

Why Landlords Fail: 10 Fatal Mistakes

(and How To Avoid Them)

Fatal Mistake #1:

Failure to Maintain and Upgrade Your Property

Some investors make the mistake of not putting any money back into their properties. The business philosophy of some of the landlords whose properties inspected must be to charge low rents so the landlord can justify doing the irreducible minimum. This is bad investment logic and often lands you with creepy tenants, government agencies looking over your shoulder, and attorney bills. If you can spend, for example, \$3,000, on upgrading a unit and then raise the rent by \$100, per month, you will have enlarged the income stream of the property by \$1,200 per year. Using a '10-Cap', you will have increased the value of your property by around \$12,000. I know a couple of local investors who have recently raised rents by as much as 135, per unit, by doing exactly this. If your property is in a good rental area so that you're not over-improving, then why would you run down the value of your asset by letting it go to the dogs? Much can be done with plain old soap and water and elbow grease. As the units turn over, wash and caulk the windows, re-stain the doors, acid-wash and caulk the tub and sinks, sweep the sidewalks, pull the weeds, etc. These things cost pennies but the improvements can be dramatic, plus the sweat-equity you'll build and the improved clientele will be well worth the effort.

Fatal Mistake #2

Failure to Treat Your Investment Property as a Business

If you have a tenant who is considerably behind in rent, you have forgotten this principle. Most investors don't buy income property to become do-gooders or change the world, it's a safe guess that you bought your income property to build wealth by generating an income stream, tax benefits and the opportunity to increase the value of the property through improvements and appreciation. Make it a policy to always choose your own charities. Don't let nonpaying tenants nominate themselves as your favorite charity. It's business. Several income property owners have been driven to near bankruptcy for failing to manage their property as a business. Do not make this fatal mistake.

Fatal Mistake #3

Failure to Wear Your Hat as a Landlord

You are not your tenant's mother, father, or best friend. Bishop, Pastor, Rabbi or coworker. You are a mere landlord with a mortgage to pay. Establish a business relationship with your tenants on day #1. Your tenants are your customers and you serve them by providing units, maintenance and service with a smile. If your tenant asks for several extra weeks to pay the rent, he is asking for a loan. The tenant is asking you to be his lender. My personal policy is that I don't make loans to my tenants. I don't mix the hats of landlord and lender. You need to set your own policy in this area, make it known, and follow it. If you forget your hat or get confused about which hat you're wearing, you will soon find yourself listening to hard luck stories, getting entangled in the tenant's personal life, and then being made to feel like a horrible rotten so-and-so for demanding the rent in the face of the tenant's woes. Get over it. Demand the rent. Collect the rent or replace the tenant. Clean the unit, raise the rent and move on. And do it before you've suffered a fatal blow to the pocketbook.

Fatal Mistake #4

Failure to Demand Rent

If someone had hold of your ATM card and was withdrawing money daily from your bank account you probably wouldn't listen to sad stories and negotiate endlessly to get it back. Why then if someone has hold of your rental property and fails or refuses to pay the rent would you listen to sad stories and negotiate endlessly to get your property back? Do not make this fatal mistake.

Fatal Mistake #5

Failure to Act Promptly

Whether it is a backed up toilet, an electrical problem, a loud party, a nonpaying tenant, the presence of unauthorized subtenants, drugs, or any other undesirable condition, it is a fatal mistake to neglect to confront the situation and promptly act to remedy it. If the problem is your responsibility, you want to act promptly to both protect your property and to fulfill your duty to provide the essential services. It's a good idea to be familiar with the Fit Premises Act and Your local fit premises ordinances, which often compel you to act within a very narrow window of time when essential services that affect health and safety are interrupted. If the problem is the tenant's responsibility, you want to confront the matter quickly to get it handled.

Fatal Mistake #6

Failure to Get Good Tenants

To get good tenants in good times, you ordinarily need to own decent, safe and affordable rental units in areas where good people want to live. In the current market however, you're probably going to have to do more than that to minimize your vacancy rate and seriously compete. A combination of the availability of low mortgage interest rates plus an increase of new homes being built, has resulted in an increased demand for first time home buyers, while demand for rental units has decrease. Now is the time for all good landlords to go the extra mile to attract good tenants. "New" is a big seller (as in new carpet, or new blinds, or new paint). "Clean" is also a big seller. Whatever it is you do, you need to distinguish your units from the crowd and make them *desirable*. There are an awful lot of dirty, dingy units to be had out there and good tenants will likely be turning their noses up at dirty and dingy when so many units are available. These concepts are important to minimize your vacancy rate in this market.

Fatal Mistake #7

Failure to Thoroughly Pre-Screen Prospective Tenants

Vacancies and turnover is often an income property owner's largest expense. In the current market, you might have to swallow hard and take a few risks with prospective tenants that you didn't have to take in better times. But there is no excuse for facility to check out the rental history and credentials of prospective tenants so that you can honestly assess that risk. Sooner or later you are going to draw the short straw and get a bad tenant, no matter how scrupulous you are about checking with former landlords, employers, and other references before renting your units. But turnover is one cost of doing business that you can keep to a minimum by your due diligence in pre-screening your applicants.

Fatal Mistake #8

Failure to Be Cheerful and Upbeat About Your Property

Good tenants are looking for a good home, where they can feel "at home". They want to know that the unit will be nice to live in, that their lifestyle will be compatible with other tenants in the community, and that the schools, transportation, shopping, churches, and jobs suit their needs.

Your employees need to be upbeat about the property,. Once there was a prospective tenant that was leaving the property after being unimpressed by the manager's presentation of the unit, when the maintenance man happened to smile at her. The prospective tenant took the opportunity to ask him how he liked the property. He cheerfully replied that he loved living and working there because it was private and quiet and the neighbors and owners were nice people. The prospective tenant walked back into the office and rented the unit. Make sure you train your employees and staff to smile and be friendly and help tenants and prospective tenants in a way that will reflect positively on your property and make them feel "at home"

Fatal Mistake #9

Failure to Streamline Your Expenses

Ask for cash discounts. Don't replace when you can refurbish, cover, resurface or repair.

Use the skill, knowledge and efficiency of the local Apartment Association whenever possible.

For example, I personally use research all vendor to make sure that the cost are the cheapest with out sacrificing high quality I use high quality used appliances for a fraction of new, You can also make a dramatic upgrade by replacing old draperies with PVC blinds for very inexpensively. Replacing all screens with new screen material and a do-it-yourself rolling tool is cheap and easy, and makes the property look well kept. Be willing to look in new places for savings and look into different vendors often to make sure you are getting the best products and services.

Fatal Mistake #10

Failure to Refinance High Interest Investment Loans

Reducing your interest rate by 1% could save you thousands. Current rates on investment properties are at 40-year lows. Don't miss this market opportunity to reduce the cost of your debt service. It pays to get a strong relationship with a mortgage Broker that handles your type of property.

I hope this little refresher will help you to avoid these 10 simple but fatal mistakes that might otherwise prevent you from realizing the fun of income property ownership and a nice return on your investment. As income property investors need to put up with a lot of grief in order to make a profit.

If this something you do not want to do, Then call me, I will be happy to help you reduce the grief and increase the your profits.

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