead-based paint. If a tenant doesn't receive the required EPA or approved state information pamphlet or the disclosure statement, the owner or property manager may be subject to

- A notice of noncompliance
- A civil penalty of up to $11,000 per violation for willful and continuing noncompliance
- An order to pay the injured tenant up to three times his or her actual damages
- A criminal fine of up to $11,000 per violation

Disclosure of Information on Lead-Based Paint and/or Lead-Based Paint Hazards

Lead Warning Statement

Housing built before 1978 may contain lead-based paint. Lead from paint, paint chips, and dust can pose health hazards if not managed properly. Lead exposure is especially harmful to young children and pregnant women. Before renting pre-1978 housing, lessors must disclose the presence of known lead-based paint and/or lead-based paint hazards in the dwelling. Lessees must also receive a federally approved pamphlet on lead poisoning prevention.

Lessor's Disclosure

(a) Presence of lead-based paint and/or lead-based paint hazards (check (i) or (ii) below):

(i) ______ Known lead-based paint and/or lead-based paint hazards are present in the housing (explain).

____

____

(ii) _____ Lessor has no knowledge of lead-based paint and/or lead-based paint hazards in the housing.

(b) Records and reports available to the lessor (check (i) or (ii) below):

(i) ______ Lessor has provided the lessee with all available records and reports pertaining to lead-based paint and/or lead-based paint hazards in the housing (list documents below).

____

____

(ii) _____ Lessor has no reports or records pertaining to lead-based paint and/or lead-based paint hazards in the housing.

Lessee's Acknowledgment (initial)

(c) ________ Lessee has received copies of all information listed above.

(d) ________ Lessee has received the pamphlet *Protect Your Family from Lead in Your Home.*

Agent's Acknowledgment (initial)

(e) ________ Agent has informed the lessor of the lessor's obligations under 42 U.S.C. 4852(d) and is aware of his/her responsibility to ensure compliance.

Certification of Accuracy

The following parties have reviewed the information above and certify, to the best of their knowledge, that the information they have provided is true and accurate.

Lessor	Date	Lessor	Date
Lessee	Date	Lessee	Date
Agent	Date	Agent	Date

Figure 9-3: As a property owner, you're required by law to give a lead-based paint disclosure form like this one to any tenants or prospects if your property was built before January 1, 1978.

Courtesy of U.S. Environmental Protection Agency

Recently, the EPA and HUD began aggressively enforcing these regulations and levied significant and well-publicized fines against rental property owners and managers who haven't complied with the law. Government testers have been known to pose as prospective tenants, and federal agents have scoured leasing and maintenance records looking for evidence that property owners or managers knew or should have known about the existence of lead-based paint hazards on their property. This is *not* an area where you want to tempt fate. Make sure you comply with this law and keep the required documentation on file in an easily retrievable location for at least three years.

Painting a clearer picture of lead-based paints

The federal Residential Lead-Based Paint Hazard Reduction Act of 1992 covers all dwellings built before 1978 and requires rental housing owners or their property managers to notify tenants that the rental property may have lead-based paint. Testing for lead-based paint or removal isn't currently required under federal law. However, you must disclose any known presence of lead-based paint or hazards and provide all tenants with copies of any available records or reports pertaining to the presence of lead-based paint and/or hazards.

In addition to all housing constructed after January 1, 1978, some limited rental property exemptions from federal lead-based paint disclosure regulations do exist. Exempt properties include the following:

- Housing for the elderly or persons with disabilities (unless children under the age of 6 are living there)
- Short-term rentals of 100 days or less
- Certain university housing, such as dormitory housing or rentals in sorority or fraternity houses
- Zero bedroom units, such as studios, lofts, or efficiencies
- Housing that has been inspected and certified as "lead-free" by a state-accredited lead inspector

Be sure to contact the EPA or your state health and environmental agency for specific information. If you're advised that your property is exempt, be sure to receive written verification before ceasing to follow the federal requirements.

In pre-1978 properties, lead is usually found on:

- Doors, door jambs and frames, railings, and banisters
- Exterior painted surfaces
- Interior trim
- Windowsills and horizontal painted surfaces

Asbestos

Asbestos has received a lot of media coverage over the last 20 years. You may remember the federal government's concerns about asbestos in schools and the major efforts to remove asbestos-containing materials from those facilities. Currently, federal rules only require you to investigate or remove asbestos in rental housing when you're doing renovations that may disturb the asbestos, or when you demolish any portion of the housing. Check with your local and state officials for any disclosure requirements they may require. Some jurisdictions insist asbestos materials be disclosed to tenants, along with a warning not to disturb them.

Asbestos is a mineral fiber that historically was added to a variety of products to strengthen them and provide heat insulation and fire resistance. In most products, asbestos is blended with a binding material so that as long as it remains intact, fibers aren't released into the air, and no health risk occurs. Asbestos fibers are microscopic and can be positively identified only with a special type of microscope.

The concern in most rental properties is that asbestos-containing materials may be disturbed, causing them to release microscopic fibers, which can be inhaled into the lungs. For example, many older apartments have popcorn or acoustic ceilings containing asbestos, which can be disturbed by installing a ceiling light or fan. The asbestos fibers don't self-destruct but remain in the air for a long time, increasing the risk of disease. Some asbestos materials are *friable,* meaning they crumble into small particles or fibers. Asbestos-containing materials can also crumble easily if mishandled. Even if the asbestos-containing material was originally intact, asbestos can be released into the air if the material is sawed, scraped, sanded into a powder, or subjected to some mechanical processes.

A common cause of the release of asbestos in rental housing is inappropriate or unsafe handling of asbestos-containing materials during remodeling or renovation of the property. If you plan to do any renovations that may disturb asbestos or plan to demolish your building, federal law requires a comprehensive survey before the work begins. Any asbestos found during the survey must then be handled appropriately. To be valid, the survey must be conducted by trained asbestos personnel.

Products containing asbestos aren't usually labeled. Asbestos was commonly used until 1981. Now, it's estimated that more than 3,000 products still in use today contain asbestos. These products, which can be found in many rental properties, include acoustic ceilings, vinyl flooring and tile backings, flooring *mastic* (a type of adhesive), building insulation, wall and ceiling panels, carpet padding, roofing materials, pipe and duct insulation, patching and spackling compounds, and furnaces. Do *not* assume that a property built or remodeled after 1981 doesn't contain asbestos products.

TIP

According to the American Lung Association, if you have asbestos-containing substances in your rental property, do the following:

- **If the substance is in good condition and the asbestos won't be disturbed, leave it alone.** Be sure to warn the tenants not to disturb these materials and have them notify you immediately if these materials are damaged in any way.
- **If the material is damaged and can release fibers in the air, you should have it repaired or removed.** Always seek the advice of a professional environmental firm to evaluate and recommend the best course of action concerning asbestos.
    - Repair usually involves either sealing or covering asbestos material. Sealing is also commonly referred to as *encapsulation* and involves coating materials so that the asbestos can't be released. Encapsulation is only effective for undamaged asbestos-containing

material. If materials are soft, crumbly, or otherwise damaged, sealing isn't appropriate, and the substances should be removed by a qualified professional.

- Removing asbestos-containing materials is an expensive and hazardous process to be completed only by trained personnel using special tools and techniques, and should be a last resort. A licensed contractor who specializes in removing asbestos-containing materials should be used, because improper removal can very easily increase the health risks to the workers, yourself, and your future tenants. Also, unauthorized removal of asbestos can be illegal. Punishment can include hundreds of thousands of dollars in fines or prison.

Asbestos is a very dangerous material if disturbed or in poor condition. Don't attempt to test for asbestos on your own. Hire a professional environmental testing firm, because the act of breaking open potentially asbestos-containing material to obtain test samples may release asbestos into the air and create a very dangerous situation.

Radon

Radon, a radioactive gas, is a known cancer-causing agent that the EPA cites as the second leading cause of lung cancer in the United States and claims 20,000 lives annually. Found in soil and rock in all parts of the U.S., radon is formed as a byproduct of the natural decay of the radioactive materials radium and uranium. Radon gas is invisible; it has no odor or taste. Its presence in the interior of buildings has been found to cause lung cancer. However, most radon found in buildings poses no direct threat to human life, because the range of concentration is generally below the minimum safe level.

Although currently no federal requirements exist regarding disclosure or even testing for radon gas, it's a potentially serious health issue and one that's receiving more attention. Be aware of radon levels in your rental units and check with local authorities for more information about the prevalence and appropriate precautions that should be taken to avoid radon exposure. (Florida and New Jersey have been particularly aggressive in addressing the radon problem.) Be sure to check with your local authorities for any specific disclosure requirements.

WARNING!

Although radon may be found in all types of homes and buildings throughout the U.S., it's more likely to occur in the lower levels of tightly-sealed, energy-efficient buildings where insulation limits the flow of air from the inside to the outside and ventilation is poor.

The lowdown on asbestos

The federal Occupational Safety and Health Administration (OSHA) has developed regulations that apply to any building constructed prior to 1981. These pre-1981 buildings are presumed to have asbestos unless the owner tests the property and verifies that asbestos or asbestos-containing materials aren't present.

Exposure to asbestos can lead to an increased risk of lung cancer; *mesothelioma,* a cancer of the lining of the chest and the abdominal cavity; and *asbestosis,* a condition in which the lungs become scarred with fibrous tissue.

No known safe exposure level to asbestos exists. However, when the asbestos is intact and can't become airborne, exposure to it isn't a problem. Smokers who inhale exposed asbestos fibers have a greater risk of developing lung cancer than nonsmokers. Although most people who get asbestosis have usually been exposed to high levels of asbestos for a long time, even a short but significant exposure can cause harm. The symptoms of asbestos-related diseases don't usually appear until about 20 to 30 years after the first exposure to asbestos.

Testing for radon

The only way to know whether your rental property has radon at unhealthy levels is to conduct short-term and/or long-term radon testing. Fortunately, radon tests are inexpensive and easy to use. The quickest way to test for radon is with a short-term test, which remains in your home anywhere from 2 to 90 days, depending on the device. Long-term tests remain in your home for more than 90 days. Because radon levels tend to vary from day to day and season to season, a long-term test is more likely to tell you your home's year-round average radon level than a short-term test.

You have two choices when testing for radon:

- **Do it yourself.** The do-it-yourself radon test kits are available in hardware stores, and some laboratories provide kits through mail order. Make sure you get one that meets EPA standards or your state's requirements — the test kit usually says so on the package. The price of a simple short-term radon test kit starts at about $10 (or about $20 for a long-term kit) and includes the cost of having a laboratory analyze the test. Discounted radon test kits are available from the National Safety Council by calling 800-767-7236.
- **Hire a professional.** For information on the detection and removal of radon, you can contact the EPA National Radon Hotline by calling 800-767-7236 or by visiting the EPA Web site at `www.epa.gov/radon`. This Web site has contacts for state agencies that regulate radon, plus information on finding a qualified radon reduction provider.

If your tests reveal radon in one particular unit of an apartment building, have all the other units tested immediately and notify all other tenants in the building of the problem promptly. Remember that even if your radon test shows low radon levels in one unit, there may be high levels in other parts of the building.

Repairing a radon problem

Fixing a radon problem usually involves repairs to the building. Therefore, you as the building owner, not your tenant, are responsible for having this work done. If your rental property has high radon levels, you can take steps to see that the problem is fixed by installing equipment, such as fans, blowers, and ducts, to reduce radon gas levels. The EPA advises that radon reduction costs between $800 and $2,500 for a single-family home with an average cost of $1,200. For a larger rental property, the costs depend on the size and other characteristics of the building.

Radon reduction work generally requires a trained professional. To find out which radon reduction system is right for a building and how much those repairs will cost, consult a professional radon contractor. The EPA and many states have programs set up to train or certify radon professionals. Look online for your state radon office, because it can provide a list of individuals who have completed state or federal programs. It can also provide a list of EPA-approved radon *mitigators,* or reduction specialists, in your state.

Sexual offenders

Virtually every state has a version of *Megan's Law,* legislation which requires certain convicted sexual offenders to register with local law enforcement. The local law enforcement then maintains a database on the whereabouts of the registered sex offenders, and it often makes this information available to the public.

Megan's Law is named after 7-year-old Megan Nicole Kanka of Hamilton Township, New Jersey, who was raped and murdered in the summer of 1994 by a convicted child molester who was living in her neighborhood without her parents' knowledge. Less than 90 days after Megan's abduction, New Jersey passed Megan's Law, which required making information about the presence of convicted sex offenders in local neighborhoods available to the public.

In 1996, a federal version of this crime prevention law was passed, requiring the Federal Bureau of Investigation (FBI) to keep a national database of all persons convicted of sexual offenses against minors and violent sexual offenses against anyone. Prison officials are required to inform convicted sex offenders of their legal obligation to register with state law enforcement authorities. The state agencies are required to inform local law enforcement and the FBI as to the registered addresses for each convicted sex offender.

Local law enforcement authorities are then permitted to release the collected information as necessary to protect the public, but active community notification isn't mandatory.

Unfortunately, states aren't very consistent in their efforts to maintain and make this database available. The federal law allows each state to decide how to use and distribute the database information. The three options are:

- **Widespread notification with easy access:** This option allows notification to the public, including methods such as posting the names and addresses on the Internet or on a CD-ROM.
- **Selective notification with limited access:** This alternative allows notification only to those groups most at risk, such as schools and daycare centers.
- **Restricted notification with narrow access:** This option allows access only for a particular name or address.

Although registration is mandatory, often the addresses provided aren't verified, or the convicted sex offender may move and fail to reregister at his new address. Also, the accuracy of this database can vary widely based on the age of the information.

Some states require property owners or managers to provide a disclosure statement to each tenant advising her of the availability of the Megan's Law database. Whether you're required by state law to give your tenant a Megan's Law disclosure, if you're ever asked by a prospective renter about Megan's Law, be sure to refer her to local law enforcement authorities and make a written and dated note of the conversation for your files. For specific information on the requirements of Megan's Law in your state, call your local law enforcement agency, contact the Parents for Megan's Law (PFML) hotline at 888-ASK-PFML (888-275-7365), or check `www.parentsformeganslaw.com`.

Chapter 10

Eenie, Meenie, Miney, Mo: Selecting Your Tenants

In This Chapter

- Recognizing the value of proper tenant screening and written criteria for your process
- Confirming your applicants' information
- Informing applicants of the outcome
- Knowing the laws surrounding Fair Housing

When you own rental property, one of your most important tasks is screening and selecting tenants. Because the process of screening tenants is time-consuming, you need to have a system in place for doing it efficiently. Here I help you navigate these unfamiliar waters with ease.

Basically, with tenant selection and screening, you develop and use objective, written tenant selection criteria, consistently screen all rental applicants against these minimum criteria, and select the most qualified tenant based on your review.

With a system, tenant screening really isn't that difficult; it just requires assertiveness, diligence, and patience. Even after you've been managing your rental properties for many years, you still won't be able to just look at a rental application and know whether the applicant is qualified. You have to check the prospect's references, credit history, employment, income sources or assets, job stability, and tenant history. And you can't cut corners. Selecting a bad tenant is much worse than having a vacant rental unit. So choose your tenants wisely and profit in the long run.

Another critical part of choosing your tenants is making sure you handle the selection process without bias, abiding by all Fair Housing regulations. This concept can be a murky issue, but it's an important one you need to pay attention to no matter what your situation so that you're not slapped with a discrimination lawsuit.

Understanding the Importance of Screening

If you're like many rental property owners, you may be thinking, "Screening? Isn't that just a waste of time? After all, I trust my gut instinct when I meet people. I know which ones are good and which are just trouble." Although it does take time to verify all the information on your prospective tenant's rental application, it's time well spent. Relying on your instincts is very inaccurate, arbitrary, and, above all, illegal.

In order to increase your chances of finding a long-term, stable tenant and avoid charges of discrimination, your tenant selection criteria and screening process should be clear, systematic, and objective. Put this process in writing to ensure it's applied consistently and fairly to *all* rental applicants.

Establishing solid tenant selection criteria and performing a thorough tenant screening process doesn't guarantee a good tenant, but it does significantly improve your odds of finding one.

Setting up a systematic screening process is particularly critical if you only own a single rental or a small, multi-unit rental property. *Professional tenants* (people who go from property to property damaging the units or not paying rent) are experienced and shrewd. They know that the large, professionally managed rental properties have detailed and thorough screening procedures that attempt to verify every single item on their rental applications. If certain items don't check out, the professional property manager doesn't just trust her feelings on the prospective tenant. Professional tenants know that small rental property owners are easier targets, because the novice property owner is more likely to bend the rules than the professional.

Sometimes the mere mention of the tenant screening process is enough to make the rental prospect fidget and shift into the classic "I'm just looking" mode. Don't rush a prospect or allow one to hurry you through the tenant screening and selection process. The wrong decision can be financially devastating, particularly if you have just a couple of rental units with monthly debt payments.

Establishing Tenant Selection Criteria

Tenant selection criteria are written standards that you use to evaluate each prospect's qualifications as a tenant. Determine your exact minimum qualifications and adhere to them. Of course, your written criteria can't be discriminatory or violate any federal, state, or local Fair Housing laws.

These criteria can help you treat all rental applicants fairly to avoid claims of discrimination. Making the effort to develop written guidelines can also be useful as an objective evaluation technique to minimize the chance that you may be swayed by a charming prospect and find yourself lowering your standards and allowing a not-so-desirable tenant to occupy your valuable rental property.

The following sections break down the importance of tenant selection criteria and how you can develop your own.

Why having criteria is important

Giving all prospective tenants an overview of your rental screening procedure and requirements upfront lets them know exactly what you're looking for in a qualified rental applicant. Because these criteria are the minimum standards you accept, prospective tenants thus know why their rental application may be rejected.

REMEMBER

Developing your own tenant selection criteria has several benefits:

- **Rental applicants know you're aware of and comply with all Fair Housing laws.** You want to make sure your tenants know they'll be evaluated objectively and fairly and that you promote equal opportunities in housing.
- **Rental applicants understand that rental activity and the preparation for it are dynamic processes.** Certain units may or may not be available even within the same day for legitimate business reasons. Outlining this policy and maintaining good records can minimize accusations of discrimination.
- **Rental applicants are aware that you abide by the reasonable occupancy limits suggested by most federal and state standards, while being conscious of the unit's limitations.** With the high cost of housing in many areas, some tenants are looking to occupy a smaller rental unit; you need to make sure that your property can handle the intended number of occupants while complying with standards.
- **Rental applicants know what to expect from your process of evaluating rental applications.** They know that all applications are thoroughly verified, that the process takes one or two days, and that you charge an application fee to cover some of your costs for the screening process.
- **Rental applicants realize that everyone applying for your unit is evaluated consistently and fairly.** They can review your requirements and evaluate their own qualifications to see whether applying is even worth their time.

More than 90 percent of your rental applicants are going to be good tenants who pay their rent on time, take good care of their homes, and treat you and their neighbors with respect. You just need to carefully guard against those few bad apples, so don't hesitate to deny prospects who can't meet your standards.

How to create your criteria

In order to establish your tenant selection criteria, review what you're looking for in a tenant. Your notion of the ideal tenant may be different from someone else's, but here are five important traits to look for:

- Someone who'll be financially responsible and always pay his rent on time.
- Someone who'll respect and treat the property as if it were her own.
- Someone who'll be a good neighbor and not cause problems.
- Someone who'll be stable and likely to renew his lease.
- Someone who'll leave the premises in a condition the same as or better than she found it.

In order to have the best results in selecting your tenants and ensure your rental prospects understand your tenant selection criteria, develop a *Statement of Rental Policy,* which is a formal, written statement explaining your screening criteria.

The accompanying CD has a sample Statement of Rental Policy that you can develop for your rental property and provide to each and every rental applicant over the age of 18. Your policy standards may be more or less stringent depending on your rental market and experience. But no matter what, you need to be sure that your standards comply with all state and local laws. I strongly advise that you have a local attorney who specializes in landlord-tenant law review your Statement of Rental Policy in advance.

Your Statement of Rental Policy should be given to each and every applicant with the rental application. If you have a multi-unit rental property with an office, clearly post the policy where all applicants can see it. If you don't have an office, insert the policy in an acrylic or similar holder, and place it in clear view on the rental unit's kitchen counter or another area where all prospects can see it as they walk through.

You aren't required to provide your rental prospects with copies of your written tenant selection criteria. Although you must offer all prospects rental applications and process each one received, you can benefit when prospects make their own decisions not to apply for your rental based on the criteria you've set up. The key is to follow these criteria without exception and have the information available if you're challenged.

Some rental property owners feel more comfortable discussing the tenant selection criteria right from the first rental inquiry call (which I cover in Chapter 8), whereas others wait and distribute copies only to those individuals who actually apply. You need to decide which policy works best for you and then apply it consistently.

Always be very thorough when you perform tenant screening and use the same process with all rental applicants. You run the risk of being charged with illegal discrimination if you deviate from your written standards for certain applicants. Many legally acceptable reasons to deny a rental application exist, but be sure that your requirements are clearly understood and followed just to be safe.

The fact that you carefully prescreen all prospects is a positive factor not only for you but also for your rental applicants, your current tenants, and your neighbors. In fact, you have a responsibility to your current tenants to weed out the unqualified prospects with a track record of disrupting the neighbors everywhere they go. Good rental prospects appreciate the fact that their neighbors had to meet your high standards, too.

Verifying Rental Applications

Bad tenants don't walk around with the word *deadbeat* printed on their foreheads. The tenant screening process requires you to be a detective, and all good detectives verify each fact and take thorough notes. You want to ensure that the rental prospect meets your minimum standards as outlined in your Statement of Rental Policy (see the preceding section).

I recommend that you use a Rental Application Verification Form, like the one available on the CD, to collect and review the necessary information that allows you to properly evaluate your rental applicant's qualifications. The following sections explain what info from the rental application you need to confirm before allowing a tenant to move in.

Keep copies of all rental applications, the corresponding Rental Application Verification Forms, credit reports, and all other documentation for both accepted *and* rejected applicants for at least four years. That way if anyone ever claims you discriminated against him or her, your best defense will be your own records, which clearly indicate that you had legal rental criteria, and you applied them consistently.

Confirming identity

The very first step you should take in verifying a rental application is to personally meet each prospective adult tenant. Require each prospective adult tenant to show you a current government-issued photo ID so that you can confirm each applicant is providing you with the correct name and current address. Advise your rental applicant that if his application is approved, you'll need a photocopy of his ID to be kept in his tenant file. Initial the rental application to record that you did indeed verify this information.

Inquire about any discrepancies between the application and the ID provided. Even if the explanation seems reasonable, be sure to write down the new information. Maybe an old address appears on the photo ID, which you can check out further through a credit reporting agency.

Having a photocopy of the ID for each adult tenant can be very important if a dispute concerning the tenant's identity arises in the future. In these situations, you need to be able to clearly show that you positively identified the tenant upon move-in.

Going over occupancy guidelines

Take a look at the rental application information provided by the tenant concerning the number of persons planning to occupy your rental property to ensure that the anticipated use is within your established occupancy guidelines.

One of a property manager's major concerns is excessive wear and tear of the rental unit. Clearly, the greater the number of occupants in a rental unit, the greater the possibility for wear and tear. Unfortunately, questions about occupancy have no simple answers, and the laws and regulations concerning occupancy standards aren't universally accepted. For example, the Department of Housing and Urban Development (HUD) guidelines state that property managers can limit occupancy to two individuals per bedroom. However, state and local restrictions must be followed as well. And in California, for example, the Department of Fair Employment and Housing has formulated the *2 + 1 occupancy standard guideline,* which states that a property manager must allow two individuals per bedroom, plus an additional occupant for the unit. In other words, three individuals may occupy a one-bedroom rental unit, and five individuals a two-bedroom rental unit, and so on.

Contact your local or state housing agency for information on its occupancy regulations. You must always apply the most generous occupancy standard.

In addition to occupancy standards, you also have to consider maximum occupancy limits. These restrictions are usually set by state and local health and safety boards, or building codes based on the square footage or size of the rental unit and its number of bedrooms and bathrooms. The maximum occupancy permitted under these code sections is often as high as seven persons in a one-bedroom rental unit. The occupancy of your rental unit should stay closer to the minimum rather than the maximum.

Unless you have a more generous state or local requirement, I recommend using the 2 + 1 minimum occupancy guideline. Although federal and most state and local occupancy standards allow a more restrictive policy, the burden of proof is on the rental property owner. If you feel you have a legitimate basis, meaning a supportable, nondiscriminatory business reason, for having a more restrictive occupancy standard, hire a consultant and have him or her make an independent evaluation and recommendation.

Some rental property owners illegally use the occupancy standard as a subtle tool to limit the number of rental applicants with children. HUD and state and local Fair Housing agencies receive a large volume of calls concerning familial status discrimination. In some areas, these complaints outnumber claims on the basis of all other protected classes combined.

Investigating rental history

You also want to confirm the applicant's rental history. To do so, contact her current landlord and go through the questions on the rental history portion of the Rental Application Verification Form. When you first contact the prior landlord, you may want to listen to his initial reaction and let him tell you about the applicant. Some landlords welcome the opportunity to tell you all about your rental applicant, so listen carefully.

Some rental applicants may provide you with letters of reference from their prior landlords, or even copies of their credit reports. This behavior often occurs in many competitive rental markets where only the prepared tenants have a chance to get a quality rental property. Although the more information you have, the better the decision you can usually make, be very careful to evaluate the authenticity of any documents provided by your prospects. Accept these papers but always perform your complete tenant screening process to independently verify all information.

Current or prior landlords may not be entirely forthcoming with answers to many of your questions. Most likely, they're concerned that they'll have some liability if they provide any negative or subjective information. If the information you receive on your applicant from the current landlord is primarily negative, you may not need to check with any other prior landlords. However, be wary that the current landlord may not be entirely honest; he may be upset with the tenant for leaving his property, or he may not say anything bad about a problem tenant so that he can get the tenant out of his property and into yours.

When a current or prior landlord isn't overly cooperative, try to gain his confidence by providing him with some information about yourself and your rental property. If you're still unable to build rapport, try to get him to at least answer the most important question of all: "Would you rent to this applicant again?" He can simply give you a "yes" or a "no" without any details. Of course, silence can also tell you everything you need to know.

Another useful screening tool is to request that each prospective tenant provide copies of his or her water and utility bills for the past year. Doing so verifies prior addresses and gives you an idea whether the applicant pays bills on time. (A rental prospect who can't pay utility bills in a timely manner is very likely to have trouble paying your rent.) You may also want to inquire with local law enforcement to see whether its records show any complaints at a tenant's prior address.

Validating employment and income

Although credit reporting agencies may provide information on your rental applicant's employment or other sources of income, they typically don't have all the information you need to properly evaluate this extremely important rental qualification criterion.

Independently verify the information and phone number the applicant puts on her application if you have any doubts about their authenticity. You may have reason for concern if an employer is a major corporation, and the telephone isn't answered in a typical and customary business manner, for example. You also need to be careful that you confirm the sensitive compensation and stability of employment questions only with an appropriate employer representative.

Occasionally, you may find that an employer doesn't verify any information over the phone. So be prepared to send letters requesting the pertinent information, and include a self-addressed, stamped envelope. Be sure to tell your rental prospect that you may have a delay in providing him with the results of your tenant screening process.

Your rental applicant should provide you with proof of his employment or other sources of income. This proof may be in the form of recent pay stubs, bank account statements, and other proof of income or assets. No matter how strong the information is, verify it directly with the employer or the other source of income.

Always require written verification of all sources of income that a rental applicant is using to meet your income qualification requirements. If you can't verify the income, you don't have to include it in your calculations to determine whether the applicant meets your minimum income requirements. Keep the following points in mind as you verify income:

- **When you have a rental applicant who relies on sales, commission income, or bonuses, make sure you review at least six consecutive months of pay stubs.** Of course, the best policy is to require all applicants with any income other than salary to provide copies of their signed tax returns for the last two years. Although you must be careful to determine that it's an authentic document, I have yet to find a rental prospect who overstates annual income on a tax return.
- **Pay close attention to applicants who seem to actually be overqualified or anxious to be approved and take possession of your rental unit.** Remember the old saying, "If it sounds too good to be true, it probably is." This adage definitely applies in the world of rental property, so keep it in mind at all times.
- **Be particularly careful of rental applicants who seem to have plenty of cash to pay your security deposit and first month's rent, but who don't have verifiable sources of income that seem consistent with their spending patterns.** The applicant may be involved in illegal activity, and you may need to evict him later at considerable expense and loss of income. Rental property owners can even lose their properties under certain circumstances if they fail to take action to eliminate the source of illegal activity on their property.

REMEMBER

Several states and local jurisdictions have laws prohibiting a rental property owner from denying an applicant because he receives public assistance. California has gone further to include source of income as a state protected class, which means you can't have a requirement that the applicant must be employed, but simply that he has legal and verifiable income or financial resources to meet your stated requirements.

WARNING!

If you're in an area where source of income is a protected class, you may find you're violating Fair Housing laws if you have policies that favor employees of certain companies, or you favor specific types of employment — some property owners offer discounts to teachers, police, firefighters, and similar occupations. Traditionally, the source of income protection was to guard against discrimination of individuals who receive governmental assistance, but it's been expanded to include limitations on landlords who want to offer favorable terms to certain individuals based on their employment.

Reviewing credit history

You can and should check out an applicant's credit history by obtaining a *credit report*. This document shows all current and previous credit cards and loans with rating information on the timeliness of payments when due, plus all public record entries such as bankruptcy and judgment. Through a credit report, you can figure out whether an applicant has been late or delinquent in paying her rent or other living expenses.

TRUE STORY

If it looks too good to be true, it probably is!

I once managed a large rental property in a major city. I regularly visited the property and performed an inspection of both the physical aspects and the rental office procedures. One area of ongoing examination was the new rental application, which I reviewed to ensure it was being properly completed by each prospect and that the tenant screening process was being applied uniformly.

During one of my visits, I reviewed a rental application for a one-bedroom apartment that was in the process of being screened. The on-site manager spoke very highly of this younger person who had just graduated from high school, was looking for his first apartment, and listed an income of $750 per week. The manager then told me how, with more than $3,000 per month in income, this applicant was financially qualified.

Having been in rental management for many years, I was curious about the weekly income, so I took a look at the rental application and noticed that the individual listed the local sports facility as his employer. Sure enough, upon subsequent inquiry of the employer and then the prospect, it became apparent that the applicant did indeed earn $750 per week. The problem was that he earned this amount only during the six months of the professional baseball season and only in the two weeks per month that the local team played games in town. This situation is a reminder of the importance of thoroughly inquiring into and verifying all claimed income or assets.

TIP

What to look for in a credit history

Following is a list of what to consider when reviewing a credit history:

- **A pattern of financial responsibility:** You want your prospective tenant to have a history of prudent or conservative spending. Avoid rental applicants who seem to be using excessive credit and are living beyond their means. If they move into your rental property and experience even a temporary loss of income due to illness or a job situation, you may be the one with an unexpected income loss as a result!
- **An accurate address:** You want to be able to verify prior living situations, so carefully compare the addresses contained on the credit report to the information provided on the rental application. If you spot an inconsistency, ask the rental prospect for an explanation. Maybe she was temporarily staying with a family member or simply forgot about one of her residences. Of course, be sure to contact prior landlords and ask all the questions on the Rental Application Verification Form just to make sure the applicant didn't neglect to tell you about that residence for a reason.

- **A false Social Security number:** You want to make sure you're reviewing the credit report of your actual applicant. People with poor credit or tenant histories have been known to steal the identity of others, particularly their own children, by using someone else's Social Security number. One way to prevent this problem is to make sure your credit reporting service provides a Social Security number search. (Check out the nearby sidebar for more info.)

Information obtained in credit reports must be kept strictly confidential and can't be given to any third parties. In some states, the rental applicant is entitled to a copy of his or her credit report upon request, and federal law allows anyone denied credit on the basis of a credit report to obtain a free copy of it.

Where to get your applicant's credit history

A credit report contains valuable information that can assist you in determining whether your rental applicant meets your resident selection criteria. However, the federal Fair Credit Reporting Act (FCRA) has very complicated restrictions on the proper use of this sensitive information that can be used improperly. In order to get a consumer credit history, you need to contact a tenant screening service in your area. You can find many companies that work specifically with the rental housing industry by going through your local National Apartment Association (NAA) affiliate or your local Institute of Real Estate Management (IREM) chapter.

The info you'll receive from the tenant screening service is based on the databases and records of the three dominant consumer reporting agencies (CRAs), which are

- **Equifax:** `www.equifax.com`
- **Experian:** `www.experian.com`
- **TransUnion:** `www.transunion.com`

With the wide choice of tenant screening services available, you may have a hard time deciding exactly what you need. I recommend you use a service that offers the following:

- A retail or consumer credit report
- An eviction search or tenant history
- An automated cross-check of addresses
- A Social Security number or Individual Taxpayer Identification Number search
- An employment or income and prior landlord reference verification
- A criminal records search

Asking for a Social Security number or not?

Problem: Some rental property owners or managers require applicants to provide a Social Security number (SSN). However, such a policy may risk a Fair Housing complaint, because only U.S. citizens or immigrants authorized to work in the United States can obtain an SSN. Many people (like those with student visas) simply don't qualify for one. Also, with the increased concern about identity theft and privacy rights, some of your rental prospects who *do* have an SSN may not feel comfortable providing it on your rental application.

Solution: An alternative to the standard SSN can be an Individual Taxpayer Identification Number (ITIN), which is issued upon request by the IRS to anyone earning income while living in the U.S. Credit reporting bureaus can use the ITIN the same way they use the SSN to provide you with information on your applicant's credit history.

Problem: Another concern with the SSN is that some credit reporting bureaus have been providing rental owners and property managers with eviction information that may be inaccurate or misleading. The credit bureaus' databases often include information about every eviction filed against an applicant, regardless of whether the matter was ultimately resolved in the tenant's favor. Being confronted with an erroneous eviction filing can be very disconcerting for falsely accused rental applicants.

Solution: If your applicant has an eviction filing on her credit report, you need to inquire further and see whether it was filed in error, dismissed, or resolved in her favor. In the meantime, know that most credit reporting bureaus are making efforts to ensure their individual databases reflect actual court judgments and not just filings.

The Internet is quickly changing the tenant screening procedures for many rental property owners. Consumer credit reports, tenant history, and criminal records search services are now available from your computer in a matter of seconds. This instant access often allows you to approve your rental applicant in minutes or hours, which can be a strong competitive advantage.

Many tenant screening firms are entering this electronic market locally and nationally, and all offer very impressive services designed to save you time and help you fill your vacancies faster. Using technology can improve the efficiency of your information collection for tenant screening and provide you with more details to make a better decision. However, don't rely strictly on computers and forget to personally contact past landlords, verify the applicant's income and employment, or consider your own dealings with your prospective tenant. Rental property ownership and management is still, and always will be, a people business.

What charges are involved

The cost of a tenant screening credit report varies widely. On an individual basis, tenant screening can run between $30 and $50. When you start adding an investigative or criminal records search in multiple areas, this expense can go much higher. Establish the specific level of screening services you want and then be consistent to avoid discrimination claims.

If you join a tenant screening service, you can get discounts of 50 percent or more on each credit report. Some companies offer memberships with minimum monthly fees. But only owners of multiple rental properties who run at least one tenant screening per month really benefit from membership. If you run fewer than a dozen tenant screenings annually, you'll usually find it cheaper to just pay a higher fee per report.

ON THE CD

If you own just a few rental units, you may find that joining your local apartment association is a better deal than paying $30 to $50 per tenant screening. Not only do you have easy access to reasonably priced tenant screening services and consumer credit reports through your local apartment association but as a member you can take advantage of its education, publications, and forms. (The accompanying CD contains a complete list of all NAA affiliates and info on their educational programs and designations.)

WARNING!

Charging an applicant for tenant screening or a consumer credit report if you don't actually run one is illegal. If you receive a large number of rental applications, review them in the order they're received, one at a time. If the first applicant fails to qualify, begin processing the next application. Check your state laws to make sure you don't exceed any legal maximum charges and be sure to return any unused credit check fees to those individuals for whom you don't run the credit check. Try to keep your tenant screening fees as low as possible and set them based on the fees paid to a tenant screening company, the value of your time or salary expended, and any indirect expenses (like phone calls) for checking rental history. Of course, always be aware of your state or local laws regarding tenant charges.

Checking criminal history

Rental property owners' liability is increasing all the time. One area of particular concern is criminal acts committed by tenants. In most states, rental property owners have no legal duty to ask about or investigate the criminal backgrounds of applicants or current tenants.

Since the events of September 11, 2001, federal, state, and local law enforcement have made great efforts to standardize reporting of criminal activity. However, in many areas of the country, only a county-level criminal records search is possible. Additionally, many states only indicate felony conviction records and don't list convictions for misdemeanors involving violence, sexual misconduct, or dishonesty.

What's in a name?

I've served as an expert witness in many interesting litigation matters concerning real estate. One of my more memorable assignments was to consult with the Legal Aid Society of Alameda County, based in Oakland, California. It had received complaints from several people who claimed they were being repeatedly denied rental housing even though they had excellent jobs and perfect credit.

After a brief investigation, it became obvious that the problem was a particular Bay Area tenant screening service that wasn't accurately identifying rental applicants. When a rental applicant with a fairly common name was run through its database, the company provided the rental property owner with negative information on evictions and poor credit patterns. Unfortunately, because its information wasn't carefully screened and verified, the data wasn't applicable to the actual rental applicant. Some very responsible and qualified applicants were turned down simply because they had the same name as an individual with a very poor credit report.

The lesson? Always verify an applicant's name, Social Security number or Individual Taxpayer Identification Number, and several former addresses to ensure you're using the correct information in your screening efforts. Compare the Social Security card (if available) with information showing the approximate date and general geographic location of its issuance. You know you have a problem if your applicant is over the age of 40 and was born and raised along the East coast, yet the credit reporting agency indicates that the Social Security card was originally issued in Arizona in the last few years.

When reviewing a rental applicant's criminal history, you need to consider convictions only and not simply arrests. Because the U.S. legal system is based on the idea that someone is innocent until proven guilty, only those applicants who have criminal convictions should be denied. However, it's not really that simple. The federal Fair Housing Amendments Act considers past drug addiction a disability, and prior drug-use felony convictions alone may not be sufficient grounds to deny an applicant. (Fortunately, current drug use or the sale, manufacturing, or distribution of illegal substances isn't protected under Fair Housing laws.) Some states also limit the ability to deny housing to registered sex offenders. Always seek legal advice if you have any questions about the findings of a criminal records search.

With many tenants moving from area to area, performing a thorough criminal records search in every location the applicant may have lived can be cost prohibitive. Many rental property owners only request a criminal records search if the rental applicant indicates that he's been convicted of (or pled guilty or no contest to) a felony or a misdemeanor involving violence, sexual misconduct, or dishonesty. Be diligent in looking for any indications that may provide a clue to possible criminal activity, such as gaps in rental history while the prospect was incarcerated.

Consistency is the key to all tenant screening activity, including your efforts to minimize the chances of renting to someone who may present a direct threat to the health or safety of others. You need to establish a policy of either inquiring about past criminal history or running a criminal records search on *all* rental applicants to ensure that your rental screening process is applied uniformly.

Talking with all personal references

Although you may expect that all a prospect's personal references share only glowing comments about how lucky you'd be to have the applicant as your new tenant, investing the time to call all of a prospect's references is important for several reasons.

First, you occasionally find someone who tells you that the rental applicant is her best friend but she never loans him money or lets him borrow her car. Plus, if you call the given references and find that the contacts are bogus, you can use this information as part of your overall screening of the applicant.

Dealing with guarantors

If your rental prospect doesn't meet the criteria outlined in your Statement of Rental Policy, you may consider approving her application if she provides a cosigner or *guarantor.* The guarantor needs to sign a Guarantee of Lease or Rental Agreement form (shown in Figure 10-1, and also on the CD); however, a guarantor must be financially qualified and screened, or the guarantee is worthless.

Signing a separate Guarantee of Lease or Rental Agreement is better than asking the cosigner to simply sign the rental contract, because doing so avoids any confusion about whether the cosigner lives in the rental unit if you need to regain physical possession with an eviction action.

Require your guarantor to complete a rental application, pay the application fee, and go through a verification of income screening. This process is similar to your procedure for the applicant except you don't need to verify rental or criminal history. Keep in mind that the guarantor won't actually be living at the rental unit and thus will have his own housing costs. So in order to ensure that the guarantor can meet all his own obligations and cover your tenant's rent in case of a default, you need to account for the guarantor's cost of housing before comparing it to your income requirements.

Guarantee of Lease or Rental Agreement

On the date below, in consideration of the execution of the Lease or Rental Agreement, dated _________________, 20 _____,

for the premises located at: ____ (Rental unit) by and between

____ (Tenant)

____ (Owner) and

____ (Guarantor);

for valuable consideration, receipt of which is hereby acknowledged, the Guarantor does hereby guarantee unconditionally to Owner, Owner's agent, and/or including Owner's successor and assigns, the prompt payment by Tenant of any unpaid rent, property damage and cleaning and repair costs or any other sums which become due pursuant to said lease or rental agreement, a copy of which is attached hereto, including any and all court costs or attorney's fees incurred in enforcing the lease or rental agreement.

If Tenant assigns or subleases the Rental unit, Guarantor shall remain liable under the terms of this Agreement for the performance of the assignee or sublessee, unless Owner relieves Guarantor by express written termination of this Agreement.

In the event of the breach of any terms of the Lease or Rental Agreement by the Tenant, Guarantor shall be liable for any damages, financial or physical, caused by Tenant, including any and all legal fees incurred in enforcing the Lease or Rental Agreement. Owner or Owner's agent may immediately enforce this Guarantee upon any default by Tenant and an action against Guarantor may be brought at any time without first seeking recourse against the Tenant.

The insolvency of Tenant or nonpayment of any sums due from Tenant may be deemed a default giving rise to action by Owner against Guarantor. This Guarantee does not confer a right to possession of the Rental unit by Guarantor, and Owner is not required to serve Guarantor with any legal notices, including any demand for payment of rent, prior to Owner proceeding against Guarantor for Guarantor's obligation under this Guarantee.

Unless released in writing by Owner, Guarantor shall remain obligated by the terms of this Guarantee for the entire period of the tenancy as provided by the Lease or Rental Agreement and for any extensions pursuant thereto. In the event Tenant and Owner modify the terms of said Lease or Rental Agreement, with or without the knowledge or consent of Guarantor, Guarantor waives any and all rights to be released from the provisions of this Guarantee and Guarantor shall remain obligated by said additional modifications and terms of the Lease or Rental Agreement. Guarantor hereby consents and agrees in advance to any changes, modifications, additions, or deletions of the Lease or Rental Agreement made and agreed to by Owner and Tenant during the entire period of the tenancy.

If any legal action or proceeding is brought by either party to enforce any part of this agreement, the prevailing party shall recover, in addition to all other relief, reasonable attorney's fees and costs. By signing below, Owner, Tenant and Guarantor acknowledge and accept all terms contained herein.

____________________ Tenant's Signature	____________________ Guarantor's Signature	____________________ Owner's Signature
____________________ Tenant's Name (print)	____________________ Guarantor's Name (print)	____________________ Owner's Name (print)
____________________ ____________________ Tenant's Address	____________________ ____________________ Guarantor's Address	____________________ ____________________ Owner's Address
____________________ Date	____________________ Date	____________________ Date
____________________ Daytime phone number	____________________ Daytime phone number	____________________ Daytime phone number

Figure 10-1: Guarantee of Lease or Rental Agreement.

For example, if the proposed guarantor has a gross monthly income of $4,000 with a $1,000 mortgage payment, he has an adjusted gross income of $3,000. Assuming you have an income standard that requires the tenant to earn three times the monthly rent (and assuming the guarantor meets all your other screening criteria), this person can be the guarantor for your prospect as long as the rent doesn't exceed $1,000 per month.

WARNING!

Although a guarantor can be very important and can give you extra resources in the event of a rent default by your tenant, out-of-state guarantors aren't as valuable as in-state ones. Enforcing the rental contract guarantee against an out-of-state party can be very difficult, or even financially unfeasible.

Making your final decision

Selecting your tenant is one of the most important decisions you make as a rental property owner, because choosing your tenant has a significant positive or negative impact on your success. Ideally, you've already established written tenant screening criteria and a system for evaluating the qualifications of your rental applicants; if you haven't, flip back to the previous sections in this chapter.

Although you need to carefully follow Fair Housing guidelines, never compromise your tenant screening criteria or allow yourself to be intimidated into accepting an unqualified rental applicant. HUD and state Fair Housing agencies have consistently ruled that rejecting an applicant who doesn't meet your objective tenant screening criteria isn't discrimination, even if the applicant belongs to a legally protected class.

Some Fair Housing advocates recommend that you have a policy of considering the applications in the order they're received and accepting the first prospective tenant who meets your rental criteria. I feel that as long as you're consistent in your tenant selection methods that you should select the tenant who's best qualified. However, you need to be prepared for other qualified applicants who may feel they weren't treated properly. Clearly document your business reasons for selecting a certain applicant. Legitimate business reasons can include the following everything from higher income, more assets, much better references, superior credit report, and willingness to sign a longer term lease.

TIP

If you use the first qualified applicant method, be sure to note on the application the date and time it was submitted, as well as the date and time it was approved, and that the rental unit is no longer available. This information can be helpful if qualified applicants from protected classes claim you discriminated by accepting an application submitted after theirs or allege that you refused to show available units by claiming they were rented.

WARNING!

Some tenant screening services offer *risk scoring* of your rental applicant based on scoring models that they claim are designed to objectively predict an applicant's likelihood of fulfilling lease obligations. If you use one of these services, make sure you can meet the disclosure requirements of the federal Fair Credit Reporting Act (FCRA). Only use a tenant screening service that's willing to provide your denied applicants with a written, detailed notice of denial to rent that meets all FCRA requirements.

Notifying the Applicant of Your Decision

Rental property owners are legally allowed to choose among rental applicants as long as their decisions comply with all Fair Housing laws and are based on legitimate business criteria (see the preceding section for an idea of legitimate business reasons). Regardless of whether you accept or reject a rental applicant, be sure to notify him promptly after you make your decision.

If you approve the applicant, contact him and arrange for a meeting and a walk-through of the rental unit prior to the move-in date. Don't notify the other qualified applicants that you've rented the property until all legal documents have been signed and all funds due upon move-in have been collected in full.

One of the most difficult tasks you face as a rental property owner is informing a rental applicant that you've denied his application. You obviously want to avoid an argument over the rejection, but even more importantly, you want to avoid a Fair Housing complaint based on the applicant's misunderstanding about the reasons for the denial.

If you deny an applicant, notify him in writing. If you notify the denied applicant by phone only, you may have difficulty giving all the required details and disclosures. A written notice of denial to rent avoids a situation in which the applicant may unintentionally (or sometimes intentionally) form the opinion that you're denying his application in a discriminatory manner and file a complaint with the Department of Housing and Urban Development (HUD) or a state or local Fair Housing agency.

Using a Notice of Denial to Rent form (see Figure 10–2, also available on the CD) to tell the applicant in writing of your decision is an excellent idea. This form helps you document the various and valid legal reasons for your rejection of the applicant. This simple checklist also allows you to provide the applicant with the information required by the FCRA. If you reject an applicant based on his credit report, FCRA requires you to notify the applicant of his rights. You should provide the denied applicant with a letter containing the mandatory disclosures so that you have proof you complied with the law. (You must also provide this information even if you've approved the applicant but have required him to pay a higher security deposit or higher rent, or have a cosigner — see "Dealing with guarantors" earlier in this chapter for more on cosigners.) Your rejection letter should include:

NOTICE OF DENIAL TO RENT

To:

____

All Applicants (full name) listed on application

Thank you for applying to rent at:

____

We have carefully and thoroughly reviewed your rental application. We are hereby informing you of certain information required by the Federal Fair Credit Reporting Act. Based on the information currently in our files, your application has been denied for the following reason(s):

I. Rental History

__ Could not be verified __ Unpaid or delinquent rent reported __ Property damage reported

__ Disruptive behavior reported __ Prior eviction reported __ Other

____

II. Employment and Income

__ Employment could not be verified __ Local employment could not be verified

__ Irregular or temporary employment __ Income could not be verified

__ Insufficient income __ Other _______________________

III. Credit History

__ Could not be verified __ Unsatisfactory payment history __ Collection activity

__ Bankruptcy filing __ Liens, garnishments, or judgments __ Other

____

IV. Criminal History

__ Conviction for (or pled guilty or no contest to) any felony, or a misdemeanor involving violence, sexual misconduct or honesty

V. Personal Reference

__ Could not be verified __ Lack of non-related references __ Negative reference

__ Other

____

VI. Application

__ Application unsigned __ Application incomplete __ False information provided

__ Rental unit rented to prior qualified candidate __Other

____

When a credit report is used in making this decision, Section 615(a) of the Fair Credit Reporting Act requires us to tell you where we obtained that report. The credit reporting agency that provided information to us was:

Name

____

Address

____

Telephone

____

This agency only provided information about you and your credit history and was not involved in any way in making the decision to reject your rental application, nor can they explain why the decision was made.

Pursuant to the Fair Credit Reporting Act, if you believe the information they provided is inaccurate or incomplete, you may call the credit reporting agency at the number listed above or communicate by mail.

You have the right to obtain a free copy of your consumer report from the credit reporting agency indicated above if your request is made within 60 days of the date of this notice. If you dispute any of the information in your report, you have the right to submit a consumer statement of up to 100 words into your report explaining your position on the item in dispute. The credit reporting agencies offer assistance in preparing your consumer statement.

If information was received from a person or company other than a credit reporting agency, then you have the right to make a written request to us within 60 days of receiving this notice for a disclosure of the nature of this information.

You may have additional rights under the credit reporting or consumer protection laws of your state or local municipality. For further information contact your state Attorney General or consumer affairs office.

_______________________ _______________________

Owner or Agent for Owner Date

Figure 10-2: Notice of Denial to Rent Form.

- The names, addresses, and phone numbers of all credit reporting agencies that provided you with information.
- A notice that the credit reporting agency only provides information about credit history, takes no part in the decision process, and can't give reasons for the rejection.
- A notice that the applicant has the right to obtain a free copy of the credit report from the credit agency if he requests it within 60 days of your rejection.

- A notice informing the applicant that he has the right to dispute the accuracy of the information on the report. He can also demand a reinvestigation or provide the credit reporting agency with a statement describing his position.
- A notice that if information was received from a person or company other than a credit reporting agency, the applicant has the right to make a written request within 60 days of receiving this notice for a disclosure of the nature of this information.

REMEMBER

Keep a copy of all rejection letters for at least four years.

Avoiding Housing Discrimination Complaints

If you're in the rental housing business for long, you'll hear about a shocking settlement or award against a rental property owner for violating a Fair Housing law. Many of these awards or settlements can exceed $100,000. In a recent ten-year period, Fair Housing discrimination cases investigated by HUD alone resulted in awards of more than $42 million.

You may even have read about the facts of certain Fair Housing cases and thought to yourself that the defendants deserved to lose and that a discrimination case will never happen to you. That's probably true — if you're an educated owner and you know and abide by all federal, state, and local Fair Housing laws. The problem arises when rental property owners are unaware that their policies or practices are discriminatory. For example, you may think that you're just being a courteous and caring landlord by only showing rental applicants with children your available rental units located on the ground floor. But not giving applicants without children the same treatment you give others is a form of discrimination — even if that wasn't your intent.

Federal and state laws prohibit discrimination against certain protected classes in rental housing. These laws impact your tenant screening and selection process, and I cover the issues surrounding these laws in the following sections.

The ins and outs of Fair Housing

Discrimination is a major issue for rental property owners, and it has serious legal consequences for the uninformed. If you don't know the law, you may be guilty of various forms of discrimination and not even realize it until you've been charged.

Our legal system acknowledges two types of Fair Housing discrimination:

- **Treating members of protected classes differently from the way you treat others who aren't members of that protected class:** For example, say you have two applicants with similar financial histories, tenant histories, and other screening criteria, but charge one applicant who's a member of a certain protected class a larger security deposit. You may be subject to a Fair Housing discrimination inquiry or complaint on the basis of different treatment.
- **Treating all prospects equally, but having a disparate impact because of an individual's minority status:** If your occupancy standard policy is two persons per bedroom, you may be accused of familial status discrimination based on *disparate impact,* which is when a policy is the same for all applicants, but it has a much different effect on certain applicants and essentially creates an additional barrier to rental housing for families. Although you've set an occupancy standard policy that's applied equally to all tenants, your restrictive policy discourages applicants with children. This scenario is an example of disparate impact.

The federal Fair Housing Act prohibits discrimination on the basis of race, color, religion, ethnicity, sex, age, familial status, and physical or mental disability. Several states and many major cities have laws to protect individuals affected by other issues that aren't specifically protected under federal Fair Housing laws. Examples include occupation, educational status, medical status, sexual orientation, source of income, and physical body size.

Although several states still have laws prohibiting unmarried couples from living together, the majority of states have very broad Fair Housing laws forbidding all arbitrary discrimination on the basis of an individual's personal characteristics or traits. Always be sure to fully understand the Fair Housing requirements and limitations that apply to your rental property.

REMEMBER

When renting your property, keep some of these specific pointers in mind:

- **Be careful not to inadvertently favor one sex as renters.** For example, some rental property owners may have the perception that male tenants aren't as clean or quiet as female tenants. Conversely, some owners with rental properties in rough areas may believe that male tenants are less susceptible to being victims of crime. As a result, these owners may attempt to restrict female tenants to upper-level rental units. Don't allow any stereotypes or assumptions to enter into your tenant selection criteria.
- **Consider adding Fair Housing posters in another language if you have a rental unit in an area where a significant portion of the local population doesn't speak English.** HUD offers free Fair Housing posters in many different languages so that you can easily find one that's most applicable to your locale.

- **Pay attention to age-related issues.** Although the federal Fair Housing Act doesn't specifically state that age is a protected category, many states and localities have laws that directly address the issue of age. Typically, you can deny rental applicants who're less than 18 years of age unless they are currently or were previously legally married, an active-duty member of the military, or emancipated by court order. In these cases, you must treat them just like any other adult rental applicant.

Following are three main exemptions to the *federal* Fair Housing laws:

- An owner-occupied rental property with four or fewer units.
- Single-family housing rented without the use of discriminatory advertising or without using an agent to facilitate or handle the leasing.
- Housing reserved exclusively for seniors that's intended for and solely occupied by persons 62 years of age or older (which includes spouses and adult children but excludes caregivers and on-site employees). Also HUD-certified seniors properties where 80 percent or more of the households are occupied by at least one person who's 55-years-old. In both cases, the exemption is only against claims of age discrimination.

Many states, and even local governments, have passed their own legislation that may apply to your rental property and affect the above exemptions. Don't count on an exemption and be sure to abide by all Fair Housing laws that may be applicable to your property, even if you think you're exempt. Abiding by all Fair Housing laws not only eliminates any potential complaints, but it's also simply the right thing to do.

Steering and chilling

Steering means to guide, or attempt to guide, a rental applicant toward living where you think she should live based on race, color, religion, ethnicity, sex, familial status, physical or mental disability, or another protected class. Steering is an illegal act that deprives persons of their right to choose to rent where they want. HUD has clearly indicated that not showing or renting certain units to minorities is one form of steering. Another form according to HUD is the "assigning of any person to a particular section or floor of a building" based on any of the protected classes listed previously.

Rental property owners often have only good intentions when they suggest that a rental prospect with children see only rental units near the playground. However, the failure to offer such an applicant an opportunity to see *all* available rental units is steering — and a violation of Fair Housing laws.

Steering can be subtle or very direct. Some examples of steering include

- Limiting families or persons with disabilities to ground floor units
- Offering families or minorities only units near the playground or by the laundry room or elevator, because noise makes these units less desirable
- Relegating families to certain buildings or sections of a building, or having separate family and adult buildings

A similar concept is known as *chilling,* which is making comments or establishing rules designed to discourage certain applicants from renting. Some examples of chilling include

- Pointing out property hazards to applicants with children that you don't point out to all applicants
- Showing only undesirable units in the hope that the applicant doesn't rent
- Questioning disabled or elderly applicants about their disabilities or whether they can care for themselves or should live alone
- Telling certain applicants something negative about the property that isn't true

Be very careful not to make any suggestions or comments that can be misinterpreted as steering or chilling. All rental applicants should receive the same information on the area, the property, and the full range of rental units available so that they can decide for themselves which units they want to see.

Children

Federal and state legislation has virtually eliminated "adult only" housing except for certain HUD-certified seniors properties. I always recommend that rental property owners openly accept renters with children. Families tend to be more stable, and they're looking for a safe, crime-free, and drug-free environment in which to raise their children. Along with responsible pet owners, who also have difficulty finding suitable rental properties, families with children can be excellent, long-term renters. And typically the longer your tenants stay, the better your cash flow.

Some rental property owners are concerned about renting to families with children because the property has hazards that may be dangerous for children. For example, the property may not have any safe areas for children to play. Although you may truly only have the children's best interests in mind, the parents have the right to decide whether the property is safe for their children. Of course, you do need to take steps to make your property as safe as possible by posting speed limit signs in your driveway or including restrictions on recreational use of driveways and parking areas.

Be careful not to discourage applicants with policies and guidelines for the conduct of children unless these rules are *safety-related.* For example, don't institute a policy against children riding bicycles on the property. Instead, you can have a policy that says *no one* is allowed to ride bicycles on the property. (This way, the policy doesn't discriminate against children; it's uniformly applied to all.) Avoid using any terms that are obviously directed at children, such as "minors," "toys," "tricycles," "diapers," "playing," and the like. Make sure all your policies are age-neutral except for certain health and safety issues. For example, some states have specific laws requiring rental owners to have policies that, in order to use swimming pools or spas, children under 14 must be accompanied by an adult.

Charging rental applicants with children higher rents or higher security deposits than applicants without children is illegal, as is offering different rental terms, such as shorter leases, fewer unit amenities, or different payment options. The property's facilities must also be fully available for all tenants, regardless of age, unless a clear safety issue is involved.

Reasonable accommodations

The federal Fair Housing Act requires property owners to make reasonable accommodations for tenants with physical or mental disabilities so that they're able to enjoy the rental property on an equal basis with tenants who don't have disabilities. The cost of these accommodations may involve a reasonable expenditure by the landlord, or the tenant may offer to make the accommodations at his expense. Requests for reasonable accommodations are valid if made verbally, but you should ask the tenant to make the request in writing. If that's not feasible, you can put the request in writing and have the tenant verify the information and sign or initial it.

The Fair Housing regulations state:

> "It shall be unlawful for any person to refuse to make reasonable accommodations in rules, policies, practices, or services, when such accommodations may be necessary to afford a handicapped person equal opportunity to use and enjoy a dwelling unit, including public and common areas."

Rental property owners are required to make reasonable adjustments to their rules, procedures, or services upon request. Landlords must refrain from assuming someone has a disability or inquiring if someone does. Each request for a reasonable accommodation must be considered seriously.

Examples of reasonable accommodations that you may be required to offer include

- Providing a parking space that's wider and closer to the rental unit of a wheelchair-bound tenant
- Arranging to read all management communications to a tenant with poor vision
- Allowing a tenant who receives income from a government agency to pay on a biweekly rather than monthly basis

Reasonable modifications

Federal law also provides that rental property owners are required to allow a tenant with disabilities the right to modify her living space at her own expense (except in project-based, HUD-subsidized housing, in which the landlord may be obligated to pay for reasonable modifications — see Chapter 21 for more on HUD-subsidized housing). The modifications can only be to the extent necessary to allow the resident an equal opportunity to use and enjoy the premises. If the modifications will make the unit unacceptable to the next tenant, the landlord may require that the current tenant agree to return the rental unit to its original condition upon vacating the property. The rental property owner can also require the tenant to pay the funds necessary to perform the needed restoration into an interest-bearing escrow account.

Reasonable modifications that tenants may request to make at their expense include

- Ramps at the rental unit entry
- Lower light switches and the removal of doors or widening of doorways to allow for wheelchair access
- Grab bars or call buttons in bathrooms
- Lower kitchen cabinets and the removal of base cabinet doors
- Service animals allowed in the pool area even though you don't permit other animals there
- Roll-in showers

REMEMBER

The modifications must be reasonable. You can require the tenant to obtain your prior approval and ensure that the modification will be made in a workmanlike manner, including any necessary government approvals or permits. You can also require the tenant to provide verification that she fits the definition of a disabled person and that a disability-related need exists for the modification if the disability and the need aren't apparent. But you can't ask about the specific disability of the tenant that necessitates these changes.

Companion or service animals

If you have a "no pets" policy, keep in mind that Fair Housing law requires rental property owners to make "necessary and reasonable accommodation." One specific common accommodation is not having any limitations or not discouraging occupancy by tenants who need a *support animal.* Companion or service animals that assist tenants with daily life activities aren't pets; they're exempt animals and must be allowed in all rental properties, regardless of any "no pet" policies. Fair Housing laws also prohibit you from requiring an animal or pet deposit, or increasing the tenant's security deposit because he has a support animal. Further, you can't make any rules limiting the types or breeds of animals (for example, allowing German shepherds only) or an unreasonable size restriction. You can, however, establish reasonable rules of conduct for the animals and should note that the tenant is still responsible for any damages done by the animal.

Some tenants seek the accommodation of a companion animal based on their need for comfort or companionship, and federal law requires owners and managers to grant the request if the tenant's claim is true and reasonable. The best method of determining reasonability is to obtain verification from the tenant's healthcare provider or other professional such as a medical doctor, therapist, or social worker. To avoid claims of discrimination or favoritism, set a consistent policy of requesting official verification before allowing any companion animals. Of course, like all potential housing discrimination issues, failing to consider a tenant request can lead to serious legal consequences.

TIP

Determining what's reasonable in the eyes of Fair Housing officials is always murky, so look at each request individually to make a proper decision. For example, a tenant in a one-bedroom apartment who requests to keep two large dogs as companion animals is being unreasonable, but the same request from a tenant in a large, single-family home with a yard is most likely a reasonable request. If you're uncertain as to whether a particular request is reasonable, seek direction from local Fair Housing agencies or legal counsel whenever possible. Ask these representatives to provide you with their written opinion or send you a letter outlining their verbal directive; be sure to keep copies of this documentation in your rental files.

Americans with Disabilities Act

Discrimination against people with disabilities in residential housing is covered in the federal Fair Housing Act. However, in July 1990, Congress passed the Americans with Disabilities Act (ADA) which has far-reaching impact on most commercial and retail real estate. The ADA has limited requirements for many rental property owners, because it applies only to the public areas and not the private or common areas of residential properties.

Under the ADA, all areas of a property to which the public is invited must be accessible by individuals with disabilities. For example, a rental property with an on-site office (and other public amenities, like a clubhouse, rental unit models, or a pool and spa area) must be accessible to persons with disabilities. The removal of existing physical barriers at the rental property owner's expense is required whenever it's "readily achievable and technically feasible." The ADA also establishes parking requirements if the residential property provides public parking, such as prospective resident spaces.

TIP

Often you'll be able to simply restripe your parking areas to provide the required parking but be careful, because many local municipalities have very specific parking requirements for multi-unit rental properties. You want to make sure before you make any changes that your new parking layout meets the minimum parking requirements for your property zoning. Check with your local building and code enforcement office for details.

The ADA applies to all residential properties, even those built prior to the passage of the law. Owners of residential properties occupied prior to March 13, 1991, are required to remove barriers to accessibility, but they aren't required to make changes that may cause undue hardship. Owners of properties occupied after March 13, 1991, must comply with ADA and should be in compliance with the federal Fair Housing Act, too. Professional complainants seek out ADA violations in both residential and commercial rental properties, so know what you're responsible for accommodating.

TIP

If you have a rental property with public areas, you may want to consider using the services of a qualified contractor, architect, or engineer with specific ADA knowledge to conduct a physical assessment and evaluation of your property and make compliance recommendations. You should also consult your rental housing legal advisor if you have any questions about ADA compliance. For more information on ADA requirements for residential rental property owners, visit the federal Department of Justice ADA Web site at `www.usdoj.gov/crt/ada/adahom1.htm`.

REMEMBER

If your prospective tenant has a physical or mental disability that substantially limits one or more major life activities, or has a record of having such a disability, you must allow him to make reasonable modifications to your rental property, including common areas, if necessary for him to use the rental housing. Conditions qualifying as *physical* or *mental disabilities* are evolving, but this term can include mobility, hearing, and visual impairments; chronic mental illness; chronic alcoholism; AIDS or AIDS-related illness; or mental retardation. Many state and local laws are expanding the definition of their protected categories, so be sure to check with legal counsel if you ever have any questions regarding the rights of your tenants under federal or state Fair Housing laws.

Sexual harassment

Sexual harassment, in the world of property management, occurs when you refuse to rent to a person who rejects your sexual advances, or when you make life difficult for or harass a tenant who resists your unwanted advances. Most rental property owners understand the concern and find such behavior unconscionable. Yet this problem often arises when rental property owners hire someone to assist them with the leasing, rent collection, or maintenance requirements at their properties. If the vendor or contractor commits sexual harassment, the rental property owner is accountable because the offender is the employee or agent of the owner.

Make sure you have a clear written policy against sexual harassment, provide an open-minded procedure for investigating complaints, and conduct thorough and unbiased investigations that lead to quick corrective action, if necessary.

Part III

The Brass Tacks of Managing Rentals

The 5th Wave By Rich Tennant

"Well, you've just gone over the line in breaking the no pets, no smokers clause in the rental agreement, Mr. Crawford."

In this part . . .

Managing rental property involves a lot more than just managing the property itself. Working with tenants — from orienting a tenant to your rules prior to move-in to having the paperwork in order when a tenant moves out — is what you'll spend a huge chunk of your time doing. So the chapters in this part take you through that relationship step by step. I show you how to help tenants at move-in and move-out times, how to increase the rent without losing your tenants, and how to retain the good tenants and deal with the bad ones. Chances are you can find the answer to any question you may have about your tenants in this part.

Chapter 11

Moving In the Tenants

In This Chapter

- Agreeing on a move-in date
- Walking your tenants through the policies and procedures of your property
- Noting the condition of the unit before the move-in date
- Keeping all the paperwork organized
- Making your new tenants feel welcome in their new home

After selecting your new tenants, you still have to complete one very important step to ensure you establish a good landlord-tenant relationship: moving in the tenants. In order to guarantee the tenants' move-in process goes smoothly, you need to hold a tenant orientation and rental property inspection meeting, which allows you the opportunity to present the rental property and your ownership and management skills in the best possible light. You also need to make sure your new tenants understand and agree to the policies and rules you've established for the rental property.

If you're organized and prepared, you'll be able to quickly and efficiently handle the necessary administrative steps to get the tenants into their new rental unit. Tenants are very excited and motivated to begin moving in to their new home, and you want this process to be smooth and pleasant for everyone.

In this chapter, I outline the important steps to start your landlord-tenant relationship off on the right foot, including scheduling the move-in date and the tenant orientation meeting, conducting the preoccupancy inspection and documenting the unit's conditions, providing important policies to tenants in a written format, and using creative ideas to welcome your tenants on move-in day.

Establishing the Move-In Date

When you inform your prospective tenant that his rental application has been approved, you need to determine a mutually agreeable move-in date. You and the tenant may have discussed this date during your initial telephone conversation or when you showed the rental property, but be sure to raise the issue again to guarantee you're in agreement of the date.

After new tenants have been approved, some suddenly stall on setting the move-in date. They may stall because they're still obligated under a lease or 30-day notice at another rental property and don't want to double pay. Unless you're willing to suffer additional rent loss that you can never recover, insist that the tenant begin paying rent to you on the originally scheduled move-in date. The time for your new tenant to negotiate the move-in date was *before* you approved him.

In some situations, your rental unit may not be available at your mutually agreed move-in date. Perhaps the prior tenants didn't vacate when they said they would, perhaps the rental unit was in much worse condition than you anticipated, or perhaps you just weren't able to complete the required prep work in time. If a delay in having the rental unit available as promised appears inevitable, communicate with your new tenant immediately. Often, a new tenant can adjust his move-in date as long as you give him reasonable notice. If he can't adjust his move-in date, communicate with him and try to work out other possible arrangements.

Sometimes new tenants ask whether they can move just a few items into the rental unit before your preoccupancy conference. Don't allow it! You create a landlord-tenant relationship simply by letting the new tenants have access to the rental unit without you present or by allowing them to store even a few items in the unit. If you have to cancel the rental for any reason, you then need to go through a formal legal eviction that can take several weeks.

Although the rental property should be in rent-ready condition before being shown to rental prospects, it can quickly get dirty or dusty if there's any delay between showing the property and moving in the new tenants. So before meeting with your tenant prior to move-in (covered in the following section), make one last visit to the rental unit and go through your rent-ready inspection checklist (flip to "Having the tenant sign an inspection checklist" later in this chapter for the scoop on this item) again just to make sure you don't encounter surprises when move-in day arrives.

Moving is very stressful for most people, and if your new tenant has a bad move-in experience, this feeling can last for months, or even stay in his mind throughout the tenancy. Many aspects of the tenant's move are beyond your control. Although you can't guarantee your new tenant a simple and painless move, you can take steps to ensure you're organized and ready to handle any complaints or concerns about his new home. If at all possible, arrange to be on the premises during his move-in so you can answer any questions.

Meeting with a Tenant Prior to Move-In

After you and your tenant have decided on a move-in date, you need to meet to deal with some of the technicalities, like walking through the property, signing paperwork, and handing over the keys. Getting together to do this is a very important step, and you need to do it before your new tenant actually moves in and takes possession of the rental unit.

Schedule a meeting with the tenant either for the day of the scheduled move-in or within just a few days before the move-in date. At this meeting, you review your property policies and rules, review and sign all the paperwork, collect the move-in funds, conduct a thorough property inspection with your new tenant, and complete the Move-In/Move-Out Inspection Checklist (which I explain later in this chapter).

The following sections walk you through each step of the move-in process.

Covering the rules with your new tenant

When you meet with your new tenant, start by giving her a copy of your house rules (see Figure 11-1 for an example of this kind of document). Give her a chance to read over the rules and ask questions, providing clarification as necessary. Then ask for her signature, which indicates she has received and understands the rules and agrees to abide by them.

The phrase *rules and regulations* tends to sound rather imposing to most tenants. So I recommend using the phrase *policies and rules,* or simply *house rules,* whenever possible. Some rental housing owners and managers use the phrase *policies and guidelines,* but I feel that you need to make it very clear that these are legally enforceable rules, not optional guidelines. Your policies and rules are separate from the rental contract, which is drafted by an attorney using lots of formal and hard-to-understand terminology. The rules you draft should be more informal and conversational in tone than your rental contract. Be sure to use clear language that's neither harsh nor demeaning.

Many owners and managers of single-family or small rental properties don't worry about detailed rules and regulations, because they think the rental contract covers it all. But setting up some basic rules that can easily be changed as necessary upon proper written notice to the tenants is a good idea. This tactic shows that you and your tenants are on the same page and gives you flexibility in managing your property.

Policies and Rules

We are proud of this property and we hope that your living experience here will be pleasant and comfortable. The support and cooperation of you, as our tenant, is necessary for us to maintain our high standards.

This is your personal copy of our Policies and Rules. Please read it carefully as it is an integral part of your rental agreement. When you sign your rental agreement, you agree to abide by the policies and rules for this rental property, and they are considered legally binding provisions of your rental agreement. If you have any questions, please contact us and we will be glad to help.

This document is an addendum and is part of the Lease or Rental Agreement, dated ____________, by and between ______________________________, Owner, and ______________________________Tenant, for the premises located at: ____.

New policies and rules or amendments to this document may be adopted by Owner upon giving 30 days written notice to tenant.

Guests: Tenant is responsible for their own proper conduct and that of all guests, including the responsibility for understanding and observing all policies and rules.

Noise: Although the Premises are well constructed, they are not completely soundproof and reasonable consideration for neighbors is important. Either inside or outside of the Premises, no tenant or their guest shall use, or allow to be used, any sound-emitting device at a sound level that may annoy, disturb, or otherwise interfere with the rights, comforts, or conveniences of other tenants or neighbors. Particular care must be taken between the hours of 9:00 p.m. and 9:00 a.m.

Parking: No vehicle belonging to a Tenant shall be parked in such a manner as to impede passage in the street or to prevent access to the property. Tenant shall only use assigned and designated parking spaces. Tenant shall ensure that all posted handicap, fire zones, or other no-parking areas remain clear of vehicles at all times. Vehicles parked in unauthorized areas or in another tenants designated parking space may be towed away at the vehicle owners expense. Vehicles may not be backed in, and repairs and maintenance of any sort are not allowed on the premises. All vehicles must be currently registered and in operative condition. No trucks, commercial vehicles, recreational vehicles, motorcycles, bicycles, boats, or trailers are allowed anywhere on the Premises without advance written approval of the Owner. All vehicles must be parked properly between the lines of the parking space. Tenant shall ensure that their guests abide by all of these parking policies and rules.

Patios/Balconies and Entry Areas: Patios/balconies and entry areas are restricted to patio-type furniture and are to be kept clean and orderly. No barbecues or similar cooking devices may be used on the Premises without advance written approval. No items may be hung from the Premises at anytime, and all entryways and walkways must be kept free from items that could be a hazard. Owner reserves the right to require that items that detract from the appearance of the Premises be removed immediately upon request. No unauthorized storage is allowed at any time.

Wall Hangings: Pictures may be hung on a thin nail. Mirrors, wall units, hanging wall or light fixtures, etc. need special attention and professional installation. Please contact the Owner for approval in advance as damage to the Premises will be the responsibility of the Tenant.

Trash: Tenant is responsible for keeping the inside and outside of the Premises clean, sanitary, and free from objectionable odors at all times. Tenant shall ensure that all trash, papers, cigarette butts, and similar items are sealed in trash bags and placed in appropriate receptacles. No trash or other materials shall be allowed to accumulate so as to cause a hazard or be in violation of any health, fire, or safety ordinance or regulation.

Figure 11-1: House Rules.