

## 7 Steps to Avoid High-Risk Tenants by Brian Gordon

The goal of any investment property is to produce income. The income derived from residential real estate is primarily from the tenant's rent. Knowing this, seasoned investors will quickly admit the financial stability of the renters play a major part in the economic success of income property. Thus, why would any investor place little or minimal importance on the quality of tenants to which they rent? Knowing the consequential effects caused by destructive, financially unstable, and emotionally frustrating tenants and how to identify those traits during the screening process will help lead to your building most valuable asset, good tenants.

These steps will undoubtedly prove to be a great guidance tool in protecting your investment from fraudulent, financially unreliable or destructive tenants.

Let's face it; if you are reading this article you have probably had at least one run-in with a problematic tenant. They are definitely out there and all too often these are the people desperately searching for your vacancy. Hopefully, by reading this article you will become more attentive to the demeanor of prospective tenants and attain a better ability to avoid high-risk tenants. Unfortunately, there is no tenant crystal ball that will tell us the future but by looking for a few simple red flags you can avoid many future headaches and certainly save some money.

1. Previous or current landlord reference: If the tenant refuses, neglects, or even avoids their landlord's reference, this is usually a sign the tenant is not on good terms with their current landlord. Simply by contacting the applicant's previous landlord, you will get great insight into the tenants' payment history, conduct, and overall tenancy. Contacting the applicant's previous landlord is a must when screening a prospective tenant.
2. Too many people for the unit size: Over crowding is a serious issue. Always verify for yourself each occupant and include each on the lease. Include in your lease the number of allowed residents in the apartment. This will assist your legal rights in the event your tenant overcrowds the apartment.
3. Has a history of destroying property or an eviction: Any tenant who has previously been in an eviction process or has a history of destroying property is not a good candidate for your building. Responsible people will realize the consequential effect of an Unlawful Detainer on their record will make all measures to resolve the disputed matter prior to having this affect their credit.
4. Have many unpaid bills on their credit report: Applicants with numerous unpaid bills reflect the high possibility of not paying rent in the future. The process of running an applicants credit history in a necessity but take a few minutes to thoroughly read the report. Applicants with the mentality of allowing numerous small bills to be reported on their credit will likely not care if you have to report negative information.
5. Does not earn enough income to pay rent: Generally, most property management companies use the 3 times rule; if the applicant's gross scheduled income is three or more times the amount of rent he or she would be paying in one month, then with general financial planning this person should be able to pay rent. If you applicant has excuses for lack of income or depends on assistance from unconfirmed sources, this could potentially lead to future delinquencies in payment.
6. Cannot afford one month's security deposit for rent: If the applicant does not have enough money in savings set aside for one month's rent and a security deposit of one month, the financial stability of this tenants is very questionable. Experience will prove, applicants who cannot afford at least one month's security deposit, often to do not have the resources set aside in the event of an unforeseen financial requirement, thus increasing their inability to pay rent consecutively each month without problems.
7. Unable to provide satisfactory identification: Applicants unable to provide satisfactory identification are certainly not credible applicants. Despite the risk of renting to an unidentifiable or fraudulent party you are also limiting your legal ramifications against an unknown person in the event your tenant defaults the lease. Landlords must always verify identifications to ensure the person applying for the apartment is legitimate.

The above seven steps should be used as a guideline to assist in your applicant screening process. These steps will undoubtedly prove to be a great guidance tool in protecting your investment from fraudulent, financially unreliable or destructive tenants. Regardless of which property management company you chose, interrogate the property manager in charge of your property to ensure they practice these simple steps when renting out your apartment building. The staff responsible of your building should naturally identify potentially hazardous and dangerous applicants to ensure your investment is protected. Tenant screening will always be a rigorous process that must be taken with the utmost caution and consideration. Such steps will help the smart investors to avoid the emotionally and financially costly effects of the wrong tenant profile in your building.

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