



So You Want To Be a Landlord

by Richard Lind

It seems everyone in the building business sooner or later gets involved in rentals, assuming the role of a small landlord.

Sometimes it's by design, but often it's by necessity. Many are baptized as landlords when they rent a spec house that didn't sell. Others find themselves with an older home they acquired with a large tract to be subdivided, which might be rented only until they get permits and financing for the property's eventual planned use. And sometimes, when builders construct or renovate a building for their own office space, they add a rental unit or two.

There are many advantages to being a small landlord. For one, regular rental income can improve cash flow. Even if the rent doesn't cover all the carrying costs, it lightens the load and gives the owner a breather until the property can be developed or sold. For the longer term, rental property ownership or management can help you diversify in an on-again, off-again business climate. And, in spite of federal tinkering, attractive tax advantages remain for the smaller investor in rental property, including depreciation.

One of the best advantages is an orderly way of building an estate. Individual, smaller properties are more manageable, offering considerable flexibility over a portfolio of large buildings with many units. An individual house or building can be refinanced more easily or sold when cash is needed.

Two-Way Street

As a small landlord, you'll have duties and responsibilities to tenants. Understand from the outset state laws and fair-housing regulations governing the landlord-tenant relationship. Have your lawyer prepare the lease and walk you through the regulations. Learn, for instance, when you can reject a rental prospect, and how to handle security deposits and the last months' rent. Remember, just a little problem can turn into a little lawsuit—one that can leave you without the shirt on your back.

When screening prospects, get references and make a credit check. Even though I have great respect for my own gut feelings when qualifying a prospect (and have yet to be stiffed), at least I'll know I took all the right steps if things ever do turn out badly. Unlike the absentee landlord of multiple units, the small landlord typically has a close working relationship with tenants. Your paths may cross daily. There's no reason the relationship can't be pleasant, but it requires discipline and management to keep it on a firm business footing. Always spell out the terms of the agreement in your lease, even if the length of occupancy is open-ended.

If you intend to rent a property on a continuing basis, rather than temporarily, make sure it is sparkling. This not only makes it easier to rent, but it

also establishes the condition in which the property is to be returned, except for reasonable wear and tear.

Restrictions in the lease are fine—as long as you enforce them. Many leases contain requirements regarding protection of wood floors, placement and disposal of rubbish, or where tenants may park their cars. If you fail to act when a tenant doesn't comply with these restrictions, you invite other tenants to flout the terms of the lease. It's also a telltale sign that you're not properly managing your property. A pleasant but firm letter to the offending party usually will suffice, but see the issue through to a conclusion, no matter what.

without the sting of a personal admonishment.

Keep records of appliance purchases, replacements, installations, and warranties. Duplicate relevant instructions from the owner's manuals for new tenants, but keep the original manuals in your files.

Occasionally, tenants ask if they can make an installation, change, or replacement at their expense. This sounds reasonable, but my experience is that when the tenant leaves, I'm left with a problem of faulty workmanship or an eyesore. Think twice before allowing tenant-performed installations.

Good management comes with planning and experience. Rentals can



Keeping Tabs

As a small landlord, you may want to personally perform maintenance. This does more than ensure that the furnace filters get changed and the exterior hose faucet gets shut off and drained for winter. It gets you in the door to see what's going on. For instance, I once aged 17 years overnight when I found a gas-filled power lawn mower stored for the winter against the boiler in an otherwise well-kept house.

An important safety check is the smoke detector. The battery-powered types are adequate in older houses without hard-wired smoke detectors—as long as the batteries haven't been appropriated for radios or toys. (They were removed, your tenant is likely to say, because "every time we entertain and guests smoke, the alarms go off.") Install fresh batteries twice a year, giving yourself access to the upper floors for a look-see. Get an invoice for the new batteries so replacement will be a matter of record. Sometimes, when requesting compliance with lease terms, or enforcing discipline, it's more diplomatic to send out a general form letter rather than a personalized letter; the offending tenant will presume it's sent to all tenants. This gets the message across

be a good option in a bind, as well as a good investment. None of us can predict the future, but property ownership is an American way of life that's not likely to go down the tubes. Real estate always will have its ups and downs, but for the long haul, it's the safest bet I know. ■

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