



INTRODUCTION TO PROPERTY MANAGEMENT

What You Need to Know About Renting Out Your Home

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Introduction

The team at Yaffe Real Estate, together with our partner company Chesapeake Property Management, has over 15 years of property management experience in the greater Baltimore area. We've built our business and developed a reputation of caring for the properties we manage as if they were our own.

We understand that becoming a landlord can be an emotional decision and the difficulties that you might have from vetting quality tenants, to ensuring the rent is paid on time, every time. Our attention to detail means your rental property will remain in top condition, with our staff taking care of everything from improvements and maintenance to emergency repairs. We have a thorough tenant vetting process so you can rest assured that the home you are renting will be in good hands.

If you're on the fence and are uncertain if renting out your property is right for you, we're here to help every step of the way and will make sure you are comfortable that being a landlord is the right decision for you.

Should I Sell My Home or Rent It Out?

When homeowners ask us this question, there are a series of questions that we ask the homeowner in return to help them evaluate all of their options and arrive at the best solution for them. Because no two situations and no two clients are the same, everyone answers these questions differently. Therefore, a personal and confidential conversation is best.

1. What is Going On? What is Your Situation?

Usually the homeowner either wants to move (wants to upsize, downsize, change neighborhood, etc.) or has to move (relocation, deployment, change of relationship or job, etc.) and does not know which way to turn because their numbers are usually very tight. The more information that the homeowner shares, the better. We know that some of these situations are sensitive but it is so important that we have as many facts as possible.



2. What is the address and subdivision of the home?

We need to complete a market analysis of the home both as a sale and as a rental. Is the home in need of repair or is it turn-key? These answers help us arrive at a realistic value. We prefer to be conservative on our numbers so that you can plan your move accordingly. If we get more money than planned - great!

3. What Do You Owe on the Home?

We need to know the payoffs for all mortgages, including home equity lines so that we can calculate how much equity, if any, the homeowner has in the home. We also need to know if the homeowner is behind on mortgage or HOA payments and, if so, how far behind.



4. What are the Trends in Your Community?

Are homes appreciating or depreciating? What are the employment and new construction forecasts in the area? What do we see happening? We are involved in our communities, attend HOA meetings and stay current on the news. We can share our thoughts on the future values in the community.

5. Are You Able to Sell?

If you owe more than market value, do you have cash to bring to the table? Is it liquid or in a 401k? Do you qualify for a short sale? What are the pros and cons for you of both of these options? We are Certified Distressed Property Experts and have helped many homeowners through the short sale process. We will weigh all options for you.

6. Are You Ready to Be a Landlord?

If you are leaning towards renting out your home, do you have the temperament to be a Landlord? Can you handle the landlord/tenant ups and downs? We want to make sure that you have a realistic picture of what it is like to be a Landlord and that you understand the responsibilities. We strongly suggest that you hire a property manager so that you are not dealing with the day to day issues of property management. We will review all of this with you in detail.

After this discussion, usually the answer to whether you should sell or rent becomes obvious for you. By offering both sales, rentals and property management all under one roof, we can have an honest, open dialogue so that we can find the right solution for you and your family.

What Does a Property Manager Do?

Own^Oning a rental property is an excellent way to invest your money, build equity in a piece of real estate, and diversify your assets. Many property owners choose to work with a property management team to effectively manage this investment. Our team of qualified property managers work hard for property owners to ensure a full return on their real estate investments.

Here we will show you what it is that a property management company and property manager will do.

Market the Home

Effective rental marketing reduces the time the property is vacant and maximizes your income potential. The property management team may choose to market the home for rent via a posting on the multiple listing service, online advertising, a posting on the management company's website, newspaper advertising, or a for rent sign on the property.

Fill Vacancies

A property manager will meet with interested tenants to show the house, answer any questions, and draft lease agreements. Filling vacancies in the home should be done quickly and efficiently to minimize the amount of time the property is empty.

Qualify Tenants

A credit history assessment and background check are important steps in the rental process. A thorough check of the prospective tenant's background helps inform the property manager's decision of tenant worthiness.

Negotiate Leases

Tenants may request variations to the original lease terms including length of the lease, the presence of pets, or payment details. The property manager will work with the tenant to negotiate any changes to the standard lease agreement. Once a lease expires the property manager will ensure a lease extension is offered to worthy tenants to promote longer tenant retention.

Maintain Proper Records

A property management company maintains records of all income and expenses for a property. Documentation and receipts for maintenance performed on the property should be carefully cataloged and reported to the homeowner on a regular basis.

Collect Rent

The property manager is responsible for collecting rent, security deposits, and damage deposits from the tenant and disbursing net income to the homeowner. Tenants who make late payments, or those that fail to pay, are held responsible for the terms of the lease agreement.

Follow Local, State, and Federal Laws

There are a variety of local, state, and federal statutes that regulate rental properties. A property manager should follow each of these to ensure all guidelines are adhered to. These may include record keeping and reporting, the method of refunding deposits, and the basic procedure of renting a property without discriminating against certain groups of people.



Maintaining Your Property

Keeping the property in good condition and in working order is an important job of the property manager. Tenants will contact the property management company when something is in need of repair. The property manager will also ensure routine maintenance is performed on the home such as roof, HVAC, and electrical inspections.

Report to You on a Regular Basis

A property manager will keep the homeowner informed on the status of the property, expected vacancies, necessary maintenance, and upgrades that need to be done to the home.

What are the Risks Involved with Renting Out My Home?

People choose to rent out their homes for a variety of reasons. Maybe you've received a job offer in a new area and don't want to wait to sell your house, or maybe you are not in a financial position where selling is the right decision for you at this time.

Whatever the reason, you should also be aware that renting out your property without professional help may come with risks.

The Risks

Your home is one of the most important assets that you own, and before you make a decision about whether or not to rent it out, it helps to discuss the pros and cons with a professional property-management firm. Some of the risks are:

- **Tenant not paying rent on time**
- **Tenant doesn't maintain your home**
- **Tenant doesn't abide by the terms of the lease.** This could mean ending the lease early, violating any HOA rules or having unauthorized occupants.
- **Your property ends up vacant.** Whether your tenant leaves on their own, or if they are evicted, every day your property is empty is money lost to you as the landlord.

It can take time to evict someone, even if he or she is not paying rent, and in that time, you could lose money or worse, a lot of damage could be done to your property. That is why working with a professional property-management firm can be beneficial.

How an Experienced Property Manager Can Help

- **They will have detailed systems on how applicants are approved.** This usually includes a credit, background, and/or reference check as provided on their application ensuring your home is rented to responsible tenants.
- **They will educate the tenants on their responsibilities per the lease.** They will educate your tenants on their responsibilities when it comes to maintaining the property, the rules of the HOA and paying rent by a certain date.
- **They will manage your property.** They will maintain your property as well as tend to other issues that may spring up.

If you would like to rent your home, but aren't sure you're equipped to handle any difficulties that may arise, consider hiring a professional property-management team so you can relax and focus on other areas of your life, giving you piece of mind that your home is in good hands.



Why Tenant Qualification is Important

Recently, a former landlord/client of ours decided to go his own way in terms of managing his rental property. He had been with Chesapeake Property Management for a few years, but decided he wanted to “save the commission and property management fees” and thus, attempt to find a tenant and manage his properties on his own. With his experience, he was sure that he could handle it on his own.

This former client was indeed able to find a tenant for himself, and he was confident she would be a good bet. She had found the home on Craigslist, drove a nice car and dressed beautifully. She told him that she had a steady job, good income and could move in right away - jackpot!

However, appearances can be deceiving. This tenant paid her first month's rent, and then didn't pay again. Eventually, the tenant was evicted, however the eviction process is a lengthy one that left this landlord out of rent for five months. The landlord later admitted he should have just come to us to handle tenant qualification on his behalf.

So, How Would We Have Handled Things Differently?

What I have found in over 16 years of business is that finding applicants is not difficult. Finding “qualified” applicants is a lot more time consuming and complex. We also know that in the state of Maryland, once you are in a lease, the Landlord/Tenant laws favor the Tenant. Therefore, the best way for us to protect our Landlords, is to be careful prior to getting into the Landlord/Tenant relationship.

We have all applicants over the age of 18 complete an application that is quite detailed. We then pull a tri-merged credit report, run a background check, check references and verify all of the information by calling the applicant personally. Yes, we speak with every

applicant and yes, it is very time consuming, but it is so worth it. In over 16 years of business and thousands of managed properties, we have filed for eviction less than 5 times! Yes, you read that correctly, less than 5 times! How do we do that? Because we take the time up front to verify the information and educate the tenants on their responsibilities should they go into a lease with our landlords.

We know that our competition farms out the tenant approval process to off-site 3rd party companies and we understand why - because it is so time consuming. But we will not do it. At Chesapeake Property Management, we are locally owned and operated and very hands on. Qualifying and educating the tenants is the most important piece of the puzzle prior to getting into the relationship and is what has kept our eviction and problem rate so low. By taking the time up front, we are able to keep our homes occupied with paying and knowledgeable tenants, thus resulting in a low vacancy rate and our landlords continue to receive consistent cash flow.



How a Tenant Repair Request is Handled

So often, potential property management landlords ask us: “How do you decide what repairs to make to my home? Will you call me every time? Do you always get multiple estimates? What vendors do you use?” What it really comes down to is that Landlords are concerned that they will be charged every time the Tenant submits a repair request and that it will cost them a lot of money.

We understand how hard it is to have someone else (us) have access to your money, i.e., by having the discretion to spend your money to make repairs. We assure you that we are very careful and thoughtful with our decisions and do not take your trust lightly. Though we know spending money is not fun, sometimes it is necessary and we have to make quick decisions to best protect all parties to the lease.

The first thing we do when we receive a tenant repair request is to immediately assess which of three categories the repair falls into:

1. Safety and Liability

Is it affecting the safety of the tenants and thus expose the landlord and the property manager to liability? We treat these repairs as urgent and will immediately kick in to action to repair the problem. We will update you as soon as we can, however, repairing the problem takes first priority. An example would be a burst water pipe that is flooding the basement, having no heat when it is 10 degrees outside, or an electric box that is sparking and has an odor. These are unsafe situations and we need to repair the problem immediately.

2. Plumbing, Mechanical, and Electrical

These are inconvenient but not usually unsafe. Per the lease, the Landlord needs to provide working systems but it may be able to wait a day or two while we gather information and estimates. For instance, a non-working toilet when there are three other working toilets in the home, a non-working dishwasher, a non-working washing machine, or not having heat on a gorgeous 70 degree day are not emergencies. We can't delay too long but, if the call comes in at 10 pm, we can wait until office hours the next day, thus avoiding the expense of an emergency call to a vendor.

3. Maintenance and Aesthetic

If it's aesthetic, for instance a mover caused a gash in the wall or something similar, we will note that in the file but we may or may not repair it right away because it doesn't affect the habitability of the home. Other examples would be a stain on the carpet, a rip in the kitchen floor, etc....

We want our landlords to know that we take seriously their trust in us to handle their money appropriately. We are careful with how we spend their money and we do use our best discretion in all cases. Most of the time our landlords are in agreement with us, however, every now and then there is a disagreement but we use our experience and our best discretion in all of these situations.



What Tax Deductions Can I Take When I Rent Out My Home?

One of the many benefits of owning a rental home is the tax deductions you can take for the property. If you are moving and decide to rent out your current home instead of selling it, you can write off quite a few expenses. In fact, the list of deductible expenses is longer than you might think, so it would be valuable to keep track of all receipts for purchases made in regards to the property.

Costs to Put the Property in Service

If your home is empty and you are waiting for renters, you can deduct quite a few expenses. Any advertising costs you spend - even if those costs are paid to a property management firm - are deductible. You can also deduct the cleaning and maintenance costs during this time, which is great news if you would like to hire these services instead of handling them on your own.

If you are cleaning up from one tenant to the next, you may have a few additional costs. Trash removal, painting and carpet cleaning may all fall into the category of prepping the home for the next tenant. Yard maintenance during the time it is vacant can also be deducted.

Costs to Manage the Property

Owning property brings many costs. You have to pay taxes and insurance on the home, and if you have a mortgage, you will also be paying interest

on the house. If the home is in a neighborhood with a homeowners association, or if it is a condo with condo fees, you also must pay those. Also, if you pay a property management firm, the cost is deductible as a management cost.

Costs to Maintain the Property

The costs of property maintenance can be quite extensive, and this is a place where you can accumulate deductions quickly. Consider costs such as:

- Rental of equipment
- Repairs
- Materials for repairs
- Pest control
- Utilities you choose to pay or pay while it is vacant

Keep track of anything you spend on your property, as it is likely deductible.



Considerations With Improvements

Improvements to the home are deductible, but they usually have to be capitalized and depreciated over several years instead of deducted the same year you paid them, as you can do with repairs.

So what is an improvement compared to a repair? Improvements add to the home's value or prolong its life. For instance, if you install a water filtration system or spend money modernizing the kitchen or adding insulation, these would be improvements.

Repairs, such as painting, replacing broken windows or doors, fixing leaks or repairing a broken appliance, may be deductible in the year you perform them.

As you can see, the deductions for your rental property are quite varied. By keeping careful records and paying attention to your activities relating to your rental property, you can turn it into a valuable tax deduction.

For specific guidance on tax deductions relating to rental property, consult the Internal Revenue Service website.

Yaffe Real Estate does not advise on any personal income tax requirements or issues. Use of any information from this site or any other website referred to is for general information only and does not represent personal tax advice either express or implied. You are encouraged to seek professional tax advice for personal income tax questions and assistance.

Travel Expenses

One deduction many landlords forget about is travel to and from their rental property. Even if you live in the same community, you can write off your mileage when you travel to your rental property to collect rent, perform inspections, and manage repairs and any other activity that requires your attention. Keep detailed records of your mileage and the activities performed while you are there to prove your activities, and you can write off these expenses.



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