

YOU SHOULD BE MAKING
APPROXIMATELY
\$2 FOR EVERY \$1
INVESTED.



Managing your investment property PART 2

Gord Lemon reveals how to deal with maintenance issues to keep your ideal tenants happy

Last month, we discussed how to self-manage your investment property successfully highlighting the most effective strategies to selecting an ideal tenant. We also learned that by employing specific advertising techniques, posing key questions in your outgoing message, checking all references and having a rigorous but fair application process can yield you an ideal tenant. If your prospective tenant has passed all of the above categories, it is now time to move on to actually managing the tenant and the property.

In part two, we will cover a number of tenant management techniques and money-saving methods of renovating a vacant unit.

Maintenance and renovations

To attract and keep a quality tenant, it is imperative to maintain a quality unit. Many landlords make the mistake of barely fixing up or even cleaning a vacant unit and rely on the good faith of the inbound or outbound tenant to do so.

The No. 1 reason that tenants will vacate

premises is due to the lack of response by the landlord to do repairs. It is clearly in the best interest of any landlord to repair or renovate a unit as it creates tenant satisfaction resulting in less vacancy, often allows you to increase the rental amount, not to mention most repairs are also tax-deductible.

Here are some issues to consider:

1. TYPE OF RENOVATIONS

The key to doing repairs in any situation, whether as a buy fix and sell or renovating

a rental unit is to make sure that you are getting the best “bang for your buck.” You should be making approximately \$2 for every \$1 invested. Therefore, in the case of a rental, it is important to become familiar with the maximum rental amount your renovated unit will command considering the geographical area and age of the property.

It is imperative to check rental ads in your area for comparable units. In other words, if your rental unit is two-bedroom, one-bathroom, look for similar rental units in the same area in order to compare apples to apples. If you are still unclear as to the degree of renovation and the rental amount you can charge, you may want to respond to some rental ads yourself and go see some of the units available in your area. This will give you a visual on what the acceptable standard is, to what degree you must renovate and what you can charge once your unit is renovated.

It is critical to only renovate to the standard dictated by the area. Spending more money on your unit to make it “best in the area” in order to demand the highest rent can often backfire. You must understand what the market will bear in relation to the neighbourhood your unit is in. In most cases, a clean, well-kept and modestly renovated unit will be more than satisfactory to give you top dollar for the area.

2. EXTERIOR OF THE PROPERTY

You must assess your property through the eyes of your potential tenant. As such, first impressions go a long way and the tenant’s first impression begins the moment they see the property from the outside. Therefore, nice landscaping is essential. A clean manicured lawn which is free of any garbage accompanied by a few simple bushes and flowers will give an excellent first impression. Make sure the driveway is sealed and free of cracks. If it is winter, make sure all sidewalks and driveways are clear of snow and ice.

3. KITCHEN AND BATHROOM

The kitchen and bathroom are the main selling features of any property. When renovating a kitchen there is no need to go overboard. Painting cupboards, replacing handles and if necessary, replace the cupboard doors. The kitchen countertop does not need to be marble or granite unless you are renting a very exclusive upper scale apartment. Vinyl or laminate countertops are absolutely fine. Just make

sure that they are cleaned of stains and cutting marks. If you don't have a backsplash, is easy to install a few layers of tile that not only look great but helps prevent future water damage.

4. APPLIANCES

All appliances should be sparkling clean and in good working order. If there is any question about an appliance, replace it. If the appliances are yellow or green, they have lived the good life and probably should be replaced. Used appliances are inexpensive and often come with a warranty.

If you can't fix it properly, replace it. For example, you can get excellent deals on all-in-one sink, mirror and cupboard from the major do-it-yourself box stores.

In the bathroom, water is your enemy and caulking is your friend. Do your best to peel off all the old caulking and reseal any and all potential places water could seep in. Make sure the fan in the bathroom is functioning well. This simple fact can save you thousands in future damage as a result of moisture buildup, not to mention mould issues.

5. FLOORING

Flooring is also an area that can enhance or take away from the desirability of your property. It is much easier and less expensive to maintain vinyl, laminate or even existing hardwood as opposed to continuously cleaning and/or replacing carpeting. If your unit is older and has carpeting, quite often there is existing hardwood underneath. My suggestion is to rip up the carpet and sand then stain the hardwood. This will give your unit a very rich and elegant look.

6. WINDOWS

If you have an older property that has windows with single-pane glass, it is always a debate whether to replace them, cap them or just seal and paint them. The determining factors here would be how long you plan on keeping the property and who is paying the heating bill. If you're keeping the property for the long term, it may be worth investing in new windows, particularly if you are paying the heating bill. On the other hand, if the tenant is paying the heating bill, it may be OK to

leave the windows as they are however, if the windows are very inefficient, the heating bills may be too excessive for the tenant to handle. Therefore you must weigh these factors and determine your best course of action. These factors would also be applicable to any other major repairs such as the roof.

Landlord's maintenance checklist

When you feel you have adequately renovated your unit, it is crucial to do a walk-through of your unit and see it as the tenant would. If you feel there is anything that comes to your attention that would need repair or cleaning, the tenant will see this as well.

Let's begin walking through your unit and seeing it as your potential tenant would, considering each step through the unit can secure or lose the tenant. Remember, you've done your best to screen only for the best candidates. If you can win them with a great unit, you could secure a long-term, interdependent tenant you can count on to give you years of uninterrupted rent with very little management/time needs from you.

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LANDLORD'S MAINTENANCE CHECKLIST

1. **Go outside for a minute. Is the front door nicely painted?**
2. **Is the door handle and lock functioning well? If not, paint the door and replace the handle and lock, which is a good thing to do after the tenant has vacated anyway.**
3. **Are the steps functioning well or are they cracked or cockeyed, potentially forcing the tenant to an olympic balance beam routine just to make it up the stairs.**
4. **As you enter the premises, do you notice a bad smell or a pleasant smell? You can get products that can produce a variety of smells such as apple pie or bread baking.**
5. **As you stand in the doorway, is the view from the entrance inviting? Is there anything negative that catches your eye?**
6. **Are the walls stained or have gouges or holes in them? Are they freshly painted with a neutral "earthy" colour? You can get a light colour that you can use in every room. This means you can get a good deal on buying your paint in bulk and the same colour creates a "flow" through the unit. You can also use primer-based products that can get rid of stains and those hideous purple and green rooms some people have painted... there certainly is no accounting for taste.**
7. **Check the lines on the baseboards and window trim. Are there gaps or "wows" in the trim lines? Use caulking to fill any gaps and create nice "tight" lines. Caulking is extremely easy and inexpensive, but very effective when creating a nice symmetrical look to every room.**
8. **Look around to see if all your switch plates, electrical outlets and heating grates are in keeping with the rest of the room. It is very effective and inexpensive to replace all of these. By the same token, lighting fixtures are extremely inexpensive to replace if necessary.**

You can see that if you take care of the small things, which by and large are very inexpensive, you can create a great looking unit that looks like you actually did spend a lot of money. This will go a long way in being able to substantiate asking the highest rental amount the market will bear for your unit.

Managing your tenant

For some landlords, managing tenants can be a full-time job. In part one of this series, we created an application process that managed to screen out any undesirables. This process was created to produce an interdependent tenant that will require very little management.

Creating a friendly, but strictly professional tenant/landlord relationship is of the utmost importance. You have already begun to create this atmosphere through your screening and application process discussed in part one. It is a mistake to become "friends" with your tenant as you become victim of favours and allowances.

You must take every opportunity to continue to "groom" your interdependent tenant. There are a plethora of techniques to ensure success in this regard. I go through all of these techniques in my training sessions but will highlight a couple of good key points.

TIP 1: If your unit has a common area, I like to leave a broom and a dustpan available for any tenant to take it upon themselves to use. I also like to leave a shovel and a bag of road salt available for use in the winter. Although you can't force any tenant to take it upon themselves to do this extra work, often the interdependent tenant will be happy to take it upon themselves to do it. This also goes for the grass cutting and garbage removal.

TIP 2: If you don't have a volunteer tenant to accomplish these tasks, you may need to pay one of them to do the work. A common mistake among landlords is deducting the agreed upon remuneration from the tenant's rent every month. This is effectively reduces the value of your property because the rent roll you would show a buyer must show the actual amount that you are receiving in rents. Also, if the tenant decides they don't want to do the job anymore and the landlord notifies the tenant that the rent will go back up to the original amount, the tenant can go to their local landlord-tenant board and tell the judge they've been paying the reduced amount of rent for "x" amount of months and the

judge in most cases will side with the tenant because there has been precedent set.

The better way to approach this is to agree on a price for the work, then pay the tenant a monthly cheque. This way you have a legitimate taxable expense and you have the opportunity to approve the work before handing over the cheque. This also maintains the actual rent roll and ensures the value of your property is the highest it can be.

TIP 3: Another way to maintain a professional relationship and avoid any annoying phone calls in the middle of the night is to give the tenant a stack of "repair request" sheets. What this sheet includes will be the date and a description of the repair needed. This sheet must be submitted to you from the tenant, creating a paper trail if the matter ever comes up in landlord and tenant court. I personally tell the tenant that the repair will be done within seven days or I will refund the tenant a prorated daily rent amount after the seven days until the repair is taking care of. This goes a long way in gaining the respect of the tenant and preventing any repair from getting worse and more expensive to fix.

Going professional

Many people would prefer to hand over all these responsibilities to a property management company. There are very few property management companies that will take the same care in managing your property as you will, however many property owners don't have the time or inclination to do any of the property management and it is worth the expense to farm this out to a professional.

Here are some tips when looking to enlist a professional property manager:

TIP 1: UNDERSTAND WHAT SORT OF PROPERTIES THEY ARE CURRENTLY MANAGING.

You want someone that is established, experienced and has your best interest at heart. There are many property management companies that deal with hundreds of doors. These companies probably are not your best bet as they are generally too big to care about a small property. It is better to find a moderately sized company that deals with property your size and works in your area. If the company has property on the south end of town and yours is in the north, you won't get the service you expect...even if they tell you it's no problem.

TIP 2: BE SURE TO UNDERSTAND THE SCREENING PROCESS USED BY THE COMPANY.

Don't be afraid to go through each aspect of the process step by step with them and suggest improvements you feel are necessary. Remember, this will ultimately be *your* tenant, so you still want the best tenant possible.

Be aware that these companies get paid when they "place" a tenant and may "let their guard down" if the unit is taking too long to rent. It is in your best interest to let the unit go vacant until the best quality tenant comes along. There is nothing worse than panicking when the unit is sitting empty for a month or two and you let in anyone with an interest in the unit. This can create the biggest headaches and misery available to this business.

TIP 3: MANY COMPANIES OFFER A GUARANTEE OF AT LEAST SIX MONTHS OF TENANCY WHEN THEY APPROVE A TENANT.

Be sure to get this in writing. Often the

company will charge a half or full month's rent for placing a new tenant as well as a percentage of the rent every month. Anywhere from 8% to 12% is standard.

TIP 4: SET A BUDGETARY LIMIT ON REPAIRS THAT THE COMPANY CAN FACILITATE WITHOUT YOUR APPROVAL.

A repair for \$100 is common. Any repair required above this amount will need your approval, however these bigger repairs you can usually see coming months in advance.

Getting the company to pay all the utility bills is a service some companies also provide. This service essentially provides you with a monthly statement and a monthly cheque. If you are looking to own a property as a "set it and forget it" operation, this is the type of service you should look for.

Even if you choose the property management route, it is good to understand all aspects of self-management as you will know what services to expect when hiring a property management company.

In conclusion, owning property for the long term is a great strategy that has clearly made many people extremely wealthy. Utilizing a few key skills to make the job time-efficient allows for an enjoyable experience as you grow your portfolio. ■



GORD LEMON

is a 25-year veteran of real estate investing in Canada and more recently in the U.S.

Over the last 10 years, Gord has assisted in expanding the business of many Canadians by sharing his knowledge and experience as a coach, mentor, trainer and author. Gord has helped secure financing for many Canadians and Canadian investors as a mortgage specialist and founder of The Investors Bank. Please visit Gord at www.gordlemon.com and www.howtobuyUSproperty.com.

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