

The Savvy Landlord's Plan

Residential real estate has become an attractive investment for many, thanks to recent years of low mortgage interest rates and healthy home-value increases in many areas. Successful investors enjoy supplemental monthly income, earn additional tax deductions and use other people's money (their renters') to cover mortgage costs while their investment can increase in value — yielding capital gains at sale time.

Still, success is not a sure thing for any landlord — it takes timely, accurate information, careful planning, smart investing and enlightened management.

Pick The Right Property

Success as a landlord starts with having the right rental property — one that appeals to renters, minimizes your costs, maximizes your income and appreciates in value while you own it. To make a wise investment:

- Be sure the property is located where demand for rentals is high (*e.g.*, near public transportation, employment centers, etc.). Check out vacancy rates in the area. Ask how long properties stay on the rental market.

- Buy the *type* of property that's in demand. In some areas, condos, townhouses or multi-family units may be easier to rent than single-family homes. In other areas, the reverse may be true.

- Choose a property that is in good shape and easy to maintain. Repair and maintenance expenses can seriously impact the profitability of your investment.

- Look to the future. Find out what economists predict for the area's rental market in years to come. Learn what plans are underway to change the neighborhood (*e.g.*, road construction) that might affect the value or demand for your investment.

Run Your Numbers Carefully

- **Purchase costs.** If you don't already own the property, you'll need to consider how much money you have to invest in down payment and closing costs, the size of loan you can qualify for and the payments you can afford. If the property has been a rental, your mortgage lender may allow you to factor a portion of the property's average income into the equation.

- **Ownership costs.** As you budget, make sure to set aside a reserve fund to cover unexpected repairs and at least two or three months of vacancy periods between rentals. Other costs will include insurance, real estate and income taxes, utilities, services, maintenance and property management fees (if any).

- **Income.** You'll need to set a competitive rental price and calculate your income with an assumption that you will have occasional vacancies between renters.

Keep Your Paperwork

To properly account for your investment and to settle any disputes that could occur with tenants, retain:

- Leases, tenant applications, reports on tenants.
- Ads placed to attract applicants.
- Detailed records and receipts of all expenses associated with the property.



- **Taxes.** Be sure to factor tax breaks into your budget. Most property owners can take a tax deduction for mortgage interest, property taxes and a variety of other expenses, as well as depreciate the value of the home every year. For authoritative information on tax issues, see IRS Publication 527, "Residential Rental Property," and consult your tax advisor.

- **Profitability.** If you purchase property to rent, you may not be able to cover all the costs in the first few years of ownership. That doesn't necessarily mean it's a bad investment. By holding the property long enough, inflation usually increases the rents you can charge, eventually generating enough income to exceed expenses. In addition, most properties increase in value over time, rewarding owners with capital gains upon sale.

Choose Tenants Wisely

- **Recruit.** Ask friends, family members and neighbors if they know of anyone looking for a rental. Be careful, though; renting to friends or relatives can make life difficult if problems or disagreements arise later. One of the safest ways to find good tenants is through a reputable renters' service, which can advertise your property, screen applicants and refer people to you for a fee.

- **Set standards.** Before you even start looking for tenants, decide what your rental criteria are —

To Purchase Call (703) 698-7750