

10 Things You Should Know Before Investing in Rental Property

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Many people dream of owning rental property—adding additional streams of income that catapult them to the next level of financial independence. But everything in life comes with its trade-offs—even dreams.

The reality of investing in rental property isn't always as easy as popular television shows like HGTV's *Income Property*, like to depict. As Benjamin Franklin once said, "An investment in knowledge pays

the best interest." So before you make your first investment in rental property, it's a good idea to spend some time on the front end researching what it's really like.

The most important question you need to ask yourself is do you want to be a landlord?

The day-to-day management of owning a rental property is a big role. Being a landlord takes patience, flexibility, strong resolve when enforcing rules, and a long fuse. Disagreements between tenants, tenants that won't pay, unexpected and costly repairs, long vacancies—these are some of the downsides of owning a rental property. Although it can be a dream come true for some—and if done right, it really can provide that additional avenue of income you're looking for—it's not for everyone.

Here are some things you should know to help you decide if it's for you:

1. It's not easy money. Investing in a rental property is often put in the easy money or get-rich-quick scheme category, but the truth is it's no walk in the park. Although it technically qualifies as passive income, that doesn't mean you're not going to work hard. In fact, if you decide to manage the property yourself, it's akin to taking on a second job. If you're looking for something more hands-off, stick with stocks or mutual funds.

2. There are no guarantees. Not only is owning/managing a rental property not easy money, there's no guarantee that you'll even make money—it's risky. With a fluctuating, and often unpredictable, market, as well as lots of hidden costs lurking around

every corner, you really need to ask yourself is it worth the risk? As you're considering each potential property, never forget that the reason you're investing in rental property to begin with is to gain income. Weigh everything carefully and always ask yourself, "Will this property actually generate money or is there a chance it might be a money pit?"

3. You need more money to get started than just the cost of the property. When investing in a rental property, the initial purchase is just the beginning. Be sure to set aside funds for other start-up costs such as renovations, repairs, and a higher property tax bill that could be double what you were previously paying. You should already have a solid income before you get started.

4. Location matters. Just any old apartment building or rental house isn't going to fit the bill. Before you get your heart too set on a particular place, take the property's location into serious consideration. Ask questions like is the crime rate high in the area? Are there schools close by and how are they rated? How far from basic amenities such as parks, grocery stores, and restaurants is it? Are there a lot of other rental properties in the area and, if so, what do they typically rent for?

5. Have the property inspected by a professional before you buy. A professional inspector can put your mind at ease about a purchase you're considering, or send you running for the door—either way you'll be thankful. For about \$250 an inspector can tell you if the property has termites, crawl underneath it to examine the foundation, and see if the roof will need replacing before the next winter, and much more.

6. Expect the unexpected. Owning and managing a rental property is kind of like being the captain of a ship—you're constantly working to maintain it and keep it heading in the right direction, and then, just when you think everything is under control, a giant storm comes out of nowhere and ruins your best laid plans. Unexpected (and often costly) issues can and will arise with rentals—everything from clogged toilets, flooded basements, and burst water heaters, to disgruntled tenants refusing to pay before skipping town.

7. Renters can do a lot of damage. We all know the famous hell hath no fury like a woman scorned, but what landlords come to find out is that disgruntled tenants are next on that list. Until you've been victimized in this way, it's hard to imagine the amount of havoc an unhappy renter can wreak upon a property. Damage can include graffiti on the walls, concrete in the toilets and sinks, ripped or stained rugs, broken windows, nails or hammer marks in the floors, missing doors, and any other damaging mischief your angry tenant can dream up.

8. A good renter is worth holding out for. Having one bad renter will make you appreciate the good ones. In the long run, it's worth a little extra time and a more rigorous screening process to find these diamonds in the rough. Good renters pay on time, take pride in their home and yard by keeping everything clean and in good working order, treating the property like their own, and being respectful of neighbors. These types of tenants generally stay longer, too.

9. There are pros and cons to hiring an outside manager.

Okay, so you've figured it out. You'll just hire someone else to manage the day-to-day minutiae of the property. While this can save you a lot of the hands-on work and the headaches that go with it, you'll also be losing about 10 percent of the rents to pay for this service—nothing to scoff at. Furthermore, you'd be putting yourself in a situation where you have less knowledge of what's actually going on with the property—a decision that could come back to haunt you further down the road. If you do intend to hire someone, you should at least plan on being there in the beginning, to make sure the tenants are good ones and that the building is in top-notch shape.

10. It's better to be hard and fast with the rules. Being a landlord is not for the faint-hearted. Although you may feel good about providing a place for people to live, if your renters don't pay on time, or they're causing trouble, you can't be wishy-washy about enforcing the rules, or show any sign of weakness. It's much better to assert yourself right away—otherwise you may find your tenants taking advantage of you.

With a little forethought and some careful planning you can make your rental property investment the success of your dreams.