

## **Seven Ways to Fail in the Landlording Business** by Robert L. Cain

Sometimes landlords forget they are in business. That's when they get into trouble. Lots of people have made and continue to make good money by investing in and renting out property. They do it by always watching out for their financial health by realizing that good business means careful attention to what happens to their rental building. Here are seven mistakes that successful landlords never make

### **Failing to Check Out Prospective Tenants**

By far, the biggest cause of financial disaster for the landlord is the bad tenant. Bad tenants give themselves away. Among other things, they don't pay their bills, they have been evicted by other landlords, and they lie on rental applications and job hop. All of these facts are easily discovered by simply checking out tenants before you accept rent and hand them the keys.

By the same token, good tenants also give themselves away by doing just about opposite from bad tenants. You can't tell from just meeting them. The professional bad tenant is a professional liar. They have lots of practice at sounding as if they are the best and nicest person in the world, or the person you should feel sorriest for.

The two times landlords are most often is when they are in a hurry and when they feel sorry for prospective tenant. As I wrote in a manual on tenant selection, "Landlords get into trouble when they begin to believe that they are in the business of saving the world. You are in the business of providing housing. It is bad business to turn a \$60,000, \$70,000, \$80,000 or \$100,000 piece of property over to a bad tenant. It will cost you sleep, money and your sanity and eventually drive you out of the business if you are not careful about the tenants to whom you rent."

### **Failing to Check the Property**

Things happen to rental properties that the tenants ignore. Since they have no financial interest in the property, they do not consider continued maintenance important. Many times, in spite of the fact that they tell you about things that need fixing, they don't tell you about things that just don't bother them. Often, those are the things that can end up costing you a lot of money.

For example, a tenant won't notice a roof that is missing shingles or is about worn out. After all, it isn't leaking. But they might call you about a dripping faucet, something that would take a long time before it costs you any money. A tenant probably wouldn't say anything about a rotting porch board, as long as it isn't right where he or she has to step every time someone enters or leaves. The rotting porch board could be a sign of a lot more dry rot underneath, potentially adding up to massive repair costs.

By making a check of the property every three months with a room-by-room check list, you nip problems and expensive fixes in the bud and you let the tenant know that you care about your investment and their comfort.

### **Failing to Raise the Rent**

A rule of thumb is that you raise the rent every year. The every year is important. Your costs rise every year, but you don't raise the rent because you have a good tenant and don't want to lose them. If you were renting a property for \$500 a month, a five percent increase would amount to \$25 a month. Certainly the tenant will grumble, but probably won't move. After all, you can't afford to move for \$25 a month.

Say you don't raise the rent. Five years later you are way behind. Now, in order to catch up, you would have to raise the rent to \$625 from \$500. That is reason to move. It's called rent shock. You keep good tenants by raising the rent a little every year, not as a last resort.

### **Failing to Maintain to Property**

This goes right along with philosophies of numbers two and three. If you let things go, it ends up costing more in the end. The result of poorly maintained properties is good tenants moving out and only bad ones applying to move in.

It's a vicious cycle. The property gets progressively worse; good tenants move out; you can't get higher rent; less desirable tenants move in; you can't afford to fix what's wrong; the property gets even worse and even worse tenants are the only applicants you get.

### **Failing to Use Checklists**

You can't remember everything. The most efficient way to make sure you do remember is the use of checklists. Make checklists for:

- Tenant selection
- Move-in procedures
- Maintaining the property
- Move-out procedures and lots more

### **Failing to Use a Written Rental Agreement**

It is important that tenants know exactly what is expected and required of them. That way there can be no question of misunderstanding, as long as you don't accept activities that violate the agreement.

Make sure the rental agreement you use is up-to-date. Those are available from your local apartment or landlord association. They have been prepared by real estate attorneys to reflect all the latest changes in the law. What you don't have in a rental agreement or what you have that shouldn't be there any more can cost you a bundle.

In addition, when a change in the law occurs, change the rental agreement accordingly. Nothing is so frustrating and potentially costly as a misunderstanding. If everything is spelled out in the rental agreement, there should be no question.

### **Failing to Update**

Maintenance is one thing. Keeping your property looking brand new and fresh is another thing. An updated apartment can mean an extra \$100 a month in rent.

As a rule, people like to live where it is clean and fresh looking. And they will pay a premium for it. New vinyl, carpets, countertops, bathroom fixtures, cabinet doors and modern paint all add to the amount of rent you can get.

Don't update and the property looks shabbier and shabbier, limiting your capability of keeping the rent on a par with other properties.

There are seven ways to fail in our business. Doing the opposite of the ways to fail is an almost sure way to be successful. As always, the choice of how we run our businesses is ours.

*Reprinted with permission of The Northwest Landlord.*