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# Becoming a Landlord

Rewards, Risks,  
and Responsibilities



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# Overview

You have applied for a mortgage loan to finance the purchase of a rental property that can house up to four households. When you buy that property and start renting units to others, you'll be taking on the role of "landlord." You will be a special type of real estate professional, permitted not only to collect rent but, if you choose to reside in one of the units, also able to select some of the people who'll live side by side with you.

You have a lot to look forward to — many rewards but also lots of responsibilities. You'll need to make sure your tenants' living quarters meet health and safety codes under applicable law. You'll be responsible for abiding by federal, state, and local landlord/tenant and other laws. It will be your responsibility to find tenants, collect rent, and manage your property within a budget. You'll need to keep careful records documenting both the income you collect and the expenses you pay. And all the while, you'll be responsible for making timely mortgage payments — whether or not your rental units are occupied, and whether or not your tenants pay their rent on time.

To help you consider whether you want to be a landlord, Fannie Mae has prepared this guide. The guide's purpose is to help you understand the risks and responsibilities involved in the business of being a landlord and to share some ways of handling them successfully.

**Note: FOR INFORMATIONAL PURPOSES ONLY.**

The information in this guide is not intended to substitute for the professional advice of attorneys, accountants, or other professionals. We advise you to consult your attorney, tax professional, and other advisors. Nothing in this guide is intended to be legal, accounting, or financial advice, and as a landlord and property owner, you are required to comply with all applicable laws.



# Chapter 1: Making the Decision

## Do you really want to be a landlord?

Owning a 1 – 4 unit rental property is one way of achieving the dream of homeownership. In buying a 1 – 4 unit rental property, you also take on the responsibility of becoming a landlord. Your rental property is your business but may also be your home. As a landlord, you must adhere to all applicable state, local, and federal laws and regulations and have a clear understanding of applicable rental rules and practices.

Prior to making the decision to buy a 1 – 4 unit rental property, you should assess your willingness to:

- Share the property with others if you choose to reside in one of the units.
- Devote time to managing your business.
- Make repairs and maintain your property.
- Provide services to your tenants.
- Deal with difficult tenants.
- Become familiar with state, local, and federal laws and regulations applicable to your property and being a landlord.
- Consult and hire professionals, such as attorneys and tax professionals.

You also should take a realistic look at what you can expect as a landlord — the rewards as well as the increased responsibilities of operating a business.

## Advantages of owning a rental property

There may be many good reasons for you to own a 1 – 4 rental property. Some of the benefits that you might see are:

- Monthly mortgage payments may be more manageable due to rental income. A portion of the rental income also may be used to make repairs and maintain the property.
- Rental income may enable a household who otherwise could not afford to own a home become homeowners.
- Landlords may be eligible for certain tax benefits. Please consult your tax professional for advice.

## Increased responsibilities and possible drawbacks of owning a rental property

Along with the possible benefits of owning a 1 – 4 unit rental property, there also are increased responsibilities and possible drawbacks.

### Financial obligations

- You are responsible for the full mortgage payment even if your tenant does not make their rental payment or your rental unit(s) is vacant.
- You will need to budget for unexpected expenses. For example, you may experience problems with tenants and may have to incur legal expenses.

### Repairs and maintenance

Maintenance and repair costs often can be substantial. You must comply with all laws and regulations, including applicable building and occupancy requirements and those requiring you to provide safe and habitable units for your tenants.



## Availability

You should be prepared to make yourself, or hire someone you pay to act on your behalf, available to your tenants in the event of an emergency.

## Landlord responsibilities and obligations

You will need to provide safe and habitable units for your tenants in accordance with applicable law. You could be found responsible for losses and damages that may arise because of injuries sustained as a result of unsafe conditions.

### Maintaining “habitability”

At all times during a tenancy, landlords should maintain the premises in a “habitable” condition in accordance with applicable law. “Habitability” may be defined differently from jurisdiction to jurisdiction, but at a minimum you may need to:

- Maintain all common areas, such as hallways and stairways, in a safe and clean condition.
- Ensure that the electrical, plumbing, sanitary, heating, ventilating, and air conditioning systems are available for use consistent with local requirements and are properly maintained.
- Provide trash receptacles and arrange for the removal of trash when it is the landlord’s responsibility.

In some jurisdictions, a landlord and tenant can agree that the tenant will take care of some or all of these responsibilities. Make sure to check your local laws and to consult your attorney or other advisors.

## State, local, and federal statutes

As landlord, you must comply with all state, local, and federal laws and regulations, including those related to the landlord/tenant relationship and building and occupancy requirements. Before you decide to rent one or more of your units, make sure that you know what these laws are. If you later discover that you haven’t met these requirements, you will need to take immediate action to do so. Failure to comply with these laws can result in legal actions such as fines, lawsuits, and complaints filed with the U.S. Department of Housing and Urban Development (HUD) or state or local housing agencies.

If you do not understand a particular state, local, or federal law or regulation, you should consult with an attorney. You are responsible for complying with the law, even if you do not understand it.

## Operating your business

As a landlord, you will need to know how to:

- Advertise for and attract tenants who will pay their rent on time and meet their other obligations.
- Keep tenants who meet their rent and other obligations.
- Determine how much rent to charge.
- Collect the rent on time.
- Budget for expenses.
- Maintain and make repairs.
- Keep detailed and accurate records.
- Deal with people.



Just as in any other business, you also will need to:

- Keep good records of applications, rent payment dates, notices, agreements, etc.
- Maintain receipts for purchases, repairs, general maintenance, advertisements, professional services, etc.
- File taxes and report income and expenses to the Internal Revenue Service.
- Comply with local and state licensing and permitting laws.
- Maintain various types of insurance.

These topics are covered in detail in later chapters.

## Accounting records

You may want to retain the services of a tax professional to prepare your taxes. Tax laws are more complicated for rental property and include additional requirements for interest paid on the mortgage, rental income, and, if you choose, property depreciation. If you decide to hire a tax professional, you may choose to engage a certified public accountant or some other accounting professional with the expertise and experience in tax preparation for rental properties.

## Emergency funds

All business owners need to plan for the unexpected. For example, there may be times when you are unable to find acceptable tenants or when your current tenants stop paying the rent or you need to evict your tenants. For these reasons, you may want to keep money in reserve to help you continue paying your mortgage and other expenses during this time. Your mortgage lender may also require that you maintain reserves.

It is also important to budget for major repairs to the property, such as replacing a furnace or roof. Because your tenants depend on you to keep the property habitable, you cannot put off repairs just because you don't have the money to make them. While you might be able to predict when some maintenance will be required, you should be prepared to deal with emergencies, such as a furnace that stops working in the dead of winter, a sewage backup in the basement, or an appliance that stops working.

## Legal services

There may be times when you will need to obtain legal advice. In such cases, you should select someone who specializes in rental properties and is knowledgeable about landlord and tenant laws and regulations, building codes and occupancy requirements, and any applicable licenses. You may also want to consult an attorney before you begin renting your property to make sure that you are complying with all local, state, and federal laws and regulations. An attorney can also help you prepare and review your lease and deal with tenants who are not paying rent, including evicting tenants to the extent necessary.

When selecting a lawyer, you may want to shop around and get information or referrals from other landlords, your local landlord or community association, or your state's bar association.



# Chapter 2: Finding Reliable Tenants

When looking for tenants, you need to seek people who are willing and able to pay their full rent on time each month. They also should be people likely to keep their units in good condition — and likely to abide by any policies you may have regarding pets, acceptable noise levels, use of common areas, or other matters. This chapter suggests certain criteria you can use to help identify such tenants.

## How to look for tenants

Sometimes a simple “For Rent” sign in your window will draw enough attention to bring in tenants. Posting notices on bulletin boards also may work. Placing ads in local publications or online sites can bring you renters, too. Or a real estate sales or property management professional can help you. You might ask friends or acquaintances for recommendations. What works best for you may depend on a number of factors, including your budget, the property location, whether you’re in a hurry to rent, or the local rental market.

No matter how you go about your tenant search, it is important to know that there are federal, state, and sometimes local laws that explicitly prohibit landlords from discriminating against particular individuals or groups when choosing tenants. These laws may apply both to wording and placing ads and to interviewing and selecting applicants.

It is critically important to understand and comply with all consumer regulatory and fair housing laws and regulations, whether on the federal, state, or local level. You need to become familiar with your federal, state, and local laws. Your attorney can help you understand these laws and regulations and how to comply with the laws, including best practices for avoiding discrimination and selecting tenants, collecting and returning any application fees, using credit reports, etc. You are responsible for complying with all applicable laws, even if you are not aware of them or do not understand them.

## Establishing selection criteria

You may want to develop basic criteria for selecting tenants, not only to be fair to others, but also to satisfy your own needs. Generally, for a successful landlord-tenant experience, the three most important things most landlords look for when they choose a tenant are:

- The tenant’s willingness and ability to make timely rental payments every month.
- The tenant’s willingness and ability to abide by the provisions in any lease or other rental agreement they must sign.
- The landlord’s reasonable expectation that the tenant is not planning to engage in illegal activities on the property.

## Determine the tenant’s ability and willingness to pay rent

When you are a landlord, you are running a business. To be successful, no matter how much you may like a prospective tenant, you must feel confident that they will pay the rent. Most landlords will not accept a new tenant without first taking certain basic steps to make sure they can and will pay.





## Verify the applicant's sources of income

You need to verify income information provided by your applicants. Because a person's salary is generally the major source of their income, you need to verify the applicant's place of employment or salary source, as well as the information they give you regarding salary and other income sources, such as Social Security, disability, and child support.

## Consider the applicant's credit

Just as the lender you applied to for your mortgage researched your credit history, you should research the credit history of your potential tenants. When possible, try to get credit information in writing. You may want to get more than one credit report. A single negative report could be the result of a dispute unrelated to your applicant's actual ability to pay debts; a single positive report could represent an isolated incident in which a generally uncreditworthy applicant happened to pay a debt on time.

If you can obtain a credit report, you can get a more detailed picture of an applicant's credit history.

An official credit report generally lets you know of any debts the applicant has outstanding, how much the applicant owes, and how timely the applicant's payments have been on credit card bills, car payments, or other debts. The reports typically provide general directions and guidance on how to read them. To obtain such a report, you may need to provide the agency with evidence that you are authorized to obtain a person's credit information and with your applicant's Social Security number.

Because not everyone has had an opportunity to develop a credit record, you may want to check some applicants' credit histories in less traditional ways. It may be worthwhile to do this, as you may find applicants who have not had dealings with banks or institutions that usually report on credit, but who have always paid their bills on time, and often in cash.

Credit reporting agencies	
Equifax:	<a href="https://www.equifax.com">equifax.com</a>
Trans Union:	<a href="https://www.transunion.com">transunion.com</a>
Experian:	<a href="https://www.experian.com">experian.com</a>

One way to check credit histories for such people is to contact previous landlords or obtain evidence of regular payments of obligations such as electric, gas, or phone utilities. If you are unable to obtain this information directly, you can ask the applicant to provide you with canceled checks or paid receipts to document that bills were paid on time.

You also may encounter applicants who have been evicted from their previous rental homes. In such cases, it is especially important to obtain and review a full, up-to-date credit report. Your state or local landlord association may be able to provide you with such a report or refer you to a company that specializes in providing landlords with information about tenants who have been evicted.

[Note that you may have certain obligations under applicable federal, state, and local laws and regulations to maintain the confidentiality of and safeguard applicants' personal financial information, including their Social Security numbers (if obtained) and information in their credit report. To understand your obligations, please consult your attorney.]





## Contact previous landlords and references

No matter how much time you spend checking on an applicant's income and credit, it may be worth putting in the effort to make sure you can reasonably expect the tenant to show consideration for you and other neighbors and follow any rental policies that you establish by talking to their previous landlords. Did the applicant give proper notice when planning to move? Did they observe the landlord's rental policies? Was the tenant considerate of neighbors? Would you rent to this person again?

## Using credit reporting agencies, tenant screening services, and reference-checking services in the right way

If you use a commercial service, like a credit reporting agency or agency that screens tenants or checks references for you, you have certain obligations to applicants. For more information about your obligations under the Fair Credit Reporting Act, the Federal Trade Commission provides information at <https://www.ftc.gov/business-guidance/resources/using-consumer-reports-what-landlords-need-know>.

You should also consult your attorney to ensure that you are complying with all applicable laws and regulations.

## Consider HUD's housing choice voucher program

Landlords should become familiar with HUD's housing choice voucher (HCV) program, which is intended to help very low-income households, the elderly, and individuals with disabilities afford decent, safe, and sanitary housing in the private market. Housing choice vouchers are administered locally by public housing agencies (PHAs) that receive federal funds from HUD

to administer the HCV program. This means that the tenant, landlord, and PHA all have obligations and responsibilities under the HCV program. To learn more about HUD's HCV program, please visit [https://www.hud.gov/topics/housing\\_choice\\_voucher\\_program\\_section\\_8](https://www.hud.gov/topics/housing_choice_voucher_program_section_8).

## Making the final choice

When you finally choose a tenant, it will be your own judgment that counts the most. Eliminating applicants who obviously can't pay the rent, who gave false information on their applications, or who have poor credit histories will be easy. The hard part will be sorting out the applicants who seem acceptable.

## Make sure you turn down an applicant the "right way"

You are not required to rent units in your home to applicants who have unsatisfactory credit histories or who do not have enough resources to make timely rental payments. When you reject an applicant for one of these reasons, it is often wise to let them know. Talk to your attorney about how you should do this in a way consistent with the law.

## Immediately inform applicants you plan to accept

When you decide that you want an applicant to become your tenant, notify the person immediately. Otherwise, they may find another place to live, leaving you to resume your tenant search. But before asking prospective tenants to sign leases or rental agreements, you should discuss your rental policies with them once again to be sure there are no misunderstandings.

It is a good idea to make sure that a prospective tenant has viewed and inspected the exact unit they are going



to rent before signing the lease. You should also give a prospective tenant a chance to read the lease or rental agreement before it's time to sign it. You will find information about establishing and enforcing rental policies in Chapter 3.

**After reading this chapter, do you understand:**

- What your three important criteria for tenant selection are.
- How to find employment and credit information about applicants.
- How to notify an applicant you've accepted or rejected.



# Chapter 3: Taking Care of Business

The moment your tenants move in, they'll be expecting certain services from you. At the same time, you'll be responsible for enforcing any rental policies you've established and collecting rent. To handle these responsibilities comfortably, you'll need to know what you have a right to ask of your tenants — and what they are entitled to expect from you. This chapter identifies both. It also explains how to set rental amounts, create leases, and follow health and safety codes.

## Knowing what a landlord needs to do

The success of your business will rest in maintaining a good landlord-tenant relationship. Once you've found good tenants, you will want to keep them. Your chances of doing so will be greatest if you provide them with a clean, safe, habitable unit at a price they can afford.

## Collecting rent — and other money

Collecting rent is an important business skill. It involves deciding how much rent to charge, ensuring that tenants pay their rent on time, and knowing when and how you are allowed to raise the rent to cover cost increases and make more money.

Where local law permits, you may be able to collect money other than rent for various reasons — usually advance rent to protect you if a tenant vacates your unit without notice or a security deposit to cover any damage a tenant might do to your unit. The laws that allow you to do this often require you to follow strict procedures. Laws in some areas require you to provide the tenant with dated receipts for each payment. Your attorney can advise you of applicable requirements.

## Set competitive rents

When determining how much to charge for rent, you should focus on covering your operating expenses, earning a reasonable return on your investment, and being competitive. (See Monthly Rental Rate Calculator worksheet for a formula on how to calculate monthly rental rates.) Laws in some areas may regulate what you can charge for rent in your building. And there's another factor to consider: competition.

If the rent you want is higher than that charged by other landlords for similar units in your neighborhood, you may find it difficult to attract tenants. Because you need to have tenants to get rental income, you want to be sure that your rental rates are competitive enough to attract tenants and keep your units occupied.

## Increase rents when appropriate

If your tenants have signed leases, you generally cannot raise their rents until their leases expire unless the lease allows you to raise it sooner. The lease usually will specify the amount of prior notice that must be provided before you can increase rent. State or local laws might also require certain notice before you can increase the rent. Even if laws in your area and the lease don't require it, you may want to give tenants



written notice a month or two in advance of any rent increases. For tenants renting on a month-to-month basis, you may be able to raise the rent as often as you want to — so long as you give the amount of notice required by law. In jurisdictions with rent control, there may be limits on how often you can raise the rent.

In some areas, a landlord can include a clause in a lease that permits them to raise the rent — or collect a surcharge in addition to the rent — before a lease expires. Such clauses, which are sometimes called “escalation clauses,” usually apply only in the event that property taxes or utility bills increase by more than a specified amount. Landlords who use these clauses are usually required to give tenants a certain minimum amount of notice before any increases go into effect.

### **Consider collecting a security deposit**

States and sometimes local ordinances strictly regulate security deposits. If laws permit, you may want to collect a security deposit for each unit. This deposit can be used to cover any damage beyond normal wear and tear that you might discover after a tenant leaves. In some locations, state or local law limits the amount of the security deposit.

Generally, “damage” refers to things beyond normal “wear and tear,” like missing items such as faucet handles, refrigerator shelves, light fixtures, keys, or doorknobs; chipped tiles; large holes in ceilings, floors, or walls; major stains; damaged blinds or screens; or destruction caused by movers. It usually does not include normal rust, discoloration, loose grouting, worn carpet, lime stains from hard water in bathroom and shower facilities, chipped or cracked paint, or the effects of the natural settling of the building.

Usually, laws that allow you to collect security deposits specifically identify the types of damage the deposit can cover, and state how and when you are required to return any part of the deposit you don’t use. These terms and conditions should be clearly stated in the lease or rental agreement, if applicable. In many areas, you are required to put security deposits you collect in escrow and give the tenant any interest the deposit has accrued. In some places, local law specifies the amount of interest you must pay on the security deposit.

When you collect a security deposit, you may want to have the new tenant complete a checklist describing the condition of the unit when they move in (see Chapter 4). Later, when the tenant moves out, you can use this checklist to determine any damage done to the unit and how much money you should deduct from the security deposit for repairs (see Chapter 7). You may also want to take pictures of the unit before the tenant moves in.

### **Consider collecting advance rent**

In some locations, you can collect rent in advance for the last month of a lease. That rent would offset any rental income you might lose if your tenant were to leave your unit without notice. Many states allow you to treat “last month’s rent” as part of the security deposit and will allow you to use part of or all of it for cleaning or repair, provided that the security deposit is insufficient to cover these costs. A few states restrict the use of “last month’s rent” to its stated purpose. If you use any of these funds for repairs or cleaning, you may be violating the law. In some locations, you can use the security deposit to cover these expenses, as well.



## Collecting monthly payments

Most leases or rental agreements clearly state when rent is due each month and where payments should be made. You will need to decide which form of payment you will accept — check, money order, money transfer apps (such as Venmo® or Zelle®), or cash. If you are going to require a certain form of payment, you can state this in the lease. When collecting cash payments, most landlords issue a written, dated receipt stating the name of the tenant and the amount paid. Local law may require you to issue a written receipt, even if payments are made by money order or personal check, and you may be required to state on the receipt the amount of any unpaid balance on the rental account.

## Establish late fees and penalties for “bounced” checks

If laws in your area permit, you may be able to protect yourself from late rent payments or checks returned for insufficient funds. To protect yourself from late payments, you may be able to charge a late fee for payments made after a certain cutoff date each month. In some states, there is no maximum amount of late fee you may charge; however, it should be “reasonable” and stated in the terms of the lease or rental agreement. Check your local laws, because some states have strict limits on late fees. To protect yourself from checks that “bounce,” you may be able to require tenants to pay a specific, flat amount in addition to their rent each time their checks are returned. If a tenant habitually gives you bad checks, you may be able to restrict the form of payment to either money orders or cash. To avoid the uncertainty of personal checks, consider whether you want to use an online money transfer application that tenants can use to pay their rent.

## Providing a safe and habitable home

A landlord should provide safe and habitable units in accordance with applicable law. Failure to maintain those standards could result in fines and/or other penalties. In some jurisdictions, tenants may be legally entitled to stop paying the landlord or can open court-monitored escrow accounts if a landlord does not make necessary repairs in a timely fashion. In many jurisdictions, tenants can sue their landlords and ask for damages and/or a court order requiring the landlord to make repairs.

## Know what makes a rental unit safe and habitable

Standard maintenance required by law generally includes:

- Adhering to all housing, health, and safety codes.
- Keeping all common areas such as hallways and stairways in a safe and clean condition.
- Making sure that the electrical, plumbing, sanitary, heating, cooling, and ventilation systems are running and properly maintained.
- Supplying hot and cold running water connected to an adequate sewage system.
- Providing receptacles for garbage and arranging for garbage removal.

In some locations, laws may go beyond these general maintenance requirements. For example, some places have laws requiring landlords to provide window guards; install peepholes in doors; recycle newspapers and/or glass, plastic, and aluminum containers; or remove lead paint. Some areas also require landlords to supply tenants with screens, storm windows, or blinds.



## Strictly follow laws and codes

Generally, if you do not maintain your property according to the law, you can be held liable for damages resulting from your failure to do so. You are responsible for complying with all applicable laws, even if you are not aware of them or do not understand them.

Consult an attorney if you have any questions about the standard maintenance required for your property.

## Enforcing rental policies

It is up to each landlord to create a list of rental policies and to communicate those policies to all tenants. The more clearly you explain your rules, procedures, and expectations at the start, the less chance that you'll experience misunderstandings later. Your attorney can help you ensure that your rules and procedures comply with applicable law.

## Clearly communicate your policies

Keep in mind that while you are communicating your needs to a tenant, you are also starting a business relationship. So, although you are not required to give reasons for your rules, you may be able to build better relationships with tenants if you give them the opportunity to comment or ask questions when you explain the rules.

During this conversation with your new tenant, you should clarify whether you, the tenant, or both of you are responsible for certain tasks like snow removal or the maintenance of common areas. In addition, you may want to include this information in the lease or rental agreement. This meeting would be a good time

to offer any special instructions for using appliances such as microwave ovens or washing machines, and to explain what to do in case of fire or other emergencies. You may want to provide your new tenant with written instructions to refer to in the future.

Be sure to let tenants know how and where to reach you or your agent when it's necessary.

## Know what you have the right to require

You can require tenants to behave according to your policies — so long as your demands fall within the law and the terms of the lease or rental agreement. You can usually ask tenants to:

- Dispose of garbage in a sanitary manner.
- Maintain their units safely and responsibly.
- Use the unit only for legal, residential purposes.
- Park only in designated parking areas and keep boats, additional cars, or other vehicles off your property.
- Use only those parts of common areas — like porches, yards, or basements — that you explicitly make available to tenants.
- Make sure overnight visitors do not turn into co-tenants without your permission.

At your discretion, you also can usually ask tenants to refrain from:

- Altering or adding to the unit without your consent.
- Using parking areas for storage space.
- Destroying or removing any part of the unit or the facilities in it without your permission.



- Bringing in items that harbor insects, rodents, or other pests.
- Making noise that disturbs you, other tenants, or neighbors, especially late at night or early in the morning.
- Smoking in places you designate as non-smoking areas.
- Keeping pets (or particular kinds of pets) or too many pets.
- Bringing in water beds, certain types of appliances, or heavy furniture.
- Using outdoor cooking equipment on porches, balconies, or other areas.

## Asking tenants to sign written agreements

Although some landlords and tenants have oral agreements, you may want to enter into a written lease or rental agreement with your tenants. Using a written agreement can be a good idea because these agreements specify the terms of the landlord and tenant relationship that bind both parties and protect both landlords and tenants by establishing their rights and obligations in a written document.

You will need to decide whether it's better for you to use a lease or rental agreement after consulting with your attorney. Each type of tenancy offers advantages and disadvantages. You will need to determine what works best for you. Keep in mind that in some jurisdictions, there is no legal difference between a lease and a rental agreement.

**Written rental agreements** spell out the obligations of both the tenant and the landlord, and the terms

and conditions of tenancy. In jurisdictions where rental agreements are recognized as a different type of contract than a lease, such an agreement does not establish a period of time for tenancy. Written rental agreements generally provide tenancy for a short period of time — usually under a year, often month-to-month. In many jurisdictions, they may be automatically renewed each month unless you or the tenant provide the other with proper written notice of intent to end the agreement. Month-to-month agreements usually allow you the greatest amount of flexibility. Under a month-to-month agreement, you usually may increase the rent or change other terms of the agreement at any point provided you give proper notification. Because tenants also have the right to terminate the agreement with relatively short notice, you may be exposed to higher tenant turnover. You may prefer to use month- to-month rental agreements in rental markets where there is large demand but a low supply of rental units.

You should be aware that in some jurisdictions, a landlord cannot end a month-to-month tenancy without a legal reason, even though the tenant can. In locations that have rent control, there may be limits on how often and how much you can raise the rent, even with a month-to-month tenant. You should check your local laws to see what is allowed in your area.

**Written leases** also spell out the obligations of the tenant and landlord but set a stated period of time for tenancy, usually a year. Rental increases or other changes in tenancy cannot be made until the lease expires, unless there is a specific clause allowing increases or changes at an earlier time. Written lease agreements may increase your chances of having longer-term tenants but may limit your flexibility. You may prefer to use written leases in markets with low or seasonal demands for renting and high vacancies.





## Know what should be included in a lease

To inform yourself of laws regarding leases in your area, you should consult an attorney or contact the official local government office or trade association that handles landlord/tenant relations, if there is one. Sometimes this is handled by local offices of rental accommodations, zoning, housing, or consumer affairs.

You will find that nearly all leases contain the following basic information:

- The names and signatures of both the landlord and the tenant.
- The date on which the lease was signed.
- The address of the unit the tenant is renting.
- The beginning and ending dates for the period during which the tenant has the right to rent the unit.
- The amount of rent the tenant must pay.
- The time when rent is due, procedures for collecting rent, and any policies regarding late fees or penalties for returned checks.
- The amount of any security deposit or advance rent the tenant must pay, and the circumstances under which the landlord will collect or return such payments.
- The policy concerning whether a security deposit can be used as the last month's rent.
- The amount of notice required to terminate the lease.
- Where and how such notices should be sent.
- Required property disclosures, such as lead-based paint or other hazardous conditions.

Many leases also contain provisions covering the following:

- Whether the cost of providing heat, hot water, electricity, or other utilities is the responsibility of the landlord or the tenant.
- Whether the tenant may sublet the unit.
- How many people may reside in the unit at one time.
- Whether the landlord or the tenant must take responsibility for making various types of repairs.
- Whether the property can be used for business, car repairs, or other purposes.
- Any policies regarding pets, overnight guests, parking, extended absences, or other issues.
- Any types of alterations the tenant may be allowed to make and any restrictions against making alterations.
- Tenant responsibilities for maintenance and damages caused by the tenant.
- Policies regarding illegal activities, disturbances, violations of laws, and ordinances.
- When the landlord may enter the premises (in compliance with applicable laws).
- Any circumstances under which the tenant may be asked to grant access to exterminators, painters, or maintenance workers.
- Any storage space(s) a tenant may use and any restrictions on items that can be stored.
- Late payment fees and attorneys' fees for evictions.



## Seek help when creating a lease or rental agreement

If you prefer to write your own lease or rental agreement, you can find sample leases online or in office supply stores, public landlord/tenant offices, and apartment owners associations. You may want to consider having an attorney familiar with landlord laws prepare or review the lease or rental agreement to make sure that the lease protects your interests and to make sure that it does not include terms or conditions that violate applicable laws.

If you are modifying the format of an existing lease, make sure that all blanks are completed or deleted. If you write in changes, a good practice is to be sure that both you and the tenant initial the changes.

Make sure you understand the process for changing or adding terms and conditions to the lease or rental agreement.

## Evicting tenants

If you have tenants who do not pay the rent, flagrantly violate other terms of their lease or rental agreement, or conduct illegal activities on your property, you may have the right to have them — and their belongings — forcibly removed from your property. The legal procedure for doing this is called eviction.

Because eviction can be a lengthy, expensive, and often unpleasant process, you may want to find an alternative method of removing a problem tenant if you can. If you must evict a tenant, you need to follow every step of the eviction process.

### After reading this chapter, do you understand:

- What to consider when setting your rental rates.
- Why you need to follow health and safety codes.
- What the differences are between a lease and a rental agreement.
- What you should include in a lease or rental agreement.
- When you can raise your rental rates.



# Chapter 4: Getting the Tenant Moved In

## Establishing landlord and tenant relationships

Developing and maintaining a professional relationship with your tenant is very important. Some basic steps include:

- Establishing, communicating, and enforcing rules and regulations.
- Knowing and fulfilling your responsibilities.
- Conducting periodic inspections to ensure the property continues to meet safety and habitability standards and is being well maintained (talk to your lawyer about local requirements on tenant notices before you enter a unit for inspections or repairs).
- Monitoring and keeping track of all significant activity, including any problems you may be having with the tenant or the rental unit.
- Communicating as needed so your tenant knows that you're interested in what's occurring on the property.

Of course, the first step in establishing a productive relationship begins with both parties clearly understanding the rental or lease agreement. When the tenant moves into the rental unit, review key terms as well as a list of any property rules and regulations.

You also may include a move-in letter with information related to emergency contacts, procedures related to repair and maintenance problems, and other important information. Have the tenant sign and date the move-in letter and keep a copy of the letter for your records.

## Holding a tenant orientation

To help your tenant get settled, you may want to hold an orientation at the beginning of the tenancy to:

- Provide a tour of the premises and identify common areas.
- Demonstrate the use of appliances, security systems, heating and air conditioning systems, etc.
- Review the area's services, such as garbage collection, recycling requirements, newspaper delivery, etc.
- Provide information on internet and cable services and neighborhood conveniences.

## Inspecting the property

You and the tenant should perform a joint inspection of the rental unit to identify and document the condition of the unit and its appliances prior to the tenant moving in. Once you and the tenant have completed the inspection, you both should review the checklist for accuracy, being sure to sign and date each page. Keep the original and provide the tenant with a copy. Consider updating the checklist as repairs are made to the unit — indicating what was done and the date that the repair was made. Both you and the tenant should initial any changes to the original checklist. When the tenant moves out, this checklist may serve as documentation or evidence as to why you withheld all or part of a security deposit.



## Establishing a tenant file

Documenting all activities and transactions may be important for tax purposes or if a tenant takes legal action against you, or you need to take legal action against a tenant.

Therefore, you should maintain a file in a secure location for each of your tenants that includes:

- The rental application, credit and employment information, and references.
- The signed lease or rental agreement and a copy of the property rules and regulations.
- The signed inspection checklist and move-in letter.
- The date and amount of all transactions, including the security deposit and rent.
- Repair requests and repairs made.
- Complaints by and about the tenant.
- All correspondence between you and the tenant.

### After reading this chapter, do you understand:

- What information to provide the tenant when moving in.
- How to conduct a move-in inspection.
- How to set up a tenant file.



# Chapter 5: Maintaining Your Property

## Making repairs and improvements

As a landlord, you are responsible for ensuring that your property is maintained in accordance with applicable laws, including all safety and health standards. To ensure that your property continuously meets standards, you should perform periodic and seasonal inspections of the property. Mark the calendar at the beginning of each year to schedule maintenance and improvements.

### “Do-it-yourself” repairs

Expensive tools or lots of experience aren't always required to make many basic home repairs. Taking care of small repairs before they become big projects can save you both time and aggravation. Preventive maintenance can actually extend the life of appliances and systems and avoid expensive repairs. Some hardware or home improvement stores also offer basic repair courses.

### Establish a repair and maintenance system

You should establish policies and procedures related to repair and maintenance. In addition to providing a process for tenants to report repair and maintenance problems to you, the procedures should include steps for you to perform periodic maintenance inspections and track requests made by tenants. A good repair and maintenance system allows you to prevent potential

problems by identifying and fixing them before they become major, maintaining effective communication with tenants, and reducing potential legal liability.

The following steps should be part of your repair and maintenance process:

- Clearly set out the responsibilities for both you and your tenant for repair and maintenance in your lease or rental agreement. Remind tenants of your policies and procedures to keep your building in good repair in every written communication by printing it at the bottom of all routine notices, rent increases, and other communications.
- Use a written Landlord-Tenant Checklist, inspect rental units, and fix problems before new tenants move in. At least once a year, inspect all rental units and keep copies of the completed checklist in your file.
- Don't assume your tenants know how to handle routine maintenance problems, such as changing light bulbs, fixing blown-out fuses, or unclogging a sink drain.
- Make it a point to explain the basics when the tenant moves into the unit. Include a brief list of maintenance “do's and don'ts” as part of your move-in materials.
- Encourage tenants to immediately report plumbing, heating, weatherproofing, or other defects, or safety or security problems. Handle repairs as soon as possible but definitely within the time required by state law. Keep the tenant informed.
- Keep a written log of all complaints. This should include a space to indicate your follow-up. Keep a file for each rental unit with copies of all complaints and repair requests from your tenants, and your response.



- Periodically give your tenants a checklist on which to report any potential safety hazards or maintenance problems that might have been overlooked. Respond promptly and in writing to all requests, keeping copies in your file.
- Especially for multi-unit buildings, place notices in several places around your property about your determination to operate a safe, habitable building, and list the phone number and/or email address for tenants to contact with maintenance requests.

## Handling requests for repairs

You also should provide all tenants with a maintenance/repair request form. Include several copies in the materials provided when tenants move in and make additional forms readily available to your tenants. You should complete the form for all telephone, in-person, or email requests. Make sure that the disposition of the problem is indicated on the form, which you should file in the tenant's records.

Respond promptly to all complaints. You may want to verbally follow up and then provide a written response. For personal security and safety problems, you will want to get the repairs completed immediately — it may even require that you use a 24-hour repair service. Because state and local laws may vary from place to place, be sure that you are familiar and comply with the laws and regulations for your local area. You are responsible for complying with all applicable laws, even if you are not aware of them or do not understand them.

It is important that you take action promptly to address the tenant's requests. In some cases, the tenant may be entitled to withhold rent, and you could be held accountable for personal injuries, as well.

## How to protect your property against emergencies

No matter how limited your financial resources are, it's essential to have a realistic strategy for dealing with emergencies. In some areas, government and nonprofit agencies may offer grants or low-interest loans to landlords who are faced with large repair bills as the result of natural disasters or emergencies. But don't wait until you're faced with an emergency to find out what resources might be available.

Keep phone numbers for local emergency services, such as the fire department, police precinct, and hospital emergency room, where you can find them easily. If possible, get the names of electricians, plumbers, roofers, and others who have worked on the house for previous owners. Keep all warranties, owner's manuals, or other documents relating to appliances or utilities in a safe place you can get to easily. Take preventive measures, too. Anything you can do now to prevent an emergency later likely will ultimately save you money.

## Know your property

Be familiar with safety features such as smoke alarms and circuit breakers in your property. Install smoke detectors outside every bedroom door and in or near the living room and as required by law, and inspect them on a regular basis to make sure that they are in proper working condition. Take some time to familiarize yourself with your property and the rental units' safety features and danger areas. For example, you should know the location of the main cut-off valves for the water and gas supply and label them. Find and study the fuse or circuit breaker box and make labels or



charts to identify particular power sources. And learn where the main electrical switch and the thermostat for the hot water heater are located.

## Take necessary safety measures

The old saying “an ounce of prevention is worth a pound of cure” is particularly true for landlords. You could lose not only your property but also months of rental income in the event of a fire or other avoidable catastrophe.

Purchase fire extinguishers and keep them where they are easily accessible. Identify potential hazards — like frayed electrical cords, loose wires, or ill-placed flammable materials — and take care of them immediately. Make sure nothing is blocking the exits to your properties. And let your tenants know what you would expect them to do in the event of a fire.

You also should take precautions against theft. Be sure all windows and doors have secure locks. Replace the cylinders in door locks when tenants leave. Keep the area around your property well-lit at night.

## Abide by housing, health, and safety codes

Most states, counties, cities, and towns have housing, health, and safety codes that landlords must follow. In general, housing, health, and safety codes require minimum standards for the cleanliness of kitchens, bathrooms, ventilation units, plumbing, water supplies, garbage and sewage disposal systems, and pest control. They also may set forth when, and at what temperature, heat must be provided for your tenants.

Other housing, health, and safety codes generally set standards for fire prevention, the condition of

electrical wiring and equipment, and security. They also frequently require additional precautions with regard to lead paint and other environmental property conditions.

The law holds you responsible for knowing the health and safety standards you must follow — and for making sure the units you rent out meet those standards. You may have civil or criminal liability for not adhering to these standards (or codes). You are responsible for complying with all applicable laws, even if you are not aware of them or do not understand them.

In many areas, you need certificates or permits showing that certain facilities on your property are up to code. In some states, tenants have the right to withhold rent payments if the units they are renting do not meet code requirements. And your tenants can sue you if they can prove they have been injured or made ill because of substandard conditions in the home they rent from you.





## How to make your property as energy efficient as possible

Consider including money in your budget to make energy efficient upgrades whenever you can. Such upgrades may not only make your property less expensive to maintain while your tenants live in it, they also may contribute to its market value when you sell it.

You also can hire energy efficiency consultants to inspect your property and suggest long-term energy saving measures.

### Resources

Reach out to your state energy office for available energy efficiency programs: [naseo.org/members-states](https://naseo.org/members-states).

Obtain a professional or do-it-yourself home energy assessment to identify cost-effective energy improvements: [energy.gov/energysaver/home-energy-assessments](https://energy.gov/energysaver/home-energy-assessments).

### Resources

ENERGY STAR®-certified products meet strict U.S. Environmental Protection Agency standards and help reduce energy costs. Many are eligible for rebates and tax credits. See [energystar.gov](https://energystar.gov) for more details.

### Resources

ENERGY STAR suggests six high-impact energy efficiency improvements for your home: [energystar.gov/products/energy\\_star\\_home\\_upgrade](https://energystar.gov/products/energy_star_home_upgrade).

### After reading this chapter, do you understand:

- How to establish a repair and maintenance system.
- Why it's important to observe local health and safety codes.
- How you can save money by making your property energy efficient.
- What resources are available to provide information to make your property energy efficient.



# Chapter 6: Taking Care of Your Financial Responsibilities

Most people would like to spend less and save more but just don't know where to start. This is a critical step in managing your business.

A budget doesn't have to be painful or scary or complicated. It's simply a picture of money — the money that's flowing in and the money that's flowing out. And the goal is to have more money flowing in than flowing out.

You should be prepared to incur various types of expenses. For example, you are likely to have:

- Fixed costs — like your mortgage payment, taxes, and insurance premiums.
- Monthly utility bills.
- Costs for services like garbage collection, pest control, or annual furnace upkeep.
- Occasional maintenance expenses — like the cost of repairing the roof, plumbing leaks, or broken-down appliances, and the cost of painting and cleaning units between tenants.
- Emergency expenses — like the costs of fixing pipes that freeze in winter or replacing a cooling system that breaks down in mid-July.

It could be overwhelming to consider all the types of expenses you could encounter while you own your home. But by creating a budget, you may be able to manage the upkeep of your home more easily.

Each year, create a new budget for repairs and maintenance. Include the cost of predictable expenses, some money for occasional repairs, and a financial “cushion” for emergencies. If at all possible, try to budget resources each year for some preventive maintenance work.

To create your budget, you will need to figure out what portion of your property expenses applies to your personal budget and what portion applies to rental for the housing, utilities, homeowners insurance, household maintenance, major improvements, and professional services. For example, if you purchase a three-unit property and live in one unit, one-third of these expenses probably are personal; the other two-thirds probably are rental. A sample Operating Budget for Rental Property worksheet is included in the last section of this publication. You may use this template or another budget template.

## **Evaluate your budget and make changes, if necessary**

Once you've created your budget, compare the rental income you expect to earn with the sum of all your budgeted items. Your expenses should not be higher than your income.

If you create a realistic budget and find that your rental income, combined with any other financial resources you may have, will not cover it, you may need to re-evaluate some budget items. If you look ahead to your first year as a landlord and find that every item in your budget is vitally important and you are not able to pay all of your expenses, it might be wise to consider waiting until you have enough resources before you buy your property.



## Be sure to budget for possible vacancies and other lost rental income

If any of your rental units remain vacant for a month or more or if a tenant fails to pay rent, you will have less rental income than expected. To be sure you can continue to make your mortgage payments and pay your maintenance costs when your units are vacant, do not base your budget on the assumption that all units will be occupied at all times. Instead, set aside a portion of your budget to cover these expenses during periods when your units may be vacant. It may be wise to contact some local appraisers to obtain vacancy rates for rental units in your neighborhood. Remember, even if you are able to quickly replace tenants who move out, you will need to have short-term vacancies between tenants so that you can clean the unit and ready it for the next tenant.

## Ask the previous owner for existing security deposits

If you are obtaining the property with existing tenants, make sure your property's previous owner has transferred to you any security deposits that eventually have to be returned to existing tenants. You will probably be responsible for returning those deposits, even if it has to come out of your own pocket. Also, talk to your attorney about the status of existing leases and rental agreements.

## Types of insurance

### Buy adequate insurance

Although insurance premiums may seem expensive when you pay them, the amount of money they may save you in an emergency may be enormous. There are various types of insurance you may want to buy

and a few types you really cannot do without and are required by your mortgage lender. At the very least, you should protect yourself with liability insurance, which protects you in case anyone is hurt while on your property, and basic property insurance, which usually covers losses caused by fire or theft. Before buying any insurance, however, keep in mind that different insurance companies — and even different policies from the same companies — will vary. Also, different insurance companies may call the same type of insurance by different names. You must be sure to discuss the terms of any policies you buy with a local insurance agent. Don't hesitate to ask for definitions when you need them.

### Basic property hazard insurance

This kind of insurance is so important that lenders require homeowners to buy it. It generally covers losses from damage caused by fires, storms, and sometimes also protects homeowners from theft and vandalism. You will need this for the entire building.

### Tenant relocation insurance

This type of insurance will cover your costs to relocate your tenants if the property becomes uninhabitable due to damage from a fire or other type of disaster. In some areas, a landlord must buy this type of insurance in conjunction with their policy covering fire damage.

### Flood insurance

Lenders require that you buy this type of insurance if your property is in a location designated as a "special flood hazard area" by the Federal Emergency Management Agency (FEMA). Generally, you must obtain it through a policy that is separate from your basic property insurance.



## “Rent loss” insurance

This type of insurance would protect you from the loss of rental income in the event that fire or certain other types of disasters were to make your property unfit for your tenants to live in. Policies for this kind of insurance may have limits, however. If you purchase this type of insurance, be sure to ask your agent to explain the extent of your coverage.

## General liability insurance

This type of insurance protects you from lawsuits by people claiming they were injured on your property due to negligence on your part. It protects you from claims for such injuries up to an amount you choose when you purchase the insurance. With this type of policy, you also should find out if there are any limitations on the extent to which you’re covered.

## Potential for tax benefits

As a landlord, certain tax benefits may be available to you. You should consult your tax professional for advice.

## Consider maintaining a separate checking account

Many landlords find it easier to prepare their tax returns when they pay bills related to their rental property from a separate checking account. If you do this, your monthly statements will provide you with many tax-related records in one place.

Sometimes when you maintain such an account, you may authorize utilities or other companies to draft monthly payments directly from your account. Such an arrangement may free you from waiting for bills and keeping track of when you paid them, since each draft will be made automatically and documented in your

monthly bank statement. However, you will need to ensure that there are sufficient funds in the account to cover these automatic drafts.

## Find a reliable tax professional

The benefits of hiring a reliable tax professional may outweigh the cost. An experienced tax professional can help you create a basic list of categories for which you may be able to take deductions from year to year. Such a professional also can make you aware of any limits the IRS places on the deductions you can take, identify which IRS forms you need to submit based on your personal situation, and provide best practices on how to maintain your receipts and records.

You will find professional advice particularly useful if you calculate depreciation. There are various methods of calculating depreciation expense, and all are somewhat complex. An experienced tax professional will know which method should be used in your particular case. They should also know how IRS rules that are open to interpretation apply to you. They may also help you to make important decisions about income and expenses for the year to come and help you to establish long-term financial goals. And, finally, when you sell your property, a tax professional can help you factor all the depreciation deductions you’ve taken over the years into the calculation of any profit on the sale.

### After reading this chapter, do you understand:

- How you can manage costs through budgeting and planning.
- What types of insurance you should buy to protect yourself in emergencies.
- Why it pays to get professional tax advice.



# Chapter 7: Ending Rental Tenancies

For various reasons, you will experience turnover with your tenants. Some of your tenants will decide to leave voluntarily and choose not to renew their leases; others may give inadequate notice or simply abandon the property; or you may end up taking action to evict a tenant because of their failure to meet obligations stated in the lease or rental agreement. Regardless of the reason that tenants leave, you'll need to understand what's involved with ending tenancies and the actions that you'll need to take to protect yourself and your investment. This chapter explains the process of ending rental tenancies and the steps involved, depending on whether the termination is voluntary or involuntary.

## Ending tenancies

### Ending month-to-month rental agreements

In most states and localities, you or your tenant may end a month-to-month tenancy by giving proper notice. Most jurisdictions do not require that you provide a reason; all you need to do is give the tenant a written notice to vacate that allows the minimum number of days required by the lease or state and local laws, usually 30 days. The notice should state the date that the tenancy will end. In some states or localities, usually those that have laws controlling rent levels, a tenancy may be terminated by the landlord only for specific reasons. If you want a tenant to move because of violation of rental obligations indicated in the rental

agreement, the required period for notification may be shorter. You may want to consult your attorney, a landlords association, a local rent control board, or your state statutes to determine if your local area requires any special formats and instructions on how the delivery should be made.

Tenants usually must give you at least 30 days' notice to end a month-to-month tenancy.

Although not always required, for your protection you might insist that the tenant put the notification in writing. If you collected "last month's rent" when the tenant moved in, you are legally obligated to use this money for the last month's rent. Once the tenant has provided you with notification of intent to move, your acceptance of rent beyond the move date may cancel the termination notice and create a new month-to-month tenancy. If a tenant fails to give you proper notice or simply leaves the rental unit, the tenant probably is still obligated to pay rent through the end of the required notice period, though you may need to use your best efforts to lessen any damages caused by the early vacancy.

### Ending lease agreements

In general, without cause, neither you nor the tenant can end the tenancy without consequence until the end of the lease term. At the end of the lease term, you should have the tenant sign a new lease, convert to a month-to-month agreement, or move. When a lease is about to expire, a good practice is to provide the tenant with written notice at least 60 days prior to the lease expiration date. This provides you and the tenant time to renegotiate the lease or time for the tenant to locate a new place. Sixty days also provides you time to market the apartment if the tenant is planning on leaving. In most jurisdictions, if you accept rent after the lease expires, you have created a month-to-month tenancy with the same terms of the old lease.



In most states and localities, once the lease expires, you do not have to keep renting to the tenant; you can start an eviction lawsuit once proper notice has been provided, the notice period has expired, and the tenant has not vacated the unit. It is advisable to check with your attorney to make sure you understand your state and local laws to ensure that you are in compliance.

## When a tenant leaves

Just as it is important to follow a process and set clear expectations when tenants move in, it is equally important to follow a process and set expectations when the tenant vacates a property. To avoid disputes, provide the tenant with information on the inspection procedures, the kinds of deductions that legally may be taken from the security deposit, and when and how you will send the security deposit and any interest that is due. Make sure that you understand and comply with the state laws governing security deposits.

### Inspect the unit

Inspect the unit to determine what cleaning and damage repair is necessary. It is a good idea to perform the inspection with the tenant to avoid surprises and settle potential disputes before the unit is vacated. Note the estimated cost of repairs on the inspection sheet and discuss the withholding of the amount from the security deposit. Upon completion of the inspection, sign the inspection report and ask the tenant to do the same. You may also want to photograph the unit. In the event of a dispute, these items could serve as evidence of the condition of the unit when the tenant moved out.

## Return the security deposit

Most states or localities require that you return the unused portion of the security deposit to the tenant within a set time period after the tenant leaves the unit. The deposit should be mailed to the tenant's forwarding address and include either of the following:

- The tenant's entire deposit, with interest if required by law.
- A written, itemized accounting as to how the deposit has been applied toward back rents and costs of cleaning and repairing damages.

Remember that if no portion of the tenant's deposit was called "last month's rent," you are not legally obligated to apply it this way. However, if a tenant asks you to apply the security deposit toward the last month's rent, you may do so (though you are not obligated), provided that it is in accordance with local law. Remember that if you do so, you run the risk of having nothing to reimburse yourself for cleaning or repairs.

## Responding to questions about a former tenant

Just as you might have asked an applicant's former landlord about their experience with the applicant, you may be asked questions by another landlord about a former tenant. You may want to ask your attorney for guidance on how to respond to such questions before they are asked so you will be prepared if this happens and will understand what types of statements you may make.



## When you should consider evicting a tenant

Eviction — the legal procedure for forcibly removing a tenant from a landlord’s premises — is probably the least-liked aspect of the rental business. It is a costly, time-consuming, complicated process that frequently requires the services of an experienced lawyer. You should consult your attorney to make sure you understand the eviction process and your obligations if it is initiated, when it is appropriate to evict a tenant, how to deal with any illegal activities, and alternatives to eviction. When an eviction becomes necessary, it is usually for one or more of the following reasons:

- The tenant has not paid the rent.
- The tenant is not complying with the provisions of their lease or rental agreement.
- The tenant is engaging in illegal activity on your premises.
- The tenant is creating a major nuisance in violation of the rental agreement.
- The tenant refuses to vacate the premises after their legal tenancy expires.

You may not evict tenants to retaliate against them for contacting government services like the Board of Health to enforce their rights or for other protected actions. Nor may you evict a tenant during the term of the lease because you would prefer to rent their unit to a friend, a relative, or someone willing to pay higher rent.

### After reading this chapter, do you understand:

- How to terminate month-to-month and long-term tenancies.
- What steps you should take upon terminating a tenancy.
- The five most common reasons for eviction.





# Chapter 8: Hiring a Property Manager

You may decide to contract with a property management company or to hire an employee property manager to handle the day-to-day details of managing your business. The property manager's responsibilities may include marketing units, selecting tenants, maintaining the building, budgeting, tenant relations, and collecting rent. You will still be responsible for hiring and supervising the manager. This chapter suggests certain criteria you can use to help identify a property manager. It also discusses the role of the property manager and the potential for specific laws to follow when taking on a property manager.

## Deciding the role of the property manager

Hiring a property manager (either a company or an individual) is one way of freeing yourself of many time-consuming duties associated with being a landlord. When making the decision to use a property manager, you will need to define the job or scope of contract as you would in any other business. Key considerations include the following:

- **Responsibilities:** What will be the property manager's responsibilities? You should develop a list of duties that you want the property manager to perform. These duties typically include selecting tenants, resolving day-to-day problems, maintaining the property, and collecting rent.
- **Status:** Will your property manager be an independent contractor or an employee? There may be benefits and drawbacks to each option, depending on your situation.
- **Fee/salary:** How much do you plan to pay the property manager? Will the fee or salary be on an hourly basis, or will you pay a flat fee (such as a percentage of the monthly rent)? The fee that you pay will depend on the manager's responsibilities, the number of hours worked, and the market rate in your community.
- **Full-time or part-time:** How many hours do you need the manager to work, and what hours?
- **Residency:** Will the property manager live on the rental property? Some property managers live on the property, but it's not a requirement. If the property manager does live on the property, you will need to decide how much rent to charge and, of course, you'll need to have a vacant unit. If you charge rent, you may be establishing a tenancy with your property manager that will continue even if the employment relationship ends.

If you hire an individual property manager as an employee, you will have specific legal obligations, such as following laws governing minimum wage and overtime that you should talk to your attorney about. Other obligations will include the following, which your tax professional can help with:

- Obtaining a tax identification number for tax purposes. You can obtain an Application for Employer Identification Number from the IRS.
- Having the manager fill out a federal W-4 form (Employee Withholding Allowance Certificate) and deducting federal and state taxes from the manager's payment. You will be required to turn over the withheld funds each quarter to the IRS and the appropriate state tax agency.



- Paying Social Security and Medicare taxes to the IRS on a quarterly basis. This also includes the payment of funds that you deduct from the manager's paycheck.

If you prefer not to handle these administrative matters, you may want to consider entering into a contract with a property management company or having a tax professional or other advisor perform these responsibilities for you.

## How to select a property manager

As in selecting tenants, selecting a property manager is an important decision. You will want to make sure that you choose carefully. Look for experience in important areas, such as maintenance, leasing, collections, marketing, advertising, tenant relations, financial analysis, budgeting, and knowledge of relevant local and state laws. In addition, many property managers are credentialed by national industry organizations, which can help you narrow your search. In some states or localities, property managers must hold active real estate or other licenses. As owner of the property, you could be held liable for the acts of a manager. For example, if your property manager violates Fair Housing Laws or state or local laws, you could be sued. Thus, it is important that your manager is familiar with basic landlord-tenant laws and other applicable laws.

### After reading this chapter, do you understand:

- What the criteria are for selecting a property manager.
- What information you should review before hiring a property manager.
- Your responsibilities and obligations as an employer.



# Operating Budget for Rental Property

Section 1: Monthly Rental Income						
Monthly rent from:						
\$	+	\$	+	\$	=	\$
Unit 1		Unit 2		Unit 3		<b>A. TOTAL</b>

Section 2: Expenses and Cash Reserves	
<b>Item 1 — Mortgage, taxes, and fees</b>	
Mortgage payment	\$
Real estate taxes	\$
Personal property taxes	\$
<b>Item 2 — Insurance</b>	
Homeowners insurance	\$
Mortgage insurance	\$
Loss of rentals	\$
<b>Item 3 — Utilities</b>	
Electricity	\$
Gas	\$
Fuel Oil	\$
Water	\$
Sewer	\$
Cable/internet/phone	\$
<b>Item 4 — Maintenance</b>	
Repairs and routine maintenance	\$
<b>Item 5 — Major improvements</b>	
Air conditioning	\$
Heating system	\$
Appliances	\$
Siding	\$
New roof	\$
<b>Item 6 — Vacancy reserves</b>	
Rental reserve	\$
Advertising reserve	\$
<b>Item 7 — Professional services</b>	
Attorney	\$
Tax professional	\$
<b>Item 8 — Other</b>	
Other	\$
Other	\$
<b>B. TOTAL</b>	\$

Section 3: Income/Expense Comparison	
A. Total monthly rental income from Section 1, <i>Income</i>	A. \$
B. Total monthly reserves from Section 2, <i>Expenses and Cash Reserves</i>	B. \$
C. DIFFERENCE	C. \$

**Note:** Once you have a picture of where your money is going, it's usually easier to see where changes can be made.



# Preparing your operating budget for rental property

## Section 1: Determine your monthly rental income

Your first step is to enter the amount of rent that you expect to receive for each of your units. Add the amount of rent for each unit to obtain your total Monthly Rental Income.

## Section 2: Determine your monthly expenses and cash reserves

**Item 1: Mortgage, taxes, and fees.** Indicate the rental unit(s) portion of the monthly mortgage payment and any mortgage-related taxes that are not included in your monthly payment, e.g., real estate taxes, personal property taxes, county taxes, and sales taxes.

**Item 2: Insurance.** Homeowners insurance may be included in the mortgage payment. If it is not, indicate the rental portion of that expense in this section. If you have “loss of rents” insurance that reimburses you for loss of rent from rental units that have been sidelined, the full expense should be indicated. For example, if there is a fire or other disaster that prevents you from renting out the property, the premium paid for this coverage is solely for the benefit of the rental property.

**Item 3: Utilities.** Only budget those utilities for which you are responsible. If the utility services both your unit and the rental units, divide the expense accordingly; otherwise, indicate the full expense. To estimate costs, talk to the previous owner or contact local utility companies.

**Item 4: Maintenance.** Anything that you would use toward the upkeep of your rental unit should be listed here, including: heating/cooling system maintenance; carpet cleaning; carpentry; landscaping/gardening; appliance, electrical, and plumbing repairs; and paint, cleaning, office, and general supplies, including tools, light bulbs, fixtures, hardware, etc.

**Item 5: Major improvements.** Identify improvements that you plan to make. Determine how soon the improvements need to be made. Once you’ve set the time frame, divide the cost by the number of months to determine a monthly amount.

**Item 6: Vacancy reserves.** You’ll need to advertise your property to attract tenants. If you plan to advertise in your local or community newspapers, online listing service, or use a rental/property management company, contact them to obtain their rates. You may also need to set aside a portion of the rental income in the event of a vacancy.

**Item 7: Professional services.** You may need to retain the services of an attorney who specializes in landlord/tenant matters or real estate to help you prepare your lease(s), interpret and comply with local and state landlord-tenant and other laws, or facilitate an eviction. You may need a tax professional’s services to help with tax code compliance and tax filing, as well as for advice regarding methods for separating personal and rental expenses. These expenses for legal or accounting consultation may be tax deductible.

**Item 8: Other.** You should enter miscellaneous expenses not listed above here.



### **Section 3: Compare your total monthly income and expenses**

Enter your total Monthly Rental Income from Section 1 and the total of your Monthly Expenses and Reserves from Section 2.

If Monthly Rental Income is greater than Monthly Expenses and Reserves, this is your Monthly Net Income.

If Monthly Rental Income is less than Monthly Expenses and Reserves, treat the difference as an expense. Once you have a picture of where your money is going, it's usually easier to see where changes can be made.

