



Home Improvement

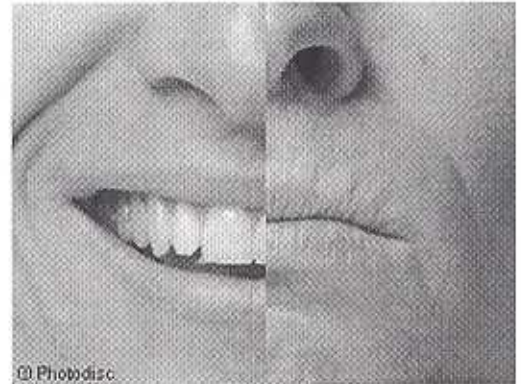
The Profit--And Pain--Of Being A Landlord

Betsy Schiffman

The tenant didn't appear insane. He was a well-kept man in his 30s. He paid his rent on time and came up with a deposit pretty easily.

The New Orleans condo owner, a first-time landlord, learned the hard way that he should have checked the tenant's references first: Before the lease was up, the tenant skipped town, leaving two inches of shredded newspaper on the floor. He also left the sliced-up remains of a mattress and sofa as a parting gift.

Instead of repeating the nightmare, the condo owner hired property manager **John Taylor** of **Soniat Realty** in New Orleans to take over management of his property. It was one of the most extreme cases Taylor had seen of how a tenant can go from satisfactory to very expensive. Because Taylor was never able to find the tenant (it's assumed he has been institutionalized), the losses on the condo were never recovered. The owner figured that since he had the tenant's rent and deposit, he couldn't really go wrong. Unfortunately, he did. The security deposit did not cover all of the damages.



For those who can withstand the headaches, there are many advantages to owning a rental unit. Beyond the property itself (which will hopefully appreciate in value), renters often pay for the mortgage on a rental unit. And, all things depending, second-home owners can (and should) make a monthly profit from the rent as well. Even assuming a property manager takes home 10% of the annual rent on a property, if the rent is set 20% above the monthly mortgage, there could be a nice return for the homeowner, assuming costs are manageable.

Second-home sales have boomed during the last three years in the wake of low interest rates and the stock market's tumble. In 2001 about 5.5% of all homes sold were estimated to be second homes bought as an investment or for recreational use. Investors looking for refuge from stocks and bonds are finding healthy returns in real estate: The median price of a second home in 2001 was \$162,000, up from \$127,800 in 1999, according to the National Association of Realtors.

Year Second-Home Sales Second-Home Median Prices

1989	288,000	\$99,200
1991	264,000	85,500
1993	317,000	110,000
1995	296,000	115,000
1997	345,000	124,800
1999	377,000	127,800
2001	359,000	162,000

As a result of the second-home sales boom, there are many first-time landlords; this means they are now getting midnight calls from renters complaining that the toilet is clogged, the stove isn't working and the neighbors are too loud. Managing a property isn't time-consuming--a single-family home may take from three hours to five hours per month to manage. The amount of time it takes to manage a property, however, is secondary to the stress it causes.

Midnight calls are only part of the problem. Landlords expose themselves to any number of possible lawsuits in nearly any exchange with a tenant. For example, almost any time a landlord gives a specific reason for rejecting

an applicant, he's asking for legal trouble.

"Landlords may think they're doing something nice by offering, for example, the ground floor apartment to a person that appears to be disabled, but they are exposing themselves to claims of discrimination," says **Janet Portman**, a Berkeley, Calif.-based publisher, attorney and co-author of the book *Every Landlord's Legal Guide*.

Discrimination suits come in all shapes and sizes. In 1988, the Fair Housing Amendments were enacted, serving to—among other things—prohibit landlords from refusing to rent to a possible tenant based on race, color, religion, sex, familial status or national origin. In theory, it was a grand plan. But in practice, it proved problematic.

In one notable case, a landlord tried to evict a mentally ill tenant, who is considered disabled because of his mental illness. The landlord claimed that the tenant was a direct threat to other tenants in the apartment complex. (He had allegedly physically threatened a neighbor and was prone to outbursts.) The judge ruled that the manager had to make a reasonable attempt to accommodate the tenant's disability before he could be evicted from the complex.

As many new landlords are learning, it's often easier to pay a professional to act as landlord. Most property managers like Soniat Realty's Taylor charge around 10% of annual rent, and there could be any number of additional fees tagged on to the bill (such as a "coordination fee" to cover the "coordination cost" of repairs).

But rental property experts warn that there are more than a couple of rotten so-called "professional" property managers out there. **Bob Cain**, publisher of *Rental Property Reporter*, a Tucson, Ariz.-based monthly newsletter for people who own or manage rental property, says that among the top complaints he hears from rental property owners is that hired property managers are incompetent. The solution, according to industry experts, is to look for a property manager that is a member of the National Association of Residential Property Managers.

For the bold new property owners who would rather manage their rentals themselves, experts Janet Portman and Bob Cain offer these tips:

- 1. Verify every piece of information the tenant gives you. The majority of all landlord-tenant problems can be avoided by weeding out tenants with questionable references. No matter how nice an applicant seems, check his references, and cross-reference all the information in the application with the information on the applicant's credit report. Cain even recommends using caller I.D. to check out the number from which the applicant first calls. Spending time investigating a tenant at the outset can save hours of stress and anguish in the event that a bad tenant gets into your property.
- 2. Get everything in writing. Believe it or not, many first-time landlords don't even bother to draw up a lease. It's also important to document the condition of the property before the tenant moves in and after he moves out. It's also preferable to reject an applicant by mail. The landlord is not required to explain why an applicant is not acceptable; by trying to explain it verbally, the homeowner could be opening himself up to discrimination claims. Many local rental property associations offer rejection form letters that may suffice.
- 3. Disclose everything. If any of the appliances (such as a microwave) aren't working, the tenant must know before the lease is signed. According to Portman, one lucky California tenant brought his landlord to court because of a broken dishwasher. Not only did the tenant win a sum for the difference in value between an apartment with and without a dishwasher, but he had also carefully logged how many hours he spent washing dishes and was then compensated for those hours with a dishwasher's wage.
- 4. Research your state's real estate laws and follow them closely. Each state has its own laws regarding how much time can pass before a deposit is returned to the tenant, or how much notice a landlord must give before entering the rental unit. Landlords are already some of the most sued people in the real estate world, and tenants don't need extra fodder for a lawsuit.
- 5. Keep records of every exchange with the tenant. If the tenant asks to remodel the kitchen at his own expense, keep track of the date of the conversation, what your response was and so on. In the event that you have any legal trouble with a tenant, scrupulous records can make all the difference in your favor.
- 6. Be careful not to discriminate. Obviously, some discrimination is necessary. It would be imprudent to let just anyone into a rental property. But property managers must be sensitive not to discriminate on the basis of sex, race, age, etc. Every landlord wants the best tenant in his property, but applicants will inevitably want to know the basis of their rejection. Since the laws are set up to protect the applicants, they could have a discrimination claim on their hands if landlords are not careful.