

ADVANTAGE ASSET MANAGEMENT

PRESENTS

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So, You Want to be a Landlord?

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A. Buy a Property You can Rent:

- May seem obvious, but good rental properties may not fit your taste as a residence. Make sure your Realtor knows that you are seeking it for a rental
- Fancy trim and upgrades like saunas and whirlpool tubs may only work in higher priced homes, and may be maintenance issues for landlords
- Same issue for exterior landscaping – simple is better
- Some subdivisions limit or impair rental of houses. Watch for the HOA!
- Many condos outright prohibit or limit some types of long-term or short-term rentals.
- A professional inspection report is always recommended. For fixer-uppers, make sure you do not exceed market value when repairs are completed.
- Rental properties are not your residence and may require higher credit scores and larger downpayments.
- If an investor holds property in an LLC or Sub S corporation, it is possible that there will be more favorable tax treatment under new tax law. Definitely worth reviewing with a CPA.
- Remote properties that are not in a vacation area will be tough to rent.
- How close to your rental do you want to be?

B. Taxes:

- Rental property interest and taxes appears untouched in new tax law. Not clear how mixed personal/rental property will be handled.
- If an investor holds property in an LLC or Sub S corporation, it is possible that there will be more favorable tax treatment. Definitely worth reviewing with a CPA or tax attorney.
- Long-term capital gains rates will remain the same.
- Important – 1031 Tax Free Exchanges now limited to only real estate, again a plus for the real estate investor.

C. Renting Issues:

- Be sure to check out any prospective tenant – credit and criminal. Most rental management companies will do this as part of their service package
- The prospective tenant with bad credit – always a risk.
- A young tenant or someone with no credit, do not be shy about getting a co-signer.

- Use only lease forms approved by Realtors or prepared by an attorney.
 - As a general rule, no leases less than one year and nobody moves in without a lease and security deposit paid.
 - Pets or not? Often, separate security deposit. It is easier to rent single family houses, especially if pets are accepted, but they can cause a lot of damage.
 - Recommend a 60 day notice period, not 30 days.
 - Auto-renewal issue vs. “holdover” issue
 - Mold provision
 - Drain provision
 - Smoking
- Good property insurance, perhaps including flood insurance, and then an umbrella policy is highly recommended
- Include in estate planning so there is someone to operate the properties in an emergency or death.

D. The Downside:

- Property is vacant – Must be able to stand a period of vacancy periodically. Speaking of financing, property often estimated to be occupied only 75%
- Expensive repairs – all properties need maintenance and this should be anticipated. However, replacing HVAC systems, septic systems, and roofs, needs to be part of the overall financial plan for the property. Note that some of this will need to be capitalized and cannot be deducted in year 1.
- Tenant Damage – Historically, landlords cannot recover all the damage to a property. Having good photos on way in and way out can really help. A good move-in/move-out set of forms, (often handled by a rental manager), can provide some coverage.
- Eviction – be sure to follow local laws and most likely, best done by an attorney.
- Reports on prior tenants and current tenants – caution for defamation claims.

E. Real Estate Outlook:

- Market now strong, but there are weak pockets.
- Low & middle income houses moving, \$500K and up – not so much.
- Higher interest rates virtual certainty for mortgages and other borrowing. Hard to determine their impact at this time. Obviously, landlords hope rents will increase faster than interest rates.