So You Want To Be A LandLord?

If you are looking to get rich quick, this may not be your vehicle, but if you want a dependable stream of monthly income today, as well as a safety net as you get closer to retirement, consider buying an investment property.

Here are some things you will want to consider as you search for the perfect house to rent.

1. Location.

First, and most importantly, find a real estate investment company you trust. They can give you information on the location of the hottest deals. Right now, foreclosures are at an all time high, and houses are selling for a fraction of their assessed value.

Tip:

Look for a solid, stable neighborhood. Large homes are harder to rent, but are ideal for homeowners who have recently lost their homes in the mortgage crisis. Homes near schools are not only convenient, but they also hold their value well. If you are set on a house in foreclosure, look to the outer fringes of the foreclosure area, where most people can still afford the payments.

2. Down payment.

Unfortunately, due to the recent mortgage fiasco, it is difficult, if not impossible, to get a home for no money down. For an investment loan, look for an initial outlay of 20%.

Tip:

If it is feasible, consider moving to the new home and renting your residence for a few years. An owner-occupied loan saves money in all areas of the transaction. If you live in the house yourself for at least two years, the profit should be tax-exempt when you finally sell it.

3. Interest rate.

This will vary considerably according to your credit rating. A low credit rating will not prevent you from getting a loan, but you will pay a higher interest rate. If you choose not to live in the new house, plan to pay a point or two higher than a traditional home loan.

4. Condition of the property.

If this is your first investment, you may wish to find a home close to move-in condition. Any home will require a thorough wipe down, carpet cleaning, and a change of locks. Become familiar with your state's landlord/tenant laws so you know exactly what maintenance is required before the home can be rented.

Tip:

Listen to your instincts when viewing the home. If you wouldn't want to live there, no one else will, either. Unless you have building and remodeling skills, or have a trusted handyman on retainer, a "fixer-upper" can become a giant headache.

5. Maintenance.

As the landlord, you will be required to maintain the structure and any working appliances. This includes making sure there are no leaks in the foundation or holes in the roof. A new furnace or heat pump will cost about $5000, so you will want to check it seasonally.

Tip:

A home warranty will pay for itself with the first use. For about $300, you can have peace of mind that if a major appliance needs repair or replacement, you only have to pay the deductible

6. Lease.

State laws vary as to what must be included in a lease, but your realtor can give you the specifics. A detailed lease should list the duties and responsibilities of each party; it is invaluable in protecting both you and the renter. Make sure the renter is accountable for minor upkeep such as moving the lawn, cleaning the gutter, etc.

7. Insurance:

Insurance rates vary, but insurance on a rental property is less expensive than your residence. This is because you will be getting a landlord's policy vs. a homeowner's policy; the possessions of the occupant are not covered. Don't skimp in this area--make sure the coverage is enough to rebuild the home should an accident occur, and check the policy each year, as construction rates can rise quickly.

Tip:

Consider a clause requiring the occupant to purchase renter's insurance. For about $20 per month, they will be reimbursed for their belongings should something happen to the home. It only takes one fire or flood to destroy personal possessions accumulated over a lifetime, and as the owner, you are not responsible for their loss. Prevention, therefore, is key.

Sound like a lot of work? After the initial fear of giving up a large sum for the down payment and closing costs, the renting experience is easy. Once in a while you will get a call in the middle of the night, but each month you will get a check in the mail that not only covers the mortgage, but includes a few hundred dollars to stow away for maintenance. In as little as a year, you should have five to ten thousand dollars for improvements and unforeseen expenses. Once you have the safety net, you can begin paying yourself back.

The best part? Depending on the prevailing rent and your initial outlay, you can own the home outright in much less than the standard thirty years, while someone else pays the rent. Or, you can sell it after a few years and keep the profit.

Being a landlord is not the fastest way to make money, but it is an excellent way to build equity you can tap into for emergencies, a new car, or retirement. Instead of working for someone else, consider investing in the rental market. Common sense and a good realtor are all you need to make it work for you.