



Investor's Guide to Rental Property

Brought to You By...

Real-estate-investing-club.com

Chapter 1

Why Should You Invest in Rental Property

Rental Property Investment Offers Numerous Advantages

More and more people are becoming interested in investing in rental property due to the large number of advantages offered by owning rental property. One of the largest of those advantages is the fact that when you invest in rental property, you are able to take ownership of an asset that is tangible. Compared to other types of investments, this is a tremendous advantage. It can be difficult for many people to get excited about stocks and bonds; however, gazing at a piece of rental property that you personally selected and are maintaining can provide you with the same pride in ownership that you received when you bought your first home. Rental property is also an income-producing asset which can be a much appreciated inheritance for future generations.

If you have had concerns about investing your hard earned money in financial instruments in the past but are aware that you need to invest your money in order to grow your wealth, real estate offers the perfect solution. While the stock market is notoriously fickle in terms of fluctuation, real estate has historically held a strong foothold in regards to appreciation. Even with the current softening of the housing market, investing in real estate represents an excellent investment opportunity. To a large degree this is due to the fact that many consumers are finding it difficult to qualify for a home mortgage loan but still need a place to live that is comfortable and safe.

Income is another tremendous advantage of investing in rental property. While you will need to deduct the mortgage

payment if you finance the property and any relevant expenses, a rental property is often able to produce ongoing income for you.

The value of appreciation should not be overlooked either. Generally, such properties improve in value over time. While appreciation can never be guaranteed, if you take the time to choose a property in an area that is stable then there is a very good chance that the property will continue to increase in value as time goes by.

Rental property owners are also able to take advantage of leverage. This is because you have the ability to purchase a rental property with funds that are borrowed. As a result, you are able to begin taking advantage of the benefits offered by owning rental property while only investing a percentage of the total value of the property. In addition, since the property itself will secure the debt you do not have to worry about using other assets to secure it.

Tax advantages are another important benefit of owning rental property. If you obtain a mortgage on your property, you will frequently be able to deduct your mortgage interest payments. There are also a number of other tax deductions which can potentially be taken when you own rental property including the cost of repairs and improvements.

The fact that you can be your own boss when you invest in rental property is a benefit which should not be underestimated. Whether you are considering quitting your current job to become a full-time rental property investor or

you are looking to supplement your current income, you can benefit from the fact that there is a tremendous amount of independence to enjoy by owning and operating rental property.

Tax Benefits Available through Investing in Rental Property

Much of the country recently has experienced a weakening in the local real estate market. If that is the case in your local area, now may be an excellent time to make the decision to invest in rental property. Investment real estate provides exceptional tax benefits which can a good deal, a great deal. If you already own a home you may be quite familiar with many of the tax benefits offered by owning rental property. For example, by using a mortgage to purchase rental property you very well may be able to write off your interest payments on your taxes.

In addition, you can take into tax benefits which you may not already be aware of. Many rental property owners find that they can deduct a great many of the expenses incurred in the maintenance of the property. This includes such as items are repairs, utilities and insurance as well as much more. In the event you make the decision to hire a rental agent or a property manager, you will also have the benefit of writing off any fees paid for those services as well.

Depreciation deductions can also frequently be written off. In fact, depreciation is frequently one of the best tools available to owners of rental property due to the fact that it provides you with the opportunity to essentially write off the largest expense associated with owning and operating rental property-the price for the property itself excluding the land. It should be noted that depreciation does take place over a period of time. For residential rental property the time schedule is

27 years while commercial property is depreciated over a period of 39 years. This means that if you paid \$150,000 for a rental property (less the value of the land), the annual depreciation would be approximately \$5,000.

You can also frequently include property improvements in your cost basis and depreciate them over time as well. Repairs can typically be deducted during the year in which they occurred. Not sure whether something classifies as an improvement or repair? Keep in mind that improvements will add to the property's value and prolong the life of the property while a repair is intended to keep the property in good condition. It is also important to remember; however, that landlords are not able to assign a value to their own labor and then deduct the cost of it.

Many landlords are also able to deduct the cost of travel, whether it is driving or flying. In the event the travel is not local, you also have the advantage of being able to deduct such costs as hotel bills, airfare and part of the costs of meals.

If you choose to operate a home office in order to manage your rental property, you may also be able to deduct specific expenses such as part of your homeowner's insurance, utilities and home mortgage interest. In order to qualify for this tax benefit, the space assigned as your home office must serve as the primary place of business where you handle matters regarding the operation of your rental property. In essence, the home office area must be used exclusively for business and not for any other purpose. You

do not necessarily have to assign an entire room as your home office; however, as long as you can assign a part of the room that is definable as your home office.

Guide to Tax Deductible Expenses

If you own rental property, it is important to make sure that you understand possible deductions in order to improve your profit margin as much as possible. As the owner of rental property, it is always a good idea to consult a tax attorney or tax consultant in order to ensure that you have a good understanding of the items which may be potentially tax deductible. Below is a guide to some of the most common items which are frequently tax deductible for owners of rental property.

One of the most important things which must be understood when you are determining what you may be able to deduct is the difference between improvements and repairs. Many owners of rental property commonly make the mistake of believing that anything they do to their rental property is tax deductible. This is not always the case; however. A repair is essentially anything that you do to the property in order to keep it in good condition. As such, it is often tax deductible for the year in which the repair is paid for. Common examples of repairs would include repairing a broken toilet, painting, replacing faulty light fixtures, etc.

An improvement; however, is something that you do to the property in order to add value to it. As such, it is not usually tax deductible at the time when you pay for them. That said; however, you may be able to recoup the cost of improvements by depreciating the cost over the life

expectancy of your property. Common examples of improvements would include adding a garage to the property, a new roof, etc.

Mortgage expenses are often one of the biggest and most common tax deductions you can take when you own rental property. Of course, this is only an option if you have a mortgage on the property. It should be noted that any expenses which you incur in order to obtain the mortgage are not actually deductible at the time you pay for them. Common examples would include appraisals and commissions. Once you begin actually making the mortgage payments; however, you will typically be able to deduct the portion of the payment that is paid toward interest. It is always a good idea to keep very good records; however, you should receive a Form 1098 from your mortgage company that will detail how much you have actually paid in interest for that year.

In some cases, you may incur travel expenses in relation to caring for your rental property. Keep in mind that travel expenses are typically only deductible if they are incurred in order to either maintain your rental property or to collect rent. In the event you had to travel to make improvements to the property, these expenses are not deductible immediately. Instead; however, you may be able to recover the cost as part of depreciating the improvements.

It is important to keep in mind that you usually have two options when it comes to how you can deduct travel expenses. You may choose to deduct the actual expenses or you may choose to take the standard mileage rate.

There are also many other expenses which you may be able to deduct on your taxes. These expenses may include insurance, lawn care, taxes, tax return preparation fees and any losses which result from casualties such as earthquakes, floods, thefts, hurricanes, etc.

If the rental property which you own is a condo or a cooperative, there may be some special rules which will apply. For example, with a condo you may pay assessments or dues which are intended to provide for the care of property which is commonly owned. These areas would include recreational areas, elevators, lobbies and the actual building structure itself. When renting out a condo, you can typically deduct expenses such as repairs, taxes, interest and depreciation; however, you cannot usually deduct any expenses which were spent on improvements. These costs must be depreciated over the life expectancy of the property, just as it would be when you own a single family rental property.

With a cooperative, you may be able to deduct expenses such as maintenance fees. Capital improvements are a different matter; however. You would not typically be able to deduct the cost of improvements and you also would not be

able to depreciate the cost. Instead, you would need to add the cost of those improvements to a cost basis in the stock of the corporation. If this situation applies to you, be sure to speak with a tax attorney or tax consultant.

Always make sure that you are prepared to back-up any expenses which you deduct on your taxes. These expenses must be carefully documented and you will need to make sure you provide documentation, including receipts.

Guide to Vacation Rental Properties

While many investors who purchase rental property focus on residences intended for year-around living, there is no denying the fact that vacation rental properties can provide an excellent income revenue. Renting out vacation rental properties; however, can be much different than renting out a regular residence. There are numerous items that prospective vacation renters are looking for; so it is worth it to take the time to ensure that your property measures up.

First, always make sure that the property you consider is in a good location. Most people who consider renting property for their vacation have certain ideas regarding the geographic location that they want. The setting for the property should be relaxing and picturesque. The property should also be quite safe so that renters will know they can enjoy their vacation in peace and security.

Seriously consider a property that is family friendly. There is an extremely large market for family friendly properties which you can tap into. For a property to be family friendly, the furnishings should be able to easily accommodate children. This means that property should be sturdy and should not include a lot of easily breakable items. Ideally, the property should be in a location that will cater to families. Look for properties near pools with lifeguards as well as playgrounds.

Affordable rental prices can also be a great way to ensure that your vacation rental property is booked. A vacation rental property with a reasonable price is always attractive to vacationers because it offers them amenities with which no hotel is able to compete; including privacy, good views, a full kitchen and more space in which to relax.

In addition, take the time to make sure that the property really does feel like home. Kitchens should be well-equipped, furnishings should be comfortable and recreational equipment should be provided.

One of the main reasons that many people choose to rent a vacation home rather than stay in a hotel when they vacation is the fact that they want to enjoy plenty of space. This is especially true for families with children and extended families who vacation together. Assuring that your vacation rental property has a spacious feel to it can help to ensure that your property is attractive to those renters.

Keep in mind that it is becoming more and more popular for vacationers to combine their vacation with some other event such as a wedding or family reunion. If you want to cater to these groups, it is important to make sure that your property can easily host groups. One key feature for these types of rental properties is offering a reception room that can easily serve for different functions.

You might also wish to consider making the vacation property friendly for pets. Many owners are reluctant to do this because of the potential for property destruction. Keep in mind; however, that there is definitely a niche market for vacation rental properties that are pet-friendly. Most hotels do not provide this option, so it gives your property an advantage. If this is appealing to you, make sure the property is safely fenced. Consider installing wood floors instead of carpeting.

To make sure that your vacation property has a wide appeal, set up Internet access. Even while on vacation, most people want to make sure they have Internet access. You can do this using a DSL connection, WIFI or wireless.

Chapter 2

What You Should Know Before Buying Rental Property

Shopping for Rental Properties-Which Types to Avoid

When you are shopping around for rental investment property it should be kept in mind that just because you find a property with a good price; that does not necessarily mean that it will make a good rental property. There are simply some properties which are more suitable to renting than others. This can be one of the most common mistakes many people make when they purchase their first rental property. By understanding which properties should be avoided, or at least how to handle problem properties, you can be more confident of your success.

Outdated homes are a prime example of properties which do not make the best rentals. One of the main reasons that outdated homes do not often make good rental properties is the fact that they are simply more prone to have things go wrong with them. In some cases, this can turn out to be quite expensive. You will have two choices when dealing with an outdated rental property; you can either spend the money to update it and risk your profit or you cannot update. The latter is also quite risky as most renters, if they have a choice, will rent a property that is updated. Renters typically expect the properties they are renting to be safe, secure and have working systems and appliances. Some of the main problems you may run into with outdated problems include plumbing issues, roof leaks, cracks and settling, electrical problems and the ability to obtain parts for appliances.

Outdated homes are not only frustrating because they tend to have systems and appliances that break down but they can obviously be expensive in many regards. Not only will you have to pay for the repairs but more often than not the repairs will need to be made when you least expect it and

during the least convenient times; which usually translates to an even higher cost.

Homes with pools also do not frequently make ideal rental properties. At first, you may see a home with a pool as an advantage which would be appealing to prospective tenants; however, this is not always the case. Many prospective tenants, especially if they have young children, do not want to live in a home with a pool because of the risk factor. You should also take into consideration the issue of liability as well as the cost of maintaining the pool.

In addition, homes that are considered to be high-maintenance may not make the best rental properties. Consider how much time you are willing to spend each week working on your own home, if you are a homeowner. You might find the tasks of weeding, mowing the lawn and watering the flowers at least fulfilling if not rewarding. The thing about tenants; however, is that they are often not willing to perform these tasks for a home they do not own. If you have a property that requires all of these tasks consider hiring someone to handle the yard work and then including the price in the rent. You will be able to guarantee that the work is done and your property does not look unkempt without having to actually worry about it yourself.

Location is always important when it comes to real estate and that is no different when choosing a rental property than when purchasing a home in which you will live. Properties which are close to amenities such as shopping, schools, worship centers and are generally considered to be in a good neighborhood will typically make better rentals than homes that are located on busy streets or which are not near such amenities. Therefore, it is always important to make sure you take location in mind when choosing a rental

property because most prospective tenants will be looking for properties that are in good locations. If there is competition on the market, a tenant will often choose a rental that is in better location even if it means paying a bit more in rent.

Guide to Finding the Right Investment Rental Property

Finding the right rental property is certainly one of the keys to succeeding with investment rental property. Below is a guide to help you get started in finding the right property that will help you to generate additional income.

First, consider whether you want to look for rental property on your own or whether you wish to use a broker to assist you in the process. There are certainly many advantages to working with a reputable broker when you are looking for investment property. In many cases, brokers may know of properties which have just come on the market and which may not have been noticed by others yet. A broker is also usually well versed about the local neighborhood, which can be important if you are not from that area.

Before you actually begin looking at prospective properties, make sure that you have gone through your finances and have them in order. Ideally, you should check your credit report several months before you plan to make a purchase in order to be certain that there are not any inaccuracies which could prevent you from obtaining a mortgage for the purchase of your investment property. Be sure to check with all three credit reporting bureaus, not just one, to get a clear picture of your credit standing. Assuring that your credit is in order can also help you to obtain a more favorable interest rate.

It is also important to do your research about the local market so that you do not overpay for the property you ultimately purchase. When you do purchase a piece of investment property, you need to make sure that the deal you strike allows sufficient room for a profit margin just in case there are times when you do not have a full occupancy.

Carefully consider both the advantages and disadvantages of purchasing a property that could be labeled as a fixer-upper. While you very well may be able to purchase the property for less money than other properties, you may very well find that you have purchased a money pit. In the event that a lot of major repairs and renovations are required, this can equate to a large investment of both time and money. In this case, it would be better to pay more for a property that requires less attention.

Before you purchase any property, take the time to have it inspected. Even if you have inspected the property on your own, you should still have a professional go over the property to be certain that the electrical wiring meets code, there is no lead in the paint and that overall, the property is safe. An inspection can sometimes turn up problems which you might not notice but which could ultimately cost thousands of dollars to correct. You will typically be required to pay for the inspection; however, it is a wise investment that could save you quite a bit of time and money.

Take the time as well to research the local real estate market and the neighborhood. Check with the local police department to find out whether the area is safe and if you will need to provide any additional security. Drop by city hall to determine whether there are any plans for the local area that could potentially lower the value of the property. Research the real estate market in the area to find out the condition of prices. If prices have gone down recently, this could be an indication that rents will also be low. On the other hand, if home prices in the area are high, this could indicate the area is in demand that you may be able to charge higher rents.

Finally, do not make the mistake of 'settling' for a property simply because you are in a rush to invest in rental property. This could result in an investment that will require you to spend more time and/or money than you originally planned and detract from your profit margin.

Tips for Locating the Right Rental Property

The decision to invest in rental property is an important one. The first step in getting started is to choose the right property which will generate a sufficient amount of income for you while also requiring as little maintenance and upkeep as possible.

Ideally, it is best to develop a list which you can take with you when you begin the process of shopping around for the right rental property. This list will help to keep you on track and focused on what you should look for as well as what you should steer away from.

When looking for the right rental property, you will want to take several factors into consideration.

First, you should always consider the condition of the property. Generally, it is best to keep in mind that if you come across a property with a price that seems too good to be true, there is usually a reason why the property is priced so low. Many real estate investors like to point out the fact that you are able to determine your profit when you purchase a property.

While you may not consider selling the property for some time and will instead be renting it out, it is still important to take into consideration the cost of any necessary renovations and repairs before you make a final decision regarding whether you will purchase the property or not. After considering these factors, you may find that it will actually be less expensive to purchase a property that is in better condition, although at a higher price, than to purchase a property with a lower price that requires extensive renovations and repairs to get it ready to rent out.

Location is, of course, one of the essential elements of purchasing the right rental property as well. Keep in mind that properties which are located directly on a busy street may not be appealing to tenants who like a quiet and peaceful neighborhood. On the other hand, a property which is located near schools or parks will likely be more appealing to families.

It is also important to find out the history on the property and specifically whether the property has ever been used as a rental property. This is important due to the fact that in some cases a property can get a bad reputation. It does not take long for word to get around and once that occurs it can be difficult to get past it.

If the property is currently being used as a rental property, you also need to consider whether tenants are already on the property. If that is the case then you may need to honor the current lease with those tenants. This means that you may not be able to raise the rent until the lease has expired. There may even be state laws in some cases which could regulate how much you are able to raise the rent. Obviously, this is something that should be carefully considered. While there is the obvious advantage of already having tenants on the property, you may find later that this is actually somewhat of a bit of a disadvantage so be sure to carefully consider this factor.

Maintenance and repair needs of the property should also be taken into consideration. In the event that you are not able to maintain the property or repair it, this will translate to hiring a property manager and/or repair person. This means extra expenses which will reduce your profits. Of course, it also

gives you some free time so you will have to weigh the advantages and disadvantages.

Finally, consider the price of the property. You always need to make sure that you will be able to cover not only the mortgage payment, if you have one, but also other expenses such as taxes and insurance. In the event the property is not occupied for a period of time, you will still need to meet all of those expenses so be certain that you can cover them before you obligate yourself.

What to Consider before Buying Investment Rental Property

Rental property can be an excellent way to bring in additional money as well as invest in an asset that is actually tangible; however, investing in rental property does involve more than just purchasing a property and watching the money roll in. Many people believe that the biggest hurdle they may face is obtaining the loan; however, this may be easier than they actually think. It is other issues which you may face along the way which should be considered before you actually take the step of purchasing rental property.

First, always make sure you take the time to know exactly what you can afford. Many people make the mistake of overlooking this step, assuming that the rent will cover the mortgage payments. If you are not sure of exactly what kind of rent you can get before you purchase a property, you could find yourself in financial trouble later on. You should always research rental properties in your local area to understand the going rates for similar properties. Check the newspaper for information on going rental rates. It is also a good idea to check with your local landlord's association for rental rate information.

In addition, you need to take into consideration expenses which may come up along the way. Ideally, you should have a reserve fund established to tide you over in the event you experience emergency expenses or your property is vacant for a period of time. Before you commit to purchasing a property, make sure that you will be able to rent the property for at least an amount that will cover the mortgage as well as still have a sufficient amount left over to cover insurance premiums, maintenance costs, property taxes and income taxes.

In addition, you need to give some thought and consideration to the type of property that will best suit you. You can find rental properties in many different sizes as well as types. Each of these different types can pull in different rental rates as well as attract different types of renters. So, giving thought to the property that best suits you is really an important step which should not be overlooked.

For example, if you purchase a property that is near a college or university you are likely going to find that most, if not all, of your tenants are college students. While you may never have a vacancy, you may also find that you have a continual turnover, problems collecting rent and even possible damage to the property itself.

In addition, you should make sure you understand your responsibilities as a landlord. Keep in mind that your obligations are typically regulated by the state in which the property is located. Some states have very little regulation while other states are highly regulated. If you fail to follow state regulations you could find yourself in for quite a bit of financial as well as legal trouble. It is always best to educate yourself ahead of time.

Finally, make sure you consider how much insurance you will need to not only protect the property in the event of damage or destruction but also to cover all liabilities as well. One liability claim can be enough to cause serious repercussions so this is not an issue where you want to take a short-cut. Remember that it is your responsibility as the landlord to provide liability insurance, not your tenant. If someone should slip and fall on your rental property then it will be you who is responsible, not the renter.

Rental investment property truly can be an excellent investment and income builder provided that you are prepared and understand what you should expect from the outset. Do not be afraid to seek help where you need it, especially from associations and from professionals such as attorneys. This is the hallmark that can often set a successful rental property investor apart from one who fails.

Costs to Consider when Purchasing Rental Investment Property

The process of searching for investment rental property can be exciting; however, before you get too excited it is important to run some preliminary numbers to make sure you know exactly what you are facing to ensure a successful investment.

First, you need to carefully examine potential rental income. If the property has already served as a rental property, you need to take the time to find out how much the property has rented for in the past and then do some research to determine whether that amount is on target or not. In some cases, properties may have rented for lower than they should have while in other cases a property may be over-rented. Look at comparables in the area to make sure you know whether the property in question is on target; otherwise you may find that the amount you think you will be receiving in rental income is unrealistic.

Mortgage interest is another area that should be considered carefully. Make sure you know and understand prevailing interest rates as well as the details of your specific loan because mortgage interest is the biggest cost you will face when purchasing investment property. First, understand that homes and duplexes tend to have loan structures that are similar to any mortgage loan. With a larger property; however, such as a triplex; rates tend to be higher. If you are looking at commercial property with even more units; the matter of terms and rates is completely different. Typically, the more money you are able to put down on the purchase of the property, the less interest you will have to pay.

Taxes are another issue. Many people use the taxes from the year in which the property was purchased and assume they can use these figures to estimate expenses. This is not always the case because taxes do not remain the same; they typically change every year. Usually, taxes go up after a property is purchased. This is especially true if the property was previously owner occupied. So, it is typically a good idea to just assume that the taxes will go up on the property after you purchase it.

One area which many people fail to take into consideration is the cost of the property being vacant. While you would certainly hope that your property would remain rented all the time, this simply is not realistic. There will probably be times when your property will be vacant. Generally, you should assume that your property will have an average 10% vacancy rate.

The cost of tenant turnover should also be taken into consideration. This is often a big surprise to many landlords who assume they will rent out their properties and their tenants will remain in the property for some time. Even more of a surprise is how much it costs to prepare the property to rent out again. Just a few of the costs include not only advertising for a new renter but also repainting, cleaning, etc. If damage was done to the property, the total cost of repair may not be fully covered by the security deposit you charged.

Of course, the cost of insurance should also be taken into consideration. Keep in mind that the insurance for investment properties is usually higher than an owner occupied property. Make sure you obtain a quote rather than just using the insurance cost for your own home as an estimating guide. In addition, make sure you take into

consideration not only property insurance but also liability insurance as well.

Utility costs are another area that are frequently underestimated. If the property has already served as a rental property make sure you find out exactly what the owner pays for and what the renters pay for. You should also make sure to find out whether you will be responsible for other costs such as trash collection.

Finally, take into consideration the costs of property management if you will not be managing the property yourself.

Financing Options for Rental Property

Many investors are now finding that rental property can be an excellent way to create wealth. If you are considering getting involved in rental property investing, it is a good idea to educate yourself as much as possible. First, you need to find out what it takes to become qualified to purchase investment property because it is actually somewhat different than becoming qualified to purchase a regular home.

One of the reasons for this is the fact that a significant number of investors either walked away from properties or declared bankruptcy during the early 1990s. While you should certainly not be punished for someone else's problems, neither do lenders want to be left holding investment properties. Therefore, it is important to understand that the requirements for being approved for a mortgage on rental properties are somewhat different from what you may be accustomed to.

While a home can often be purchased with a minimum down payment, especially if you are a first-time home buyer this is often not the case with rental property. Many lenders require a minimum down payment of 15%.

There are many different sources you can tap into for possible financing. These options include:

- Mortgage broker
- Local savings and loan or bank
- Private lender
- FHA; Federal Housing Association

Regardless of which option you choose, you will find that most lenders will want to be assured that you will have a

sufficient amount of rental income in order to cover not only the mortgage payment but also other expenses such as insurance, taxes and maintenance. Depending on the amount of income that will be provided from the property, some lenders may require a larger down payment.

There are also different types of loans which you can use to finance the purchase of a rental property. One option would be a residential loan. This type of loan can be used to purchase from one to four units. The exact options that are open to you often depend on whether the property will be owner occupied.

Another option would be a commercial loan. This is an option when the property is five units or more or it will be non-owner occupied. Due to the fact that it is a commercial loan, it is often far different from a residential loan in regards to terms and requirements. One of the main differences between a commercial loan and a residential loan is the fact that fees and rates are frequently higher on a commercial loan. A larger down payment is also often required. The down payment on a commercial loan typically runs between 25% and 35%. While there are some lenders who may be willing to agree to a higher loan to value ratio; the requirements for qualifying for such loans are usually more stringent. The lender will also carefully examine the ability of the property to generate a cash flow that will allow you to repay your loan. As a result, the lender will typically examine the property to ensure it can provide an income that will not only allow you to cover the mortgage payments and other expenses but also provide enough of a cash flow that you will have additional income to place into a reserve account.

Private party lending is another option for many prospective investors. One option would be to approach the current

owner about seller financing. With this option the owner carries back the loan for a down payment and fair interest rate. You may find that you can save lending fees with the options and may also be able to take advantage of making a smaller down payment.

Another option would be what is known as a hard-money loan. This is a type of short-term financing where a third-party makes a loan to assist the investor with purchasing the property. Generally, this type of loan involves a higher interest rate due to the fact that the buyer has poor credit or because the property is in disrepair and requires extensive renovation.

FHA programs are frequently offered through traditional lenders. Keep in mind; however, that FHS does not actually lend money. They do provide insurance for lenders; offering numerous loan programs.

Regardless of which financing tool you choose, remember that there is always the option to refinance at some later point in order to obtain a better rate and terms.

Chapter 3

Finding and Managing Tenants

Establishing Valid Criteria for Selecting Tenants

Establishing tenant selection criteria can be one of the most confusing areas of operating rental property for many people. On one hand, you want to make sure you choose the most responsible tenant possible; a tenant who will pay his or her rent on time and one who can be relied upon not to destroy your property. Yet, at the same time you must make sure that you abide by fair housing laws.

Before you actually begin renting out your property it is a good idea to sit down and determine the criteria you will use to choose that best tenant. Without guidelines you will have no choice but to rely on your instinct to choose the best tenant and this could result in trouble if you are only relying on your feelings to make a tenant selection. One of the worst risks you can take is to let your own personal opinions and biases guide you in your decision because this could open the door for a discrimination lawsuit.

First, you should always make sure that you notify prospective tenants that you utilize a fair system to make your decision. Ideally, it is best to include this type of statement on all rental applications. For example, you might state “Our policy is to rent our units in compliance with federal, state and local fair housing laws.”

If you are fairly new to operating investment rental property, you may not be cognizant of fair housing laws. Be sure to consult your state’s fair housing office to determine those guidelines which you must follow.

Beyond fair housing laws, it is important to make sure you establish criteria that is concrete by which to judge all potential applicants.

For example, it is common to require that the applicant provide identification that is verifiable. You may require the applicant to present a photo ID with their application so that you can make a copy of it. This type of requirement is valid because you may need it in the future in the event you need to describe adult occupants of the unit. If someone co-signs the application, it is also a good idea to obtain identification for them as well.

It is also quite valid to require information which would help you to determine that the applicant has a sufficient income to rent ratio. If the applicant were applying for a loan to purchase a home, the lender would require similar information. The general rule of thumb is to identify applicants that have a gross monthly income that is three times the amount of the rent. One way to document this information is by requesting copies of the applicant's pay stubs along with their application. If the applicant is self-employed, you might ask them to provide their last tax return in addition to three months of bank statements. If you cannot verify the applicant's income, this would be a perfectly legitimate reason to deny their application as you have no assurance that they would be able to pay their rent.

Many property managers and landlords also check credit ratings and scores on applicants as well. The purpose of this is to verify the financial responsibility of the applicant. The general guideline is to obtain a credit report on all applicants as well as any co-signers who are over the age of 18. Keep in mind that you will need to receive permission to run a credit report; however, you can request this information on

the rental application. Applicants with low credit scores could be legitimately denied on the basis on being unable to prove financial responsibility.

In addition, you should check references. Typically, you should ask all applicants to provide the names and telephone numbers of individuals who can verify the applicant's income sources as well as character references.

Finally, make sure you follow-up to check that the applicant has been able to successfully rent a dwelling in the past and paid their rent on time. In the event an applicant is unable to meet this requirement but does meet all other requirements you may consider requiring the applicant to have a co-signer.

Tips for Avoiding Discrimination and Ensuring Fair Housing

Avoiding discrimination is imperative when you own investment rental property. The Fair Housing Act regulates this and you could find yourself in legal trouble if you do not adhere to these regulations.

First, you must make sure that the property is available to be shown to all individuals who are interested in renting it. Generally, interested parties will call to inquire about the property before they actually see it. When you answer questions about the property you must make sure that you are providing the same information to everyone who calls. If you venture into offering different conditions, terms and/or information to different individuals who call to inquire about the property, you could be liable for discrimination. Basically, you need to make sure that you are covering all of the specifics of the property without necessarily trying to deter applicants away from the property based on any of the areas which are protected under the Fair Housing Act. Areas which need to be covered when applicants call include amenities of the property, property size, location, etc.

In addition, you need to make sure that your rental application is also designed with fair housing standards in mind. The best way to do this is to have an attorney review your rental application and then provide the same documents to all prospective renters. Also, make sure that the process is the same for everyone. Ultimately, when you deny or accept a rental application your decision should be based on valid requirements and not personal opinions.

Beyond the application, you will also need to give some thought to occupancy restrictions for your property. It is not

uncommon for many people to restrict the number of people who are allowed to live in their rental unit. There can be many different justifications for occupancy restrictions and standards. When establishing occupancy restrictions and standards; however, you need to be certain that your standards are fair and do not effectively discriminate against families with children. This is one of the more common complaints filed as many prospective tenants feel as though an overly restrictive standard regarding maximum occupancy discriminates against them and their children.

Different laws regarding occupancy standards and restricts apply in different states. The key in most states is to ensure that you are using good reason and common sense. For example, if you have a 1,000 square foot two bedroom home, then it would obviously be excessive to have seven people in the home.

There are no prohibitions regarding restrictions on the number of people who are allowed to occupy a residence under the Federal Fair Housing Act. It is critical; however, that any restrictions which are adopted be reasonable and apply to all occupants. You must discriminate on the basis of race, color, national origin, family status, gender, religion or handicap.

The most common standard adopted by most property managers is two people per bedroom. This standard is considered to be fair and reasonable by most. If; however, the residence in question is particularly large or it could easily accommodate more persons, it is important to keep in mind that such a policy could be challenged and a complaint filed so it is imperative to be sure that standards are flexible when the need calls for it based on available space within the dwelling.

Tips for Coping with Loud Tenants

One of the most common issues that many landlords must deal with when they have investment rental property is music. It is not uncommon for many renters to either play music quite loud or play an instrument. This can be disturbing to neighbors and as a result you may receive phone calls of complaint. How you handle these issues is quite important because it involves a fine balance of maintaining happy renters and yet ensuring that neighbors surrounding your property are not disturbed.

In the event that you own a multi-dwelling property this can be even more of an important issue as other tenants in the building may not appreciate being disturbed by loud music. If you fail to handle the issue properly they may decide to rent elsewhere; leaving you with vacancies and that can be expensive. Furthermore, your property may gain a bad reputation, making it difficult to rent to future tenants as well.

When you are facing this type of problem there are actually several different ways that you can handle the issue. First, it is imperative that you make sure you have discussed your property rules with tenants before they actually move in. This type of action can help to prevent problems before they even begin.

Ensure that you have included terms within your lease stating when exactly music may be played. You should also include in your lease statements indicating specific times when music may not be played so loudly that it can be heard outside the individual unit. For example, you might state that music may not be played before 8am and after 10pm. You should also make sure that these terms include not only

music but also actual musical instruments as well as televisions.

In addition, make sure you check on your property periodically to ensure that your tenants are not playing loud music at night or early in the morning. If you find that they are breaking this rule, do not hesitate to let them know that they are violating the terms of their lease. If you allow the issue to continue unchecked you are sending the message that this behavior is acceptable to you and later on it could be quite difficult to stop when the complaints begin rolling in.

Sometimes, checking on a property early in the morning or late at night is not feasible; especially if you live a good distance away. In this case, consider asking your neighbors to advise you if your tenants disturb them with loud music or noise. Remember that it is always best for neighbors in the area to advise you about the problem so that you will have an opportunity to correct it before they contact the city or the police with their complaints. This will also assure neighbors that you are concerned about the neighborhood and maintaining a peaceful atmosphere for everyone.

Once you have contacted your tenant verbally regarding the matter, make sure you follow-up with a reminder in writing. This should help your tenant(s) to understand the severity of the situation and will also provide you with the documentation you need in the event the behavior continues and you must consider evicting them because of it.

Ideally, the best way to handle this type of situation is to prevent it before it ever begins. Explain to your tenants when they move in that you regard the issue as serious and that you will check up on the property from time to time. If you decide to rent to students, this is especially important. By

making sure that you have established a cordial relationship with your tenants early on they will be far more likely to respect your rules and understand where the line is drawn so they will not cross it.

Properly managing a rental property means not only providing a pleasant living environment for your tenants but also ensuring that your rental property does not disturb others in the neighborhood.

Tips to Avoid Problem Tenants in your Rental Property

Having the right tenants in your property can truly make a huge difference in your ability to succeed in owning investment rental property. While problem renters can definitely exhibit some warning signs, there are some problem renters who are quite adept at getting past landlords. As a result, it is important to understand that you simply cannot always rely on your first impression of a prospective tenant in order to determine whether they will be responsible and reliable.

There are some tips you can use; however, in order to avoid tenants which could prove to be difficult.

First, always have prospective tenants complete a rental application. The application should be in writing and should provide you with the information you need to make a decision regarding renting the property. Along those lines; however, you need to make sure that you always follow laws, such as the Fair Housing Act. Discriminating against prospective renters is against the law and could land you in quite a bit of trouble. You are not allowed to deny someone the ability to rent your property based on religion, race, etc. By following the Fair Housing Act, you can make sure that you do not violate any discrimination laws.

Always make sure that you obtain proof of identity. This includes seeing a photo identification from any prospective tenants that you interview. On the rental application you have prospective tenants complete, make sure they write down their driver license information. Make a copy of the photo ID and be certain that you attach it to the rental application.

Many landlords make the mistake of not performing a background check. This is a mistake that you cannot afford to make if you want to ensure that you avoid potentially troublesome tenants. Performing a background check gives you the opportunity to determine if there are any previous problems. For example, running a background check can let you know if a prospective tenant has a history of destroying property or skipping out on the rent.

Along with a background check, you should also perform a credit check. You will need to obtain the applicant's permission in order to do this; however, you can do this on the rental application. You will also need to obtain the applicant's Social Security number on the application to run a credit check.

References are also essential. Make sure that you obtain the name of the applicant's previous landlord so you can follow-up. This is because not all landlords make a report to the authorities when there is a problem, so by checking with the landlord directly you have a better chance of determining if there were any problems.

In addition, ask for character references. Make sure that you take the time to actually check with those references. If the applicant did not give you a valid reference this is a good way to find out about it and weed out the applicant.

Finally, make sure that you include information regarding a code of conduct with each application or lease. The code of contact should state what is expected of the tenant and have the prospective tenant sign and date the document. By making sure that these expectations are clearly outlined in the beginning, you can help to avoid a number of problems.

Chapter 4

Renting Your Properties Right

Guide to Setting Rental Rates

Setting the right rent can be one of the most difficult areas for many people who are investing in rental property. If your property rents out in no time, it could be an indication that you are not charging enough rent. On the other hand, if your property seems to take a long time to rent out, it could be a clear indication that your rent is too high. So, how do you go about setting a rental rate that is in line with the current market?

One of the best places to start is the newspaper. It is imperative that you do some local research to find out what kinds of prices are driving the local market. Location is the most important factor in determining rental rates. For example, a three bedroom, one bath home in one part of town may rent for a \$750 a month while another property on the opposite side of town may only be able to draw \$500 per month. Most prospective tenants look for convenience when searching for a rental property. They are either looking for a location that is near their work or close to their children's schools. Neighborhoods that are considered to be trendy or hip can also be a driving factor, as many people like the idea of living in certain neighborhoods.

Of course, the budget of the renter will also play a role in determining how much they are willing to pay and can pay in rent. Due to the fact that most renters have needs that must be filled, especially in terms of space, it is quite common for square footage to also play a role in determining rental rates. This means that larger homes and units will typically be able to rent for rates that are higher than smaller homes and units.

When setting rental rates; however, it is also important to keep in mind that there is a certain point when rental rates can reach a cap. When interest rates are low, if rental rates rise too high, renters will quickly make the connection that it just does not make sense to rent any longer when it could be less expensive to buy a home.

Another way to make sure that you stay updated on rental rates in your local area is to join a local association for landlords. This is a great way to make sure that you keep your finger on the pulse of the local rental market. Emerging trends in the area will affect not only you but also other landlords as well. For example, if your particular area is in an economic slump or even an economic boom then this could have an effect on local rental rates. Make sure you keep track of whether there have been job losses or the creation of new jobs in your local area.

It is also important to keep in mind that basic amenities can also play a role in determining how much rent you can charge for your unit or apartment. Some of the basics expected by most prospective tenants include off-street parking, washer and dryer hookups, dishwashers, etc. If these basic amenities are not available, you may find that you need to either offer something else that would attract prospective tenants or lower your rental rate.

Notices, Disclosures and Addendums

When you invest in rental property, it is important to understand that much of what you can do is guided by local, state and federal regulations. In many cases, these regulations provide guidance for the disclosures which must be made to all tenants. This is a matter of law and failure to make proper disclosures can result in quite a bit of legal and financial trouble, so it is always best to ensure that you have made all of the proper disclosures.

While there are some disclosures which vary from one locality to another and it is always best to research the regulations for your own area, there are some regulations regarding disclosures that are common in most areas.

Lead-based Disclosures

This regulation is required by the federal government. To meet this requirement you should know when your property was built and specifically if it was built prior to 1978. In the event that it was, you will need to provide a specific booklet printed by the federal government regarding lead-based paint disclosure and have the tenant(s) sign a disclosure form. The booklet is called Protect your Family from Lead in your Home and it can be obtained from the EPA; Environmental Protection agency.

Hazardous Materials Notice

Be sure to check with your local ordinances to determine whether this notice is required. Essentially, it notifies tenants that a variety of materials were used in the construction and/or improvement of the property which may contain materials that could be hazardous or toxic.

Mold Notification

The subject of mold has become tremendously important in the last few years and is also one that can lead to a great amount of liability for property owners. Check with your local landlord's association for guidance regarding notification of mold.

In some cases, the addendums which you provide to tenants may not actually have anything to do with potentially harmful elements in the property. In some cases, you simply may need to provide notification to tenants regarding specific rules and regulations which you establish.

One of the most common is a roommate addendum. This type of disclosure notifies tenants that each roommate is jointly liable for anything to do with their rental of the property. This prevents one roommate from skipping out and you facing a situation where the remaining roommate claims he or she is not liable.

A pet addendum is another important disclosure to consider if you are going to allow tenants to have pets in your property. Generally, it is best if you always have a description of the pet which the tenant will be bringing into the property. Perhaps you based your decision on allowing the tenant to have a pet because it seemed to be a mature, calm dog. Six months later; however, you discover that the tenant no longer has the calm dog and has replaced it with a puppy that is chewing up everything in sight. Making sure that you have a description of the pet which will be allowed to be in the property is always a good idea; otherwise, you may have no recourse since you agreed to let the tenant have a 'pet.' There is also the matter of exercising caution

regarding certain breeds of dogs on the property. If you allow a tenant to have an aggressive breed of dog on the property and someone is bitten, you could be found to be liable.

Along those same lines, you may want to take a few extra steps to protect your property if you decide to allow tenants to have a pet. For example, increase your security deposit, just in case there are problems later on. Also, make a point to check with previous landlords while you are performing the reference check to determine whether the tenant has had a pet in the past and if so, whether there were any problems or damages. Finally, you may also wish to require tenants with pets to provide a copy of their pet's registration papers as well as their vaccination records.

Security Deposit Matters

As a rental property investor, you will find it necessary to collect money on a regular basis. Generally, your income will come from rental payments; however, you will also need to collect a security deposit. A security deposit is used as a type of security to ensure that the property will be maintained well during the time of the tenant's occupancy and also that they will not leave without paying their final rent. In the case that either of the above circumstances should occur, you will have the security deposit to serve as a recompense for the money you might otherwise be out.

The exact amount of the security deposit which you collect will vary depending on circumstances. Some states have regulations regarding the amount of money that can be collected for a security deposit. Ideally, it is best to collect the largest deposit allowed in order to ensure that you do not run into any problems later on. Where allowed by law, many landlords find it beneficial to collect a security deposit that is equal to one and a half times the regular rent. There are some circumstances which may dictate a change in the normal amount of the security deposit which you collect.

For example, if you allow pets and the tenant has a pet, you may decide to collect a larger security deposits. The same would be true for other circumstances such as if the tenant has a waterbed, does not have any references, etc. In these cases, you may decide that it is a good idea to collect a larger security deposit than you would normally collect to cover the risk you are taking on; provided, of course, that you are allowed to collect a larger security deposit under local law.

Security deposits should always be paid in full prior to the time the tenant moves in. Keys should never be issued until a security deposit has been received in full; otherwise you will find that the purpose of the deposit has been defeated. It is simply not a good idea to allow tenants to pay a security deposit in the form of several payments. If you do so, you will likely find that it is veritably impossible to collect all of the security deposit once the tenant has moved in.

Ideally, security deposits should not be paid with a personal check as you run the risk that the check may not be good.

Remember that it is always important to check with and follow your state's guidelines regarding what you must do with the security deposit after you have received it.

Generally, it is better if you do not complicate matters by labeling the different parts of a security deposit. In the past many landlords charged a variety of different deposits including a key deposit, last month's rent, cleaning deposit, etc. This can become quite confusing very quickly and unfortunately, many landlords found that tenants still tended to move out without paying a last month's rent because it was already paid. These types of tenants tended to leave the unit in a terrible conditions and necessary repairs that the deposit did not cover. You may even wish to state in your rental agreement that the security deposit is not to be used for the last month's rent.

Guide to Showing your Rental Property to Prospective Tenants

In order to succeed when you invest in rental properties it is necessary to show your property to potential tenants. Just as if you were selling the property, you must make sure that the property is appealing to tenants in order to rent it out and begin collecting rental income.

First, it is important to understand that curb appeal can be just as important to tenants as it would be to buyers. Prospective tenants are often put off by properties which seem to be dilapidated on the exterior. In order to attract good tenants, you need to make sure that your property is inviting and shows the care that you have put into it. Even small rental properties can create a good first impression.

Repair issues should always be addressed prior to showing a property to prospective tenants. It is never a good idea to show a property which is still in the process of being repaired or renovated. Wait until the property has been completely fixed up before showing it.

You should also make sure the property is extremely clean. There is nothing worse for making a bad impression on a prospective tenant than a filthy property. Above all, be certain that the carpeting is clean. Ideally, it is best to have the carpet professionally cleaned after one tenant departs and before you show the property to the next prospective tenant. Be sure to allow plenty of time for the carpet to dry before you actually show the property to anyone. Never put off replacing worn carpet as this can cause problems in attracting quality tenants.

Take the time to make sure you know the best points of the property before you show it. Sit down and think about the best features of the property so that you can easily refer to them when you show the property.

Before you actually show the property, take the time to stop by the property to be sure that everyone is set to make a good first impression. If the temperature outside is quite cold or hot, be sure to stop by the property to set the temperature inside the property so that it will be comfortable. Generally, most people will not wish to remain inside a property that is either quite hot or cold. If the temperature is uncomfortable, there is a good chance that most prospective tenants will not stay around long enough to see the best features of the property.

In addition, you will need to make sure that you turn on the lights before you show the property. This is particularly important if you are showing the property at night. If the property is not well lit, prospective tenants may wonder if you are trying to hide something. The few dollars you will spend on having all of the lights on during showings will often translate into a good investment as you are able to attract good quality tenants to your rental property.

Do not hesitate to show off the exterior and the grounds of the property. If there is some interesting feature outside, make sure you show it off. The key is to give prospective tenants an idea of what it is like to actually live there and that includes showing off the grounds as well.

Finally, make sure you are always prepared for all showings. When you show a property, you need to make sure that you have a rental application on hand as well as a copy of the lease you use. You also need to make sure that you have

decided on terms such as security deposit amounts, pet deposits and key deposits.

Chapter 5

Managing Your Properties

Tips to Being a Successful Landlord

The ultimate goal of investing in rental property is turn a profit. To make sure that you achieve that goal it is essential that you follow several critical guidelines.

First, always make sure that you check references. This can be a burdensome step that many landlords overlook if they feel as though they have a good instinct about the tenant when they meet with them. Not checking references; however, can lead to a number of problems. You can uncover a wealth of information about potential problems before you rent to a prospective tenant.

Always make sure that you have everything in writing. This is to protect not only your rights but also the rights of your tenants as well. Everything from the code of conduct you expect tenants to abide by while renting your property to the rental application itself should be in writing.

You will find that you have better success with your rental property if you take the time to ensure that it is both secure and clean. The grounds of the property should be free of clear and trimmed regularly. Not only will the property be more visually appealing but these actions will also assist you with property liability. You will also want to take additional security measures. Extra security may be able to lower your insurance premiums as well as provide an incentive to quality tenants to rent your property when they know it is secure.

If you make the decision to hire a property manager, take the time to interview prospective candidates very carefully. Property managers can be quite helpful if you do not have

the time to tend to all of the details yourself. The wrong property manager; however, can cause you tremendous problems. This means that you will need to hire a thoroughly responsible and professional individual to handle the job.

Always make sure that you obtain adequate insurance. Not only should you have property insurance but you should also have liability insurance. One incident is all it takes to wipe out your investment. Check with your state to determine if any additional insurance coverage is required.

Regardless of the condition the property was in when you purchased it, there will come a time when repairs are needed. This is part and parcel of owning rental property. If you take too long to make repairs, not only will your property suffer and repairs will ultimately cost more to take care of but you will also likely lose quality tenants as well. By making sure that you handle repairs promptly you will be able to maintain the life of your property as well as retain good tenants.

Always make sure that you follow all applicable regulations in the renting of your investment property. The Fair Housing Administration Act provides precise regulations in order to prevent discrimination. If you violate those regulations you could find yourself facing a lawsuit that is costly in terms of time as well as money. The best course of action is to take the time to do your homework and consult an attorney experienced in real estate matters for guidance regarding the FHA as well as ensuring that you have the proper forms.

Finally, make sure that you do not violate the privacy of your tenants. Check with your state's regulations to find out whether you must provide any type of notice to your tenant before you enter the dwelling.

Following these guidelines will help you to retain quality tenants and avoid any potential legal problems.

Tips for Handling Vacancies in your Rental Property

From time to time you will have vacancies in your investment rental property. When that occurs, you will naturally want to rent the property as quickly as possible so that you do not lose out on any rent money. It could even be that when you purchase the property, it could be vacant. There could be many reasons why it could potentially take some time to find tenants. Perhaps the location is affecting it. Or, it could be that there are simply a number of properties for rent in the local area. Regardless of why your property is vacant you will need to get it rented as quickly as possible.

For every month that your property is vacant, you are losing money in revenue. There are some things you can do to reduce the amount of time that your property is vacant; however.

First, when your property is vacant, use that time to your advantage by making any repairs that are necessary and handling any maintenance tasks. In addition, you might also consider doing something to make the property more appealing such as touching up the paint or sprucing up the yard.

You might also consider providing some type of incentive or discount in order to get your property rented more quickly. Certainly this will cost a bit of money but in the long run it is often less expensive to provide an incentive in order to get your property rented more quickly than to allow it to sit vacant for a period of time. You might think about reducing the rent or installing something in the apartment that would be appealing to prospective tenants such as a washer and dryer.

Make sure you making strong efforts to market your rental property but running ads in all of the local papers and hanging up flyers at places of interest. Of course, you should also have a For Rent sign posted on the property so that everyone who drives by will see it and know the property is available for rent or lease. Once again, a small amount of money spent on marketing is less expensive than the amount of lost revenue you could incur by allowing the property to sit vacant.

In addition, take be proactive and begin the search for tenants before your current tenant moves out if you have reason to believe that they will be leaving soon. It is never a good idea to wait until the last minute and then try to fill a vacancy. You might even ask the current tenants if they know of anyone who might be interested in renting the property. It could be quite possible that they have friends who have visited and would jump at the chance to rent the property once it is available.

Keep in mind; however, that as important as it is to rent your property quickly and avoid a vacancy you also do not want to rent out the property so quickly that you fail to conduct a thorough screening. The first time you receive an inquiry on the property, you need to begin the screening process. Take the time to obtain some basic preliminary information about applicants while also providing information about your rental property.

Of course, you must abide by fair housing laws and you also must make sure you are fair in asking the same questions of all applicants so it is a good idea to write down your pre-qualifying questions so you can be sure that you are being

fair. If you are unsure of what you are allowed and not allowed to ask by law, consider consulting an attorney.

Before you end the phone call with the applicant, encourage them to drive by the property so they can see it in person and then call to make an appointment with you to see the interior.

Tips to Avoid Pitfalls in Owning Investment Rental Property

Owning and operating investment rental property can provide a number of important advantages. There are potential disadvantages to owning rental property; however, you can help to minimize possible pitfalls by following certain guidelines to protect your investment.

First, always make sure that your expectations regarding investing in rental property are reasonable and realistic. You should always approach the investment of rental property with the goal of achieving a positive cash flow; however, do not expect that you will be able to buy a new vacation home within a year.

In addition, it is important to make sure that you take the time to do your research and ensure that you understand the rules and regulations regarding the ownership and operation of rental property. As the owner of rental property, you must abide by certain federal and state laws which provide specific information regarding your liabilities and responsibilities.

Along those same lines, it is important to be certain that any lease or rental agreements you handle are absolutely legal. If you handle a lease or rental agreement which is not legal, you may experience a number of problems if your tenant happens to violate terms of the lease. To be safe, it is best to have an attorney draft your lease and rental agreements.

Before purchasing any rental property, be sure to have the property inspected or else you may discover you are facing a

set of expenses you did not anticipate. Having the property inspected by a professional before you sign on the dotted line will involve an expense; however, compared to the expenses you could face by purchasing a property without an inspection, it is certainly well worth it.

When you begin the process of renting out your property, take the time to run credit checks and call references. These are both steps which many novice landlords often overlook in their rush to fill their rental properties and begin turning a profit; however, it can be detrimental. Remember that having an empty unit is always better than rushing and having an irresponsible tenant who may destroy your property, get behind on their rent and ultimately prove difficult to evict.

Joining the Landlords' Association in your local area can also prove to be helpful by putting you in connection with experienced investors and landlords. You can also gain access to reliable contractors, inspectors and other professionals who can make the process of operating rental property much easier.

It is also imperative that you make sure you have adequate property insurance as well as liability insurance. Property insurance will help to protect your investment while liability insurance will protect you in the event anything should happen to someone while on your property.

Finally, make sure you take the time to establish an emergency fund in order to cover expenses which may crop up unexpectedly. Remember that you are operating a business and as such you must be prepared for those times when expenses arise. The exact amount that you wish to contribute to your emergency fund is ultimately up to you; however, it should be sufficient to cover typical expenses

that may arise. The general rule of thumb is to put aside 20% of the value of your property. To make the process of establishing an emergency fund easier, consider setting aside a certain amount of your rental receipts each month into a special account.

Tips for Hiring a Property Agent

When purchasing rental property as an investment it is important to consider hiring a rental property agent. Many people hesitate to hire a property agent because of the cost associated with it; however, a good rental property agent can help you to reduce a lot of the day to day work you must handle regarding your property. The key to making this type of arrangement work for you; however, is in knowing how to find a good agent and what to look for.

One of the main tasks which an agent handles is finding tenants for your property. They also provide the rental agreement. In most cases, rental agents do not provide a service which would keep your property in good condition. In most cases, agents only respond in the event there is a complaint from the tenant. If an agent is less than responsible; you may find yourself owed rent and your property in shambles. Therefore, if you decide to use an agent you need to make sure that your agent covers several critical areas.

First, they should always provide you with an assessment of the reliability of the tenant. Not only should the agent check the references of prospective tenants but they should also utilize other methods so they can be assured the tenant will care for your property and pay their rent on time. Before hiring an agent question them regarding the methods they use for this purpose.

You should also make sure that the agent will be able to handle the collection of rent effectively. Speak with them regarding the methods they use for collecting back rent

when a tenant fails to pay their rent on time. In addition, find out how the agent addresses the issue of bounced checks.

In addition, you should speak with prospective agents regarding how often they will inspect the property and what they will look for when they perform those inspections. Furthermore, find out how they will record information and provide feedback to the tenant as well as to you. This information can be vital to ensuring a well operated rental property.

You should also find out how payments will be passed on to you and how frequently you will receive rental payments. Not all agents have the same policy. Some agents will actually retain payments for a month so they can earn the interest on the money before they pass the payments onto the landlord.

Of course, you should also find out how much the agent charges for the services they provide. Shop around to find out whether this fee is on-target for the service which the agent provides. If the agent is providing a good, reliable service it can be a benefit to your and your investment property and as a result it can be a good investment.

Be sure you ask to review any forms the agent uses, especially the rental agreement. You should always know the terms under which your rental property will be rented.

Keep in mind that on-site managers usually charge more; however, that cost can often be offset by the fact that you may be able to decrease maintenance costs by ensuring you have a well-run property.

Remember that having a good property management agent can essentially bring you more of a profit. Perhaps one of the

biggest costs you will face when operating a rental property is the cost associated with changing tenants. When you figure in vacancy rates, the cost is even higher. Therefore, it is obviously in your best financial interest to keep good tenants. A competent property management agent can help to make this a reality.

Choosing your agent carefully and ensuring that you understand exactly what the agent provides and what they do not provide in terms of services can help to ensure that your investment is successful and not a headache.

Planning ahead for Maintenance and Repair Costs

One of the biggest problems for many rental property investors can be failing to plan for maintenance issues in their budgets. While it can certainly be quite tempting to see all income over and above the mortgage payment as profit, this can be dangerous when something breaks and you realize you do not have a budget to cover the cost of repairing it. The simple fact is that regardless of how well maintained your property might be, things can and will break from time to time so the best course of action is to plan ahead and budget for it so you do not struggle later on.

Ideally, the best time to begin thinking about your repair and maintenance budget is before you actually purchase the property. When you are looking at the numbers associated with the potential investment you will need to make in the property, it is essential that you take repairs and maintenance into consideration. Unfortunately, many investors completely forget to allocate funds they will need for repairs of the property and instead only take costs associated with taxes, fees and mortgages payments into consideration.

First, you need to consider those repairs that can be foreseen relatively easy if you are observant. For example, take into consideration the age of the roof. Generally, by studying the condition of the roof you can usually determine when you will need to replace it, more or less. The same is true of the home's main systems including the air conditioning system. By taking into consideration the natural lifespan of many of these items you can typically predict

when you will need to come up with the funds for these replacement costs.

When considering the potential repair and maintenance costs you may run into as you shop for property, it is important to take several factors into consideration. Property type should be one of the first factors you consider because the type of the property can affect repair costs later on. For example, if you purchase a brick property you certainly will not have to worry about painting it in a few years.

The size of the property should also be taken into consideration. Smaller properties are typically easier and less expensive to maintain than larger properties. Larger properties are more expensive to maintain because it simply costs more money for repair and maintenance issues such as replacing the roof, repainting the exterior and exterior, etc.

Surprisingly, the location of the property can also play a role in how much you need to budget for repairs as well. Take into consideration the distance of the property from your location. If the property is located more than 30 miles from where you are located, you are going to spend more money traveling to the property and that can add up quickly.

Finally, consider how you plan to manage the property. Do you plan to handle most of the maintenance work on your own or will you hire help? Hiring outside help can be more expensive overall; however, you must also consider the amount of time you have available for making repairs and your own skill and experience level.

It is also important to remember that there will typically be some problems which will come up completely unexpected

and unscheduled. You will need to make sure that you budget for these items as well so that they do not hit you too deeply in the pocketbook. Generally, it is a good idea to plan an annual budget of between 1% and 2% of the value of the property for repairs which may come up unexpectedly. For example, if you have a \$100,000 property you would need to plan to spend between \$1,000 and \$1,500.

By planning ahead and budgeting for maintenance and repair issues you can make sure you are prepared when these items inevitably arrive and will not be financially surprised.

Guide to Inexpensive Rental Property Repairs that Won't Take a Bite out of your Budget

There are some decided differences between fixing up your own home and a property you plan to rent out. One of those differences is often your budget for repairs. If you want to make a profit on your investment property, repairs must be kept to a minimum. Since repairs are also a necessity to attracting and maintaining quality renters, it is also important to learn how to make repairs on a limited budget. The good news is that there are some repairs and improvements which can be made to your property without spending a lot of money.

First, make a point to go through the house and replace all of the older and outdated switch plates. New switch plates need not be an expensive investment. In fact, most switch plates can be replaced for just a couple of dollars each, at the most. You can easily replace all of the switch plates in a property for around \$20. In some areas, you may wish to go ahead and ante up for switch plates which are slightly nicer, such as in the living room and foyer. You will pay a couple of dollars more for brass plates; however, even at around \$5 each, that is still not much money to pay for an improvement that can really make your rental property stand out.

Doors are another area where you can make a big difference in your rental property without spending a ton of money. Doors are one of the first things that a prospective renter will notice so it can really be a worthy investment to make when you are trying to attract good renters. While you are changing out the doors, be sure to also consider changing

out the handles as well. Older door handles can really make a place look drab. For just a few dollars, you can easily replace those old handles with brass finished models. 'S' handles are popular for bedroom doors and bathroom doors and only run a few dollars more.

The trim is another area where you can make a big impact for not much money. Take a good look at the trim in your rental property. If it appears worn and cracked, it could be time to replace it. You do not necessarily need to spring for crown molding throughout the entire property; however, adding it to the entryway or the living room can create a great first impression.

Another area where you might wish to focus some attention is the entryway or foyer. Keep in mind that once prospective renters step through the front door this is the first area they are going to see, so you want to make sure you make a good first impression. Tiling it can be a great way to do that. For a small foyer area measuring around 8x8 you can easily tile it for about \$100.

Kitchens are one of the most important areas for most people when they view a property for rent, especially women. While it may not be practical to replace all of the cabinets, it can certainly help to paint them. Consider repainting them using a semi-gloss white paint and do not forget to replace the knobs when you are finished. Even less expensive plastic knobs can breathe new life into older kitchen cabinets.

Guide to Protecting yourself and your Rental Property

Owning rental investment property can be a satisfying and lucrative operation; however, there are also several areas which need to be carefully heeded in order to make sure that you are not sued and do not become liable for any issues which may arise in connection with your property. Learning how to protect yourself is the first step in ensuring that your investment does not actually become a liability.

First, you must always make sure that you have adequate casualty and property insurance as well as liability insurance. These three items are not the same and it should always be remembered that property insurance will not typically protect you in the event someone becomes injured on your property.

Property and casualty insurance will cover you in the event your property suffers from losses resulting from storm, fire or some other catastrophic loss. Liability insurance is intended to protect you if you should be found to be responsible for someone else's losses. You may also wish to consider carrying flood insurance if your property is in a community that participates in the National Flood Insurance Program. Umbrella insurance, which will provide you with additional liability insurance beyond a general liability insurance policy, is another worthy option you may consider.

You may ask yourself under what circumstances you may need liability insurance. There are many instances in which liability insurance could be helpful. For example, liability insurance could protect you in the event a tenant or an

employee becomes injured on your property. Liability insurance can also protect you in the event you are sued for discrimination by tenants.

In the event you hire someone to work on your property, it is a good idea to ensure that all repairmen as well as contractors are able to provide their own certificates of insurance indicating they carry both workers' compensation as well as liability coverage.

You should also make sure you review your insurance coverage with your insurance agent on a regular basis. Many people make the good intention of taking out adequate insurance coverage; however, they fail to review their policies and when disaster does strike sometime later they are surprised to discover that they did not have sufficient coverage after all.

It is also a good idea to make sure that you have formed good working relationships with critical professionals such as an attorney and a good tax accountant. There are many areas of renting property which are regulated by law. If you are not aware of your obligations under these housing laws, you could find yourself facing legal troubles. Therefore, it is certainly a good idea to consult an attorney to make sure you may not be breaking any fair housing laws. It can be entirely too easy to find yourself in trouble because you unknowingly violated one of these laws. Additionally, make sure you meet with a professional tax accountant at least once per year to discuss your tax obligations regarding your property and revenue.

It is also a good idea to check with your local government to determine whether you are required to have a business license in order to operate a rental property in the local area.

While this was rather uncommon at one time, today more and more municipalities are enacting regulations which require a business license for each rental property.

Also, keep in mind that your property insurance policy will not cover the belongings of your renter in the event of damage. It is usually a good idea to make sure you let your tenants know this by putting it in writing. Many landlords not only encourage their tenants to obtain renter's insurance but also require it.

Finally, take proactive steps to reduce your liability by making sure that your property is safe. Liability insurance is certainly beneficial but the best way to ensure that you steer clear of trouble is to keep your property well maintained.