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BROKERAGE

Daily Real Estate News | October 26, 2007

Sanity-Saving Rules for New Landlords

Thinking of becoming a landlord? It's not as easy as you might think, experts say. Here are six rules that will help you find good tenants and make money.

Rule 1: Don't be deluded about the market. Joseph Cooper, vice president of Massachusetts-based Monument Mortgage, cites "underestimating the cost in time and the cost in money of actually owning property" as the biggest mistake investors make. To overcome that weakness, he and others suggest studying local vacancy rates, getting a good appraisal and gathering information about any construction in the area that could change the status quo.

Rule 2: Get out your calculator. To get a good estimate of the initial rate of return: Take the first-year revenue minus estimated first-year expenses (including some value placed on your time) divided by the full cost of the property when purchased (essentially price plus transaction costs minus mortgage). To calculate the rate of return in later years, divide by estimated equity in the property (what you could sell it for after deducting transaction costs and the remaining mortgage), taking into account price appreciation or depreciation. It's also wise to consult an accountant on how much of a tax and cash-flow benefit depreciation will provide.

Rule 3: Choose tenants carefully. Prospective tenants who respond promptly and conscientiously to calls or e-mails and who show up on time to see units likely will be responsible when it comes to paying rent and taking care of the property. And be careful to observe discrimination laws. Landlords can choose among prospective tenants for economic reasons that arise after credit, employment, and reference checks. Set financial standards for prospective tenants that make you comfortable that they can cover the monthly rent.

Rule 4: Avoid getting sued. An aspect of the landlord-tenant relationship that can lead to litigation include mishandling of security deposits. If a tenant pays a security deposit, in many states several conditions must be satisfied, including placement of the money in an interest-bearing account and inspection of the property. Other issues include lead paint levels and failure to provide a minimum standard of habitability.

Rule 5: Get Expert Help. Keep an electrician on speed-dial — as well as a plumber and handyman. It also helps for landlords to know a good lawyer, financial adviser, mortgage broker, and real estate professional.

Rule 6: Forget about flipping. "Anybody who buys something and says to you, 'I'm going to make a ton of money in two years and sell this thing' isn't being realistic," says mortgage banker Joseph Cooper. "That does

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happen, but it's extremely rare. You should be buying real estate with the idea that you're going to hold it for five to 10 years. That will take you through a cycle of up and down."

Source: Boston Globe, Shira Springer (10/21/07)

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