

The Five Worst Management Mistakes Commonly Made by Property Owners *by Joel Panzer, MPM and J.J. Panzer, CCRM*

We are all human, and we think everyone else is human too. We all make mistakes. Frequently, when someone makes a mistake, he says he's sorry, is forgiven, and life goes on. When you're a small property owner-operator, mistakes may not only be financially painful...they can be emotionally devastating!

Here are what we consider the five worst mistakes an owner-operator can make, mistakes that leave you open to cunning or predatory tenants, opportunistic attorneys, family divisiveness, and heartbreak.

1. Forgetting That Your Property is Your Business

Owning and operating rental property is not a hobby. If you own a rental property, even if you are only renting out a flat in a duplex where you live, you are operating a business, and you need to be as professional as possible about it. Write down important information and be organized. Get and keep copious documentation about tenants and contractors. As you go about the management of your property you should constantly be thinking, "If my tenant sued me for this, what would I tell the judge or the jury of the tenant's peers?" Don't feel pressured to respond immediately to tenant questions if you don't know the answer. Go look it up! Tell them you need to ask your wife/husband/friend!

2. Getting Too Close to Your Tenants

Keep your distance from your tenants. They are your customers, not your friends. If you want a friend, get a dog! Your responsibility is to provide your tenants with a safe, clean, habitable rental dwelling, and your tenants are required to pay the rent and take care of the property they are renting. Tenants provide you with income that makes the risk of operating a rental property worthwhile. That is the extent of your relationship, particularly in a multi-unit building. You cannot possibly be, nor would you want to be, equally close to every tenant. If one tenant perceives that he or she is being excluded from something simply because he is not as "chummy" with you as one of his or her neighbors, he will likely be unhappy and strive to "even the score" for the perceived slight. It could also be construed as a discriminatory practice!

Don't do favors for tenants, and never ask for them. Under recent changes in the interpretation of the Rent Ordinance, kindnesses and courtesies given in the past and discontinued in the present may be construed as a "diminishment in habitability," and the tenant may therefore be entitled to a rent decrease. Remember: No good deed goes unpunished!

3. Interacting With Your Tenants Verbally Instead of in Writing

You know how it works: when someone tells you something in person or over the phone it's not as serious as if they put it in writing. If push comes to shove, and there's a dispute over what was said, it's going to be your word against theirs, and you know who *always* wins that argument - the tenants! You should consider anything you

communicate to your tenants verbally to be lost to the wind. If your tenants choose to comply with your request, you're fortunate. If not, don't be surprised. This goes doubly for rent collections: your lease does *not* say that you are required to call the tenant before serving a 3-day notice for unpaid rent. When was the last time the water department, PG&E, or the garbage company called *you* to beg you to pay your bill? They put it in writing because that's the professional and legally required way to do business.

4. Not Demanding That Your Real Estate Investments Make the Same Type of Profitable Return as Other Investments

Look for and expect appreciation and a reasonable rate of return on your investment. Think about the equity you have in your property as a resource. Ask yourself: "Would I be happy with my cash flow if I had a million dollars in the bank and this was my monthly return?" Too often, especially as we get older, we continue to do things with, to, and for our properties as we did when we were starting out. Make sure you have a stable of skilled, paid professionals, including a CPA and an attorney. Consult with them frequently. Make sure you are taking advantage of all the opportunities the tax code allows.

5. Hiring Unqualified, Unprofessional Contractors to do Maintenance

With housing prices as they are, any rental property is likely worth at least a million dollars. Don't jeopardize an investment of that size by hiring unqualified, unprofessional contractors to do maintenance for you in an attempt to save a few dollars that are probably tax deductible! Hire professionals any time you possibly can. Before hiring them, and preferably before you even spend the time to interview them and get a proposal from them, check the California State License Board's website at www.cslb.ca.gov to make sure their license is current and appropriate to the job you're hiring them to complete, their insurance is current and provides sufficient coverage, and their bonds are in place.

If you had a \$100,000 car you certainly wouldn't hire a mechanic with no training, no insurance, no license, and no permanent place of business to work on your engine or your brakes. You'd only trust your life or investment to a property qualified professional. For the same reasons you shouldn't allow an itinerant laborer to do complicated construction work on your multi-million dollar property. Remember, "here today and gone tomorrow" not only refers to your money when you hire cheap labor or contractors; it also describes these people when something goes terribly wrong with their work and you need to find them again.

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