

Landlords Need \$5,000 in the Bank

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As Property Managers, we come into contact with many Landlords. As with any profession, some are better than others.

The two most common problems Landlords face are:

- 1. Out of control tenants.**
- 2. Landlords who can't afford to own rental property.**

Either or both of these problems will be the ruin of many a good Landlord.

The first problem can be avoided 95% of the time by doing the following:

- a) Be sure to use a thorough rental application and verify all of the prospective tenant's information.
- b) Collect the tenant's first month's rent and security deposit before they move in. These funds should be in the form of certified funds, not a personal check.
- c) Use a rock solid lease agreement, not a lease you bought at the local business supply store.
- d) Finally, enforce the terms of the lease. You must inspect what you expect.

The second problem can also be avoided 95% of the time. How? Don't own rental property unless you have a minimum of \$5,000 in the bank. This is a lot of money, but you will be amazed at how fast \$5,000 can disappear if you own rental property.

I'm confident that if you are a Landlord, right about now you are shaking your head up and down in agreement.

We regularly get calls from new investors who have recently rented out their first investment property. Often these new investors call because they are trying to dump their rental property. In other words, they needed to sell their rental property yesterday!

Let me give you an example. About three weeks ago we got a frantic call from an inexperienced Landlord. He practically begged us to buy his rental property. Turns out that when he didn't receive November's rental payment from his tenant, he went to his rental property only to discover the tenant had moved out without notice. Worse still, the Landlord's November mortgage payment was due, and he didn't have enough money to make the payment. This Landlord had spent all of his savings buying and fixing up this rental property.

Hang on because it gets worse. When the tenant left, he stole the stove, dishwasher, and icebox (yes, icebox, it's an easier word to spell than refrigerator. Plus, it causes folks under forty to get a quizzical look on their faces). The tenant had also left the property a mess. Trash needed to be picked up, the carpets needed to be cleaned, and the walls needed to be repainted.

The Landlord needed \$3,000 to repair the damage and to make November's mortgage payment. Problem was, he didn't have \$3,000. If only there had been \$5,000 in his bank account, he could have weathered this storm.

Remember, owning rental property is not all smooth sailing. You will face storms when you least expect it. Having a minimum of \$5,000 in the bank will help you survive these storms.

In the beginning we recommend that new Real Estate Investors buy and sell (not rent) investment properties. Once they have built their cash reserves, *and have taken several Landlording courses*, only then should they begin buying rental property.