

SECTION

ONE

Introduction to Property Management

COPYRIGHTED MATERIAL
<http://www.pbookshop.com>

<http://www.pbookshop.com>

The Benefits of Managing Properties

Once you start buying and renting out property, it won't take long to figure out that there is definitely a "third leg" of the stool that you're sitting on: the one that handles the repair, maintenance, upkeep, and tenant relations on those properties. It's not enough to simply buy a property, fill it with warm bodies, and expect it to run itself. In fact, one of the most important elements is the actual property management that goes into being a landlord.

As a landlord, you have a few choices when it comes to property management: you can handle it all yourself, you can outsource some of it to capable companies/individuals, or you can offload the majority of the work (in exchange for a fee) to a property management firm. Which route you take is highly personal in nature and depends on how much time you have on your hands and just how good you are with a hammer and a plunger.

At CompleteLandlord.com, we have years of experience in the property management field, both firsthand and through the eyes of property management firms that are hired to handle the tasks. In this book, we will share with you the nitty-gritty details of managing properties, help you make the best possible decisions when it comes to marketing and filling your homes with tenants, walk you through some of the most important legal/business details, and help you select a property management firm that best suits your situation.

IMPORTANT NOTE

If you're starting out on the road to landlording with a single property that's located a reasonable distance from your primary home, then you'll probably want to start out with the do-it-yourself (DIY) approach. This will save you money and help you learn the ropes of property management firsthand.

Taking the Plunge

The move into property management can be a lucrative one, when done right. Instead of sinking money into the stock market, hoping that it will pay off at the right time (namely, when you need it for retirement), you can rest assured that owning and renting properties is a solid, income-generating investment strategy that many individuals overlook while plowing their cash into stocks, bonds, and 401(k)s.



But before you dive into it, be sure to do your homework to find out what it's really like to manage properties. Despite what you may have heard, there is a lot to know and learn, and the job requires some work (or help from reliable folks who can do some or all of the work for you). The good news is that it is worth the effort, especially if you understand exactly what you're getting into before you start renting out your properties.

Here are some of the key benefits of managing properties for a living or to augment an existing income or incomes:

- ◆ *The investment pays for itself.* Once you've paid the down payment and closing costs and filled the space with a tenant, you can start using the monthly rent payment to cover your monthly mortgage obligation (provided the rent payment matches or exceeds your monthly mortgage bill).
- ◆ *The property's value will increase over time.* Real estate doesn't depreciate for any length of time, and with every year, it generally becomes worth more. The longer you hold your property, the better the chances are that you'll wind up making money on appreciation alone.

- ◆ *It may take 30 years...but eventually the property will be paid for.* At that point, all rent payments become profit for you, the owner, thus increasing the property's value and ability to earn income. With one or more properties paid off, you will be freed up to purchase one or more units or balance out your portfolio with other investments.
- ◆ *You can increase the value of your investment by improving it.* Depending on the condition and age of the homes in the direct vicinity, you may want to add landscaping, build on a new room, or take another step to up the value of your home through improvements. This strategy may allow you to fetch higher rental fees for the home and free up even more money for improvements (or further investments).
- ◆ *You'll become a proficient property manager.* We know that some of you may rely on a slew of repair personnel to handle both the small and major repairs at your properties, but we also know that some of you are good with a hammer and nails. Those who fall into either category will benefit from some of the self-help, home maintenance courses offered by organizations like Home Depot, and—after unclogging a few garbage disposals and replacing a couple of toilet kits—find themselves saving more of their money and becoming true property professionals.

There are certain tasks that you, as a property manager, will have to handle on a regular basis for each of your properties. They include (but aren't limited to):

- ◆ Keep the property in good working order so that it can be easily rented.
- ◆ Handle all repairs and maintenance on the property to maintain (or increase) its value.
- ◆ Keep your current tenants happy.
- ◆ Actively seek out renters to fill your vacancies.
- ◆ Respond to tenant needs.
- ◆ Handle any and all paperwork and administrative duties associated with rental property.
- ◆ Pay taxes on the profit generated by the properties.

And the list goes on. Like a primary residence—which requires a great deal of care and feeding on a regular basis—a rental property demands the same level of attention.

In addition to reading the book that you have in your hands right now, you'll want to spend some time reading both online and offline articles about renting out property and becoming a landlord. Here are some other great ways to learn the ropes from the people who are out in the field managing properties:

- ◆ Visit online forums such as those at CompleteLandlord.com, where members discuss the challenges and rewards of being landlords.
- ◆ Talk directly to other rental property owners to hear what they have to say about being landlords. (For example, speak with them about what it's like to rent out homes to students, people with disabilities, and other specialized markets.)
- ◆ Join a group or association whose membership is made up of property managers, landlords, and real estate investors.
- ◆ Read publications whose audience includes the property management crowd and that offer informational and how-to articles to these professionals.

IMPORTANT TIP

Find out early in the game how other property managers deal with vacancies and you'll have a jump on one of the biggest property management challenges!

Do It Yourself or Hire Someone?

You can outsource every aspect of landlording from painting and plumbing to showing rentals and screening applicants. Once you have a few properties in your portfolio, you may consider hiring a property management firm to handle a good portion of the work for you. Obviously, you will pay a price for this service, but there may be instances where the money is worth it. Here are some situations where

a landlord might hire a management company to handle some or all property management tasks:

- ◆ The landlord is renting property in a distant city or state and cannot show the property or respond to tenant complaints.
- ◆ The landlord owns multiple properties and cannot manage them all himself or herself.
- ◆ The landlord is making so much money on rentals that he or she can afford a management company and still make a profit, thus leaving more time to invest in promising properties.



If you do not fall into one of these categories, consider carefully whether you want to spend the money on a management company. However, if some of the duties of landlording are just too hard for you to handle, you might consider finding a company that will take on just those tasks for you. Typical property management duties include:

- ◆ Advertising your property when new tenants are needed
- ◆ Showing the property
- ◆ Screening the applicants
- ◆ Providing all paperwork, including application and lease
- ◆ Collecting the rent
- ◆ Dealing with late payments, partial payments, and no payments
- ◆ Handling all bookkeeping and record keeping
- ◆ Maintaining the property
- ◆ Handling emergency repairs
- ◆ Enforcing policies and house rules
- ◆ Any other service you need

We know, it sounds great, right? Well, it may not sound so inviting once you hear how much you'll have to shell out for the manager's services. Property management firms make most of their money from maintenance, which they mark up by as much as 100 percent. By law, property managers must disclose to their clients how they make money, including any markups. Ask to see this documentation if it is not in the contract.

Are You Ready to Manage Property?

Here are a few key questions to ask yourself:

- ◆ Do I have experience managing rental property?
- ◆ Do I have a reliable way to determine fair market rent and returns on my investment property?
- ◆ Do I know and have the proper notices and legal process to deal with nonpaying tenants?
- ◆ Do I have a current lease and related agreements/forms to minimize my liability exposure, should a tenant decide to sue?
- ◆ Am I up to speed on fair housing and landlord/tenant laws in the jurisdiction(s) where my property is situated?
- ◆ Do I have relationships with service professionals and contractors who can provide around-the-clock service at reasonable prices?

Did you answer “no” to any of the above questions? If so, it might pay to hire a professional property management firm.

IMPORTANT TIP

It pays to keep your property shipshape, especially if you're using a property management firm. The worse shape your building is in, the more money a property firm will make from you.

The prices and fee structures used by property management firms vary greatly from company to company, but if you were to hire a management company to handle the complete job (all of the tasks listed on the previous page), you can expect to pay the firm 7 to 10 percent of your total rental income, with additional fees for the time-consuming task of showing property.

Understand that the percentages and prices charged by the property management firm will vary depending on the market in the area in which you rent. The bigger your property or the more properties you have, the lower your rate is likely to be. And keep in mind: everything is negotiable in real estate. You can try to talk a company into lowering its price, but be careful—if you are a good negotiator and get the company to come down 1 or 2 percent, they might spend more time trying to fill another client's vacancy and less time on your vacancies.

You Can Do It Yourself

For you DIY landlords out there, we have good news: it's entirely possible to manage rental property on your own and save the management fees that you'd have to pay out to a company. This task will of course be easiest for those of you who:

- ◆ Own just one or two properties
- ◆ Reside and/or work in close proximity to the properties
- ◆ Are able to handle odd jobs themselves on the weekends or in the evenings
- ◆ Have a Rolodex stocked with a few reliable, local service professionals (plumbers, HVAC pros, and so forth)
- ◆ Don't mind fielding calls from tenants
- ◆ Don't mind collecting rents and handling tenant relations (evictions, screenings, and so forth)

IMPORTANT TIP

Property management isn't an "all or nothing" proposition. You can handle some of it on your own and find one or more outside firms to take on those tasks that you either can't or won't be able to cover on your own.

Before You Go

Let it be said that owning and managing rental property isn't easy, but it certainly is profitable and enjoyable on many fronts for those who take the time to plan and execute effective strategies *before* diving in. In this book, we'll show you how to leverage your current expertise to create a property management plan that will help you be as profitable and successful as possible.

We'll start by showing you what it takes to be a property manager and let you make your own choice about whether to handle it on your own or outsource some or all of the tasks to an outside entity.