

Rental Property: It's a Good Thing

You've heard the horror stories about owning rental property. Your friends and family are quick to tell you that owning rental homes will only lead to sleepless nights and certain financial tragedy. They advise you to steer clear of rental property and tenants.

Only one teeny, tiny problem with listening to these folks: are any of them financially independent? Are any of them millionaires? If they ever owned rental property in the past – which most never have – did they take two or three landlording courses **BEFORE** they put a tenant in their property?

Fact is, owning investment real estate (rentals) has made more Americans millionaires than any other profession. Knowing this, and if you seek financial independence, doesn't it make sense to at least consider owning rental property?

We would like to give you five things to consider if you are thinking about buying rental property. This is not pie-in-the-sky fluff. Kim and I have owned and managed rental property since 1997, have taken eighteen landlording courses and teach our own landlording course.

First, before you even think about owning rental property, have \$15,000 in the bank gathering dust.

We have known too many investors who were *equity* rich but *cash* poor and owned rental property. Then it happens: on the hottest day of summer the rental home's air conditioning system fails. Problem is the investor doesn't have the money to fix or replace the system. What is the investor to do? If only he had enough money to fix the problem.

Second, before you buy a rental property, take at least one landlording course! Landlording is not a "born knowing how to do it" thing. Rather, it is a *learned* thing. There are two ways to learn how to be an effective landlord: the quick, cheap way (i.e. take a landlording course) or the long, painful, expensive way (i.e. trial and error). Be wise, choose the former.

When we bought our first rental property, we didn't think a landlording course was worth the time or money. Boy, was that a mistake. After making several expensive blunders, I quickly learned the value of landlording courses and have taken them ever since.

Third, use a rock solid, plain English lease agreement that is written for Georgia. An effective lease that clearly spells out what a tenant can and cannot do is worth its weight in gold.

If you are using a generic lease that was bought at an office supply store, you will find your lease agreement lacking. Remember, those *generic* leases are designed to be used in *every* state in the union. Fact is, it's not important that your lease work in New York City or Los Angeles; it's only important that your lease protect your property in *Georgia*.

Fourth, if you want to avoid late night phone calls from tenants who need a light bulb replaced, don't give them your *home* phone number! Instead, give them your *cell* phone number. At

night, before you go to bed, put your cell phone in your office or turn it off. Then go and get a good night's sleep.

Fifth, it is a ***good*** thing that rental property is not a super-liquid asset. I just had this discussion with one of our neighbors. He said that he didn't want to own rental property because it takes time to turn equity into cash.

He is right. But then I used the following analogy: When you buy rental property, you usually take some cash (a liquid asset) and turn it into real estate (a not-so-liquid asset). Think of it as taking a glass of water – something very liquid – and putting it in the freezer until it turns into ice – something not so liquid. The ice is still water, but it is in a not-so-liquid state. If you take the ice out of the freezer, it will *slowly* turn back into a liquid.

My point is this: owning rental property makes it difficult to turn your investment portfolio into something that is shiny, honks, and depreciates rapidly!

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