



## Top 5 Landlord Mistakes

The Top 5 Landlord Mistakes to Avoid Easy to Make, Easy to Prevent, but Hard to Fix Afterwards Published on: Monday, August 03, 2009 Tenants worldwide dream of becoming homeowners, and homeowners dream of becoming landlords — expanding their real estate ownership while someone else pays the bills. This dream is not hard to realize, but that doesn't mean it is without pitfalls and easy-to-make mistakes. That said, with equal parts hard work (which you'll have to do yourself) and knowledge/expertise (read on), being a landlord can be a fast track to passive income and wealth accrual.

**Landlord Mistake 1: Over-Leveraging Your Rental Properties** It's a classic error which is made by not only real estate investors, but also homeowners. Whatever the bank says they're willing to lend, borrowers typically take their highest offer. While this mistake may not cripple you with your home mortgage, over-leveraging your rental properties is a drastically different story. With rental properties you have far less control over the associated expenses. For example, if you own five rental properties, and suddenly three of the tenants decide to move — or worse, just stop paying their rent — you will suddenly find yourself with not only your home mortgage, but three additional mortgages to pay. If that isn't bad enough, you will also be faced with eviction costs, repair and maintenance costs, advertising costs, etc. As a general rule, you want your predictable monthly expenses (mortgage, taxes, insurance, legal entity fees, ground rents, etc) to be no more than 50% of your collectable rent.

**Landlord Mistake 2: Signing a Generic Rental Agreement** The cheap and easy thing to do is to scrounge up a free generic rental agreement online, or buy a boilerplate lease for a few bucks at the office supply store. But guess what? The second your tenant decides they don't feel like paying you anymore — and starts looking for ways around it — they can simply sue you for failing to include necessary addendums or disclosures (such as national, and state, mandated lead paint disclosures). They could also target your failure to use a state-specific rental agreement with state-required clauses, or maybe for writing in unlawful fees, security deposits, and so on for your state. There are two ways to get a lawful rental agreement for your state. You should either hire a local real estate attorney who is well-versed in landlord-tenant law, or use a quality online service that helps you through the process of creating a rental agreement for your specific state.

**Landlord Mistake 3: Failing to Research Rental Applicants** Most landlords simply want the perfect tenants to show up, sign a rental agreement, then pay their rent on time all while keeping the rental property in pristine condition. Reality check: this is a fantasy. Most rental applicants aren't going to follow this idealized pattern, but you can maximize your chances of finding the good ones by doing your homework. Start by verifying their income and employment (to see if they CAN pay), pull a credit report (to see if they WILL pay), and pull a background check that includes criminal and eviction records (to see if they'll treat the rental property and neighbors well). Don't make compromises — they will cost you far more than the extra few weeks of advertising and screening.

**Landlord Mistake 4: De-Prioritizing Your Rental Properties** It's easy to forget and procrastinate when it comes to your rental properties; you don't see them often, and you probably have a separate full-time job, on top of family and social obligations. But the old cliché applies: an ounce of prevention is worth a pound of cure — as you can prevent most maintenance/repair and tenant disputes from ballooning into major problems, if you address them quickly and effectively. When tenants call you to voice a concern, listen to them, and then address their concerns immediately (even if that means telling them "no"). If they call to request a repair, send a contractor to the property to assess the cost and seriousness of the problem, and then call the tenants immediately to give them a definite answer on whether and when you will address the problem. Left unheeded, these small problems and disputes can become major damage to your rental property, or a lawsuit that wastes your time and money.

**Landlord Mistake 5: Letting Rental Agreement Violations Go without Eviction** No landlord wants to file an eviction: it seems cruel, it's expensive, it's time-consuming and of course your tenants continually tell you they'll cure the problem "in just a few more days." But the fact remains that eviction — from serving the initial eviction notice through the eventual put-out date — usually takes months, so you need to get started the moment the tenant violates the rental agreement. It doesn't matter whether they failed to pay rent on time or if it was some other violation. Additionally, it sends a loud and clear message

to your tenants: you will not tolerate late rental payments or any other rental agreement violations. This will make your tenants think twice before violating the rental agreement again. All five of the mistakes above are easily understood, and easily remedied, but they also require discipline on your part. You can learn these lessons the hard way, or you skip the aggravation and expense by reducing mortgage debt, using a state-specific rental agreement package, screening tenants effectively, responding immediately when issues arise and serving an eviction notice the moment your tenant crosses the line. NTN, Inc.