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Chapter **1**

Residential Property Management 101

The key to long-term success and wealth-building through real estate ownership lies in the foundation you acquire as a hands-on property manager. Some people start by managing rental properties owned by someone else and gain a great deal of experience that they can use for their portfolio. Other people learn from trial and error — but that can be expensive.

There are many positive reasons for becoming a rental property owner or manager and just as many ways of doing so. Perhaps you've saved up the down payment to purchase your first small rental unit and hope to see your investment grow over the years as a nice retirement nest egg or a supplement to your current income. Maybe you want to invest in a medium-size apartment building and build some equity as well as rental income to supplement or replace your current income. Perhaps you've inherited Aunt Gertrude's run-down cottage and need to find a good tenant who'll care for it and pay the rent on time. Maybe you recently closed on your new primary residence, only to find that selling your existing home isn't as easy as the real estate agent promised. Or perhaps you've had to move across the country to find a suitable job but want to return to your home in the future to avoid getting priced out of that market years later when you return.

Whether you plan to become a full- or part-time property manager, you need to know what you're doing — practically, legally, and financially. This chapter serves as a jumping-off point into the rental property world. Here, you can find useful info, tips, and checklists suitable for novice or seasoned rental property managers. So get ready for some pragmatic and realistic sage advice from the tenant trenches to help you handle situations when they arise!

Understanding Property Management

Rental property owners provide consumers a product known as *shelter*. Property managers, who either work for themselves or as the agents for an unrelated third-party owner, handle the day-to-day aspects of making sure that the provided shelter meets their customers' needs. Put another way, as either a property manager or property owner, your obligation is to provide your customers a decent place to live in exchange for the payment of rent. Although property management doesn't seem very complex, you can avoid the many mistakes unprepared property managers make by knowing what you're getting into.

The following sections give you a quick overview of the pros and cons of property management. Chapter 2 provides more in-depth analysis of these advantages and disadvantages for a residential rental property owner to help you determine whether self-management of your rental property is the right choice for you.

Considering the benefits

Property management can be a rewarding and enjoyable venture. I can't imagine my life without some aspect of property management in it. (Why else would I have written this book, right?) Following are some of the reasons why I get such a kick out of this business:

- » **Experience with real estate investment:** As you manage residential rental property, you have the opportunity to observe and begin to understand investing cycles, which is an essential skill for becoming a successful real estate investor. Some real estate investors succeed without ever being hands-on property managers, of course, because they hire others to handle the task for them. But I believe residential rental property owners should gain that real estate investment expertise by actively working as property managers for several years, either for themselves or others.
- » **Interaction with different people:** If you're a people person, you'll find that property management is a great opportunity to meet *all* types of people. Not everyone you'll encounter is someone you'll want to make your close friend, but

you'll certainly have the chance to work with a smorgasbord of personalities. I could write a book just about the people I have met over the past 40 years!

- » **Skill development:** Property management requires diverse skills because you must handle so many different tasks (such as marketing, advertising, leasing, screening, and maintenance). But it also allows you to grow those skills beyond the basics through patience and passion. You might begin by advertising your rental unit in a basic way with an onsite sign and move to developing a technologically advanced online promotional campaign with 3D property tours available worldwide. Pay attention to how unrelated products are presented for sale, and apply those concepts to residential rental housing. Most of the best marketing ideas are already out there; you just need to adapt them to your rental property.
- » **Variety:** Personally, I enjoy the variety of tasks and challenges in property management. Sure, some aspects are repetitious. Rent is due every month, and all properties require ongoing care and maintenance. And some days can be exhausting. But for the most part, every day in property management is something new.

Confronting the icky parts

You can't expect all aspects of property management to be fun. As in your primary job, some days run smoothly, and others are filled with problems. Here are a few of the most challenging aspects of the property manager gig:

- » **Difficult tenants (and others):** Despite the great people you meet, property management has its fill of difficult and challenging personalities, including people who're downright mean and unpleasant. You have to be prepared for adversarial and confrontational relationships. Collecting the rent from a delinquent tenant, listening to questionable excuses, or demanding that a contractor come back and do the job properly requires patience, persistence, and a fair but firm approach.
- » **Long hours:** Because you're dealing with housing, you don't know when you're going to be needed — at 3 p.m. or 3 a.m. Like me, you can expect to be constantly on call — even when you're on vacation, at the movies, or in the middle of a family holiday dinner — to deal with issues that only the rental owner or property manager can handle. Fortunately, you can minimize these inconveniences by planning carefully and hiring competent, reliable employees and vendors who can prevent many unexpected emergencies through good management and maintenance. Also, technology has improved significantly and can make remote handling of many issues more manageable. You can now receive and review photos and even repair proposals on your smartphone, for example. But owning and managing rental property remains a 24/7, year-round commitment.



WARNING

- » **Need for emergency capital:** One of my favorite sayings and goals in life is “No surprises,” but owning residential rental properties can lead to situations in which unanticipated expenses arise at any time. Tenants might suddenly stop paying rent at the same time the roof leaks and the water heater goes out in the middle of the night! Having a nice nest egg, a rainy-day fund, or at least a decent unsecured credit line at reasonable rates can be very helpful, as most rental property owners experience a squeeze on their cash flow at times.
- » **Potential liability:** After more than 40 years in property management, I believe that most tenants are good people who are just looking for a decent, quiet place to call home. But some “professional tenants” look for any mistakes you make or even set traps for you to fall into that can lead to claims for free rent or even litigation. You need to stay on top of all the legal requirements for landlords in your area and make sure that you always comply with all laws and disclosures. If you’re not willing or able to keep up with ever-changing legal requirements and health and safety issues, or if you’re sloppy with your record-keeping, you may learn some expensive lessons!

RENTERS DRIVE RENTAL PROPERTY MANAGEMENT

The U.S. Census Bureau reports that more than one-third of the U.S. population, or 94 million people, are renters occupying more than 43 million rental units, including more than 14 million single-family-home rental properties. The number of renters has increased in the past few years, with the COVID-related economic challenges in most areas of the country. Also, job-market uncertainty has made it more difficult for some people to become homeowners, and the overall percentage of home ownership has fallen from a high of 69 percent in 2006 to 65 percent in early 2021.

Individual property owners dominate the rental housing industry. According to the National Multi Housing Council, per the U.S. Department of Housing and Urban Development and the Census Bureau 2020 survey, individuals own nearly 72 percent of small rental properties with 2 to 4 units and nearly 23 percent of residential income properties with 5 to 49 units. The majority of residential rental properties of all sizes in the United States are owned by single-purpose legal entities, such as limited liability companies (LLCs), limited partnerships (LPs), limited liability partnerships (LLPs), and general partnerships, which often are individuals or a small number of investors pooling their resources. By comparison, one of the most popular ways for individuals to invest in real estate is through real estate investment trusts (REITs), which have exploded in the market with the acquisition of billions of dollars’ worth of high-profile rental real estate assets. In spite of the significant publicity they’ve received in the real estate media, REITs own only 3 percent of all residential rental housing units in the United States.



TIP

You should also get a copy of the companion book *Landlord's Legal Kit For Dummies* (John Wiley & Sons, Inc.), which I co-wrote with Laurence C. Harmon.

The good news is that these negatives can be found in many other careers or professions that don't offer the benefits and satisfaction you can get from property management. So in my opinion, the pros outweigh the cons.

Examining Types of Real Estate

Before you run out to purchase a residential rental property, you need to have a good idea of the different types you can own. Most real estate investors specialize in properties with specific uses. Investment properties fall into classifications such as residential, commercial, industrial, hospitality, and retail.

For the purposes of this book, I focus only on residential real estate because the majority of rental real estate is housing, and the basic concepts are easy to understand and master. (After you master the basic concepts of residential real estate, you may want to consider other types of property management.) The best practices I present throughout this book are applicable to these types of residential rental properties:

- » **Single-family houses and condominiums or townhomes:** Most real estate investors start with a rental home, condo, or townhome because these properties are generally the easiest ones to gain experience with. They may be located in a common interest development (CID) or community association in which all the common areas are the association's responsibility.
- » **Duplexes, triplexes, and fourplexes or subdivided houses:** This category includes properties with two to four units. Often, these properties are the first choice for real estate investors who plan to live in one of the units or want to take the next step up from investing in a single-family rental home or condo. These properties qualify for favorable financing terms, so they're perfect for the new investor or an investor in higher-priced urban markets.
- » **Medium-size multifamily apartment buildings:** These buildings usually have between 5 and 30 units; they are best run with part-time to full-time on-site management and regularly scheduled maintenance and contractor visits.
- » **Large multifamily apartment buildings:** These properties are larger buildings that can have 30 or more rental units in a single location, or in close proximity on scattered sites, with an on-site manager or maintenance staff. Owning one of these properties is the goal of many real estate investors who look forward to being able to hire a professional property manager and just check their bank account for their regular cash distributions. (In Chapter 3, I reveal what to look for in a good professional property manager.)

No matter what type of residential real estate you're involved with, you need to understand the basics of property management. You must market or staff a property differently depending on its size and location, but many of the fundamentals are the same regardless.

Over the course of your tenure as a property manager, you'll probably manage several types of residential properties, which is just one of the challenging yet fulfilling aspects of the job. You may start out managing single-family rental homes or condos, for example, and then see your investments or career progress to larger rental properties. Sometimes, people in the rental housing business start as on-site employees for large rental properties, learn the ropes, and later apply that knowledge to become market dominators of rental houses in their areas.

Owning and managing all types of rental property can be lucrative, so I suggest that you jump in wherever you have your first opportunity, because no rules mandate your starting position.

Renting Your Property

One of the first and most important lessons I learned when I started in property management more than 40 years ago is that vacant real estate isn't a very good investment. You need to fill those vacancies and keep them filled with tenants who pay on time. Just try looking in the mirror and telling yourself that all the rent came in last month. I bet you can't do it without smiling!

Renting your property and retaining your tenants don't magically happen, of course; those tasks require having a plan and doing a lot of work. But you want to work smart, not just hard. In the following sections, I cover some of the best practices for preparing your rental units, setting your rents, attracting qualified prospects, and closing the sale.

Chapter 4 expands on where everything begins: acquiring the rental property. Part 2 helps you position your new rental property within the rental market and discover how to find good tenants.

Preparing the property

Before you can rent your property, you have to make sure that it's ready for a tenant to move in. But you can't simply put up a "For Rent" sign and expect to rent to the first caller; you need to spend some time preparing the property properly. And by *some time*, I mean a lot.

Relax! Tear up your applications to those reality shows that renovate your fixer-upper for free, because you *can* prepare your property yourself. Just remember to focus on the inside as well as the outside. Chapter 5 shows you the best way to determine what to upgrade and renovate to meet the needs of your target market. I also explain how to ensure that your property's *curb appeal* (exterior appearance) makes potential tenants want to see the inside — not keep driving by or swiping to the left to the next property on the list.



WARNING

During this stage, you get to test your decorating-on-a-budget skills because you don't want to over-improve the property. But if you're too tight with cash and try to get by with anything less than your best effort, be ready for most of the people who show interest in your rental unit to be the least-qualified prospective tenants. The moral of the story? Don't be cheap, but do be practical!



REMEMBER

To get great tenants, you need to guarantee that your rental property compares favorably with other properties in your area and makes that important positive first impression. These days, that first impression often happens online, but it always starts with the exterior of your rental property, which should have a neat and well-maintained appearance, and continues with a clean and inviting interior, with the features and amenities that prospective tenants in your area expect.

Preparing the unit properly also often requires the use of outside vendors, suppliers, or contractors. What you don't contract out — tasks such as basic cleaning, maintenance, and painting — you need to do yourself. You also need to know how to perform a careful inspection to make sure that the unit is ready to show. I give you details about how to accomplish all these tasks in Chapter 5.

Knowing how much to charge

Understanding what you can charge your tenants is far from arbitrary. Setting the rent in particular can be tricky — especially if you've just spent hours investing your time and sweat in renovating and scouring your rental unit to make it sparkle.

In such cases, you may overestimate the market value of your unit because you have so much personally invested. But your prospects aren't likely to be impressed that you laid the tile; instead, they'll quickly point out that the flooring color doesn't match their furniture. But if you lower the rent \$300 per month, they'll consider taking the unit off your hands, almost as though they're doing you a favor. You may be able to structure some mutually beneficial rental concessions, but don't be a pushover.

Many rental property owners are simply too nice. Maybe you're someone who has trouble bargaining and holding out for the top fair-value dollar. You may be kind of like my mother-in-law, who was a sweet but overly generous woman — especially when it came to yard sales. My wife and I are glad that no one ever offered Rita 50 cents for our car!

In addition to setting the rent, you need to make the following decisions before a tenant moves in:



TIP

» **The amount of the security deposit:** Setting security deposits is a function not only of market conditions, but also limitations on the amount you can charge and whether that amount is fully refundable. These restrictions are set by state laws. Determining whether you want to pay your tenants interest on the deposits you hold is also subject to law, but certain advantages can warrant doing so even where not required (especially for long-term tenants).

The best way to decide on all the details of the security deposit is to conduct market surveys to see what others are doing. If everyone else has security deposits set at approximately half of a month's rent, requiring your new tenants to come up with a security deposit of two full months' rent on move-in is difficult.

» **The type of rental contract:** Another important decision that has lasting consequences is deciding whether a lease or month-to-month rental agreement is best for your property. Although the residential rental housing industry is trending away from leases because they tend to favor only the tenants, you should reach your conclusion after conducting a market survey and understanding the pros and cons of each type of contract.

Check out Chapter 6 for more info on determining how much to charge, setting deposits, and figuring out what type of rental contract to use.

Capturing prospects' interest

A successful property manager needs to understand the role of marketing in creating demand and meeting the needs of local renters. Fortunately, your marketing and advertising possibilities have increased dramatically with the advent of the Internet and social media. You (or in my case, my grandchildren) can develop a fantastic website with digital photos, floor plans, and 3D tours. Just make sure that you follow all the fair-housing laws as you work to generate rental traffic.

In Chapter 8, I review various electronic and nonelectronic options for promoting your rental property and attracting prospective tenants.

Turning interest into property visits

The ways to attract potential tenants are endless, but the fundamentals of getting them to visit your property center on your ability to answer their questions — typically online at first, and later on the phone or in person. You also need to be sure that you understand fair-housing laws when you prescreen an interested party, as discussed in detail in Chapter 11. You need to understand how to qualify your prospects properly and legally, for both what you want in a stable, long-term resident and what they need to call your rental property their home for years.

Converting your texts, emails, or phone calls to actual property visits is the next essential step to creating maximum interest in your rental unit. Chapter 9 explains how to get prospective tenants to view your property.



REMEMBER

The way in which you show your property to prospects is important. Avoid walking from room to room, stating the obvious. Instead, point out certain benefits of your unit's unique or special features. Just don't oversell the product and talk fast, like a YouTube or online infomercial. Ultimately, the best technique for showing your property is letting the property itself make the right impression, as I explain in Chapter 10.

The best result you can expect to achieve at the property-viewing stage is persuading the prospect to complete your rental application and put down a holding deposit. What the prospect can expect from you at this time is the receipt of all of the very important mandatory disclosures.

Picking your tenants and signing the deal

Property management isn't exactly like an online dating game, but you do want to gather information (while following all fair-housing laws to the letter, as covered in Chapter 11) and select a tenant who meets or exceeds your minimum written rental qualification standards. Tenant selection is probably the single step in the rental process that can make or break you as a property manager, so I devote a lot of detail to this important topic in Chapter 11.



REMEMBER

With tenant selection, what seems to be a fairly straightforward process can actually be tricky because of the various limitations on the questions you can ask and the information you can request from interested applicants. Follow the same procedure for everyone to comply with fair-housing laws, and determine how you're going to verify each prospect's rental application. Be sure to select tenants based on objective criteria and then communicate your decision properly to *both* approved tenants and unsuccessful applicants.

Getting Your Hands Dirty: Managing the Property

You never hear from your tenants, yet the check seems to come in the mail each month. Managing your rental unit seems easy — just like you pushed a button! But after a year of progressively bursting with pride at your exceptional property management skills, you decide to drive by the property, only to find that your retirement plans and financial nest egg are candidates for a remake of *Animal House!*

In the next sections, I present the practical, in-the-trenches part of property management that can help you get familiar with every day-to-day eventuality related to the operational side of property management and the life cycle of a tenancy.

Moving tenants in and out

Coordinating the move-in of a new tenant is one of your most pleasant tasks, because this time is your best opportunity to ensure that your tenant starts out on the right foot by explaining your rental rules and guidelines. Chapter 12 helps ensure that your move-in process runs smoothly.

But all good things must come to an end. That end should start with your making sure that the move-out date is mutually agreed-on in writing and that the tenant understands your expectations, policies, and procedures through a tenant move-out information letter. I share more information about making the move-out process as painless as possible for everyone involved in Chapter 16.

Collecting rent

You can greatly improve your chances of making the rent collection process a positive experience by emphasizing your collection policy when your tenant first moves in and by answering for your new tenant all the who, what, when, where, and how questions they may have about their rent payments you collect.

But no matter how carefully you screen your tenants and how thoroughly you explain your rent collection policy, sometimes the inevitable happens, and your tenant is unable to pay the full rent when it's due. What do you do? Start by issuing reasonable but firm policies when the tenant moves in and enforcing your grace period and late-period policies. Then, if your tenant doesn't pay the rent or doesn't live up to their responsibilities under the rental contract, you're prepared to take the appropriate legal action to regain possession of your property as quickly as possible. Chapter 13 provides more in-depth info to help you collect rent.

Keeping the good tenants

Turnover is your number-one nemesis as a rental property owner. Although it's inevitable, your ability to renew your leases and provide incentives for your tenants to stay and pay can be significant in controlling your expenses and maximizing your rental income. That's why keeping your tenants — particularly your good tenants — is a smart move.



TIP

One of the best ways to ensure that your good tenants stay with you is to develop a tenant-retention program that offers them incentives. This action shows that you appreciate them. Chapter 14 offers details on the importance of developing a good landlord-tenant relationship from the perspective of your tenants. It also reveals your tenants' most important needs: good communication, timely maintenance, respect for their privacy, consistent policies, and good value for their rental dollar.

Dealing with troublesome tenants

Despite your best tenant-screening efforts, you're going to make the wrong decision at some point and allow a problem tenant to move in, or you'll have a good tenant who turns sour. But you can lessen the number of these incidents by getting to know some of the problems you may encounter and how to deal with them early on:

- » **Late or missed rent payments:** Timely payment of rent is the lifeblood of real estate investing, because you can't pay your mortgage or expenses without it. A written rent collection policy is a valuable tool for minimizing these problems. You also need to know about any government or private financial resources available to your tenant to help them pay the past-due rent, as most courts in a post-pandemic environment are less likely to enforce an eviction until all such resources are considered.
- » **Loud tenants:** It takes only one boisterous tenant to disrupt the tranquility of the whole neighborhood and destroy your tenants' right to "quiet enjoyment." Developing and implementing rental policies and rules can prevent your problem tenant from chasing the good tenants away. At many properties, the one bad apple is the reason why more of the good-apple tenants leave than any other single issue. So don't underestimate the importance to your cash flow of removing disruptive tenants in a timely and legally allowed manner.

Chapter 15 gives you some additional tools for dealing with problem tenants effectively. I also describe the best way to handle common tenant problems and the pros and cons of alternatives to an eviction.

Maintaining the property

Are you familiar with the saying “To own is to maintain”? When you have only a few rental units or are just starting, you often do much of the maintenance work on your units yourself. But as you acquire more properties or advance in your primary career, you need to explore the benefits and consequences of using employees. If you own a medium-size to large property, having an on-site employee who’s responsible for its day-to-day management is mandatory.

To keep your property in tip-top shape, you also need to work with outside vendors and suppliers who are pros within their industry. Always keep in mind that you get what you pay for and that maintenance can be one of the largest expenses that landlords face. Part 4 helps you navigate the nitty-gritty, hands-on aspects of managing employees, vendors, and contractors and maintaining your property.

Protecting your investment

Like many property managers, you probably consider your property to be an investment. If you continuously lose money, having the property isn’t worth the hassle or the expense, right? Not to worry. Although you can’t predict bad weather or crime, you can safeguard the value of your investment by doing the following:

- » **Being aware of environmental hazards that can occur:** Minimize your risk, and be prepared for natural or environmental hazards such as storms, fire, carbon-monoxide gas, bedbugs, and mold. See Chapter 19 for details.
- » **Buying the necessary insurance:** You can’t avoid buying insurance, so I make sure that you know enough to be dangerous when your insurance agent says you need coverage for snowstorms at your duplex in Phoenix. Chapter 20 covers the types of insurance you need to consider.
- » **Paying your taxes:** Property taxes are a reality of life almost everywhere. Chapter 20 makes sure that you know how they’re calculated and what you can do to minimize your tax payments by appealing your property’s assessed value when market conditions decline.
- » **Tracking your money:** You may not want to be a greedy landlord, but you’d better track your income and your expenses, as you’ll need to file income tax returns annually. In Chapter 21, I cover the best way to organize your files and the top property management software that you can use to streamline and simplify this important but potentially time-consuming aspect of managing rental housing.
- » **Increasing your cash flow:** Sometimes, recouping all the costs for your property isn’t easy, so you may need to find ways to get more cash in your hands. As you discover in Chapter 22, a wide assortment of options awaits, including government-subsidized housing programs, special niche housing markets, and lease options.