

How to boost your rental income

Gord Lemon reveals practical tips to get higher rental return

Finding the right rental property is certainly one of the first steps to success in owning investment real estate. Below is a quick start guide in finding the right property that will help you generate additional income.

First, consider whether you want to look for rental property on your own or whether you wish to use an agent to assist you in the process. In many cases, agents may know of properties just coming on the market, which may not have hit MLS. An agent should be well-versed in the local neighbourhood, which can be especially important if you are not from that area, however make sure the agent you choose has a rental property themselves. If they don't, I highly recommend looking for one that does to ensure you are speaking the "same language."

Before you actually begin looking at prospective properties, make sure you have your finances in order. Ideally, you should check your credit report several months prior to purchase to be certain there are no inaccuracies that could prevent you from obtaining a mortgage. Be sure to check with at least two

bureaus to get a clear picture of your credit standing. Assuming your credit is in order, this can help you to obtain a more favourable interest rate.

Be sure to check with the local police department to find out whether the area is safe and if you will need to provide any additional security. Drop by City Hall to determine whether there are any zoning plans for the local area that could potentially lower, or perhaps increase the value of the property. Research prices, rental rates, vacancy rates and tenant absorption rates. If housing prices have gone down recently, this could be an indication that rents will also be lower. Conversely, if prices are high, this could indicate a high demand area in which you may be able to charge a higher rental amount.

Carefully consider the advantages and disadvantages of purchasing a property labelled as a "fixer-

upper." While you may be able to purchase the property for less money than other properties, you may find that you have purchased a "money pit." In the event that major repairs are required, equating to a large investment of both time and money, it would be better to pay more for a property that may require less attention but still produce cash flow.

You should hire a professional



Swapping out old light fixtures is also a very inexpensive way to make significant changes.

property inspector who checks many things in a property that could cost you money. Knowing if the electrical meets code, no lead paint, plumbing is good and the overall property is safe gives you confidence in the long-term value of the property. An inspection can often reveal problems you may not notice but could ultimately cost thousands of dollars to correct.

Lastly, just because you really want to get into the market, do not make the mistake of settling for an inferior property. This can come back to bite you in many ways which usually is right in your bank account. It all comes down to the numbers.

GUIDE TO INEXPENSIVE PROPERTY REPAIRS

The worst thing you can do is get emotional when looking to fix up a rental property. You must remember... *you* are not living there. If you want to make money on your investment property, you must keep repairs logical and to a minimum. Since repairs are a necessity to attracting and maintaining quality tenants, it is also important to learn how to make these repairs on a limited budget.

Just like in selling, you want to make a good first impression. The first area a tenant will see is the entryway. Tiling the foyer with a few bright ceramic tiles can spice up the look of the entrance for a minimal cost.

Some other effective, inexpensive repairs can begin with replacing all switch plates. Swapping out old light fixtures is also a very inexpensive way to make significant changes.

When trying to attract good tenants, interior doors are something a renter will notice. While changing the doors, be sure to also consider changing the handles as well. Older door handles can really make a place look drab. For a few dollars, you can easily replace old handles with brass or brushed metal handles.

Take a look at the existing trim. If it appears worn or cracked, it could be time to replace it. If it's in reasonable shape, make sure you caulk all the cracks and spaces between the trim and the walls. This creates a really tight look to the floor and window trim. Painting



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walls with a flat paint will hide a lot of imperfections that may be there.

Kitchens and bathrooms are very important areas. While it may not be practical to replace the cupboard doors, painting them with a semi-gloss and replacing the knobs for more contemporary knobs is a nice inexpensive touch. You can also replace old taps, sinks and toilets very inexpensively.

SETTING YOUR RENTAL RATES

Formulating a rental price for your unit can be challenging. You need to look at rental ads in local newspapers, Craig's List or Kijiji to research the fair market value rents for your area.

Most tenants look for convenience when searching for a rental property by looking for a place that is near their work or close to their children's school, so consider location and amenities when determining rental rates. For example, a three-bedroom unit in one end of town may rent for more than in another part of town based on location and amenities.



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It is important to keep in mind that there is a point when rental rates can reach a cap. When interest rates are low and rental rates are high, tenants will quickly make the connection that it just doesn't make sense to rent any longer and it can be less expensive to purchase a home. If this is the case, moving the tenants into a rent-to-own program may be a good strategy as it will keep the cash flow high and you have a built-in buyer.

To help keep your finger on the pulse of the market, join a landlord association in your local area. Any emerging trends will affect all landlords equally. Any upward or downward trend in the local economy could have

Landlord tips

an effect on your rental rates. Make sure you keep track of whether there have been job losses or new job creation in the local area.

Lastly, keep in mind what extras your property offers in terms of onsite washer/dryer, AC, dishwasher, on street or driveway parking, garages etc. This will play into your rental rate determination.

SHOWING YOUR PROPERTY EFFECTIVELY

It is as important to put your property's best foot forward in renting as it is when you are selling. Curb appeal is as important to tenants as it is to buyers. Prospective tenants are put off by properties that have a dilapidated exterior. Even small rental properties can create a good first impression.

Repair issues should always be addressed prior to showing a property to prospective tenants. It is never a good idea to show a property which is still in the process of being repaired or renovated. Wait until the property has been completely fixed up before showing it.

Cleanliness is of utmost importance. There is nothing worse for making a bad impression on a prospective tenant than a filthy property. Above all, be certain that the carpeting is clean. Ideally, it is best to have the carpet professionally cleaned and allow plenty of time for the carpet to dry before you actually show the property to anyone. Never put off replacing worn carpet as this can cause problems in attracting quality tenants.

Get to know the best points of the property before you show it in order to point out its best features. Before you actually show the property, take time to look at it through the eyes of the renter. If there is something that catches your eye that appears negative, it will to the prospective tenant as well.

If the temperature outside is cold or hot, be sure to set the temperature inside the property so that it will be comfortable. Generally, most people will not want to stay long in a property that is either too hot or cold. If the temperature is uncomfortable, there is a good chance that most prospective tenants will not stay around long enough to see the best features of the property.



Make sure that you turn on the lights before you show the property. This is particularly important if you are showing the property at night. If the property is not well lit, prospective tenants may wonder if you are trying to hide something. The few dollars you will spend on having all of the lights on during showings will often translate into attracting good quality tenants.

Do not hesitate to show off the exterior grounds and any good feature of the property. The key is to give prospective tenants an idea of what it is like to actually live there by showing off the grounds and perhaps something special in the immediate area.

Lastly, make sure you are prepared for all showings by having a rental application and a copy of the lease you use. You also need to have decided on if you are including any deposits for security, pets, keys or last month's rent.

TAXABLE DEDUCTIBLE EXPENSES

As a rental property owner, it is important to understand what expenses you can deduct in order to improve your profit margin as much as possible. It is prudent to speak with your accountant in order to ensure you have a good understanding of the tax-deductible items. Below is a non-comprehensive guide to some of the most common items, which are frequently deducted as a rental property owner.

An important thing to understand is the difference between improvements and repairs. Many owners often think that

everything they fix on a property is tax-deductible. This is not always the case.

A repair is essentially anything done to keep the property in good, safe condition. Consequently these repairs are tax-deductible in the year in which the repair is done. Examples of repairs would include painting, replacing fixtures and landscaping as well as all labour costs.

An improvement is something that you do to the property in order to add value to it. As such, it is not usually tax-deductible at the time when you pay for them. That said, you may be able to recoup the cost of these capital improvements by depreciating the cost over the life expectancy of your property. Common examples of capital improvements would include adding a garage, a new roof, new windows, replacing the wiring or the plumbing.

You will be able to deduct travel to and from your property. You can choose to deduct the exact amount or choose to use a standard mileage rate. Note: it is a common belief that CRA is trying to eliminate this deduction.

Lastly, the mortgage interest portion of your payment can be deducted on investment properties as well as appraisals, inspections, legal fees, accounting fees, insurance, condo/strata fees and Realtor commissions. Please check with your accountant to see what you can or cannot deduct.

In closing, make sure you keep good records and keep your receipts. This will make sure you have a paper trail for any deductible expense if you ever get audited. 🏠

Gord Lemon is a 25-year veteran in Canadian real estate investing. Over the last 10 years, Gord has assisted many Canadians by sharing his knowledge and experience as a coach, mentor, trainer and author. Gord has assisted many Canadians in financing as a mortgage specialist and founder of www.theInvestorsBank.com. Visit Gord at www.gordlemon.com and www.howtobuyUSproperty.com.



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