

TOP 10

PROBLEMS LANDLORDS FACE & HOW TO HANDLE THEM

By
R.P. MANAGEMENT, INC.



Top 10 Problems Landlords Face And How To Handle Them

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First Edition Published in 2018

Published in the United States of America

CONTENTS

1. Tenants trashing the property	4
2. Eviction and Loss of Rent	4
3. Pets	6
4. Maintenance, life expectancy of household items and replacement costs	7
5. Covering my mortgage payment and other expenses	10
6. Tenants liability	11
7. Federal laws	12
8. Additional Insurance needed	13
9. Accounting – Capital Gains Exclusion and Providing a Certificate of Rent Paid form to your tenants	14
10. Rental Licensing	16
Rental Licensing (Pre-Inspection Checklist)	17

**1**

TENANTS TRASHING THE PROPERTY

2

EVICTON AND LOSS OF RENT

These are probably the two biggest fears a landlord has. You've probably heard the horror stories about tenants trashing the property, not paying the rent and having to be evicted which costs the landlord potentially thousand of dollars in lost rent and repairs. As your professional property manager, we certainly screen the tenants, but bad things can happen to good tenants.

About two years ago, I met a young, professional couple who were moving to our area. She had just landed her dream job and they were excited to step-up into a more luxurious home.

We vetted them. They cleared our screening process and faithfully paid on time– until January, when they were two weeks late. In February, they were late again, and in March

they didn't pay at all. It was obvious that life had somehow changed for these formerly ideal tenants.

So what happened? It turned out that her dream job was more of a nightmare...

For whatever reason, she only lasted a few months, and they had been making ends meet by using their savings. As our eviction process began, the tension between them continued to rise and they argued more frequently—sometimes violently. In May, she left him after their most heated argument, where he scared her by kicking and punching a series of holes in the walls.

Unfortunately, stories like do happen. After all, who among us hasn't faced a surprise financial hardship?

And it's especially sad when other people's problems become our problems. As a landlord, you're more aware than most how interconnected all of us really are. It's really frustrating to me that the person who owned this home lost several

months rent, had to pay the eviction costs, and then also pay to repair the damaged walls.

As your Property Manager, this is exactly the sort of situation I hope you'll never find yourself in.

Of course, if you were Australian, you wouldn't worry about this at all. When I learned how they handle this down under, I knew it would work here for my clients like you. What they do is very innovative and has completely transformed the market by allowing landlords like you to rent with confidence.

They call it Scheer Landlord Protection and it's a special type of insurance coverage to protect you from these types of losses. I liked the idea so much that I co-founded a new company to bring this coverage to America. It's called SureVestor, and it can protect you from these losses for less than \$1 per day. If this had been available for our client, they would have saved thousands of dollars while experiencing far less stress, so I'm very excited to inform you that coverage is available now. For more information about this insurance go to **www.surevestor.com**.



3

PETS

There is continued debate on whether to allow pets or not in your rental property. First, it depends on your situation. If you have pet allergies, for example, and plan to move back into the property in the future, it makes sense to not allow pets. More landlords, however, are not intending on moving back into the property. Therefore, allowing pets makes a lot of sense and here's why. Even though it might have been your personal home you were living in, it is now an investment property and one of the goals landlords typically have is to maximize the investment return. This is done by attracting as many willing renters to the property as possible.

Roughly 68% of US households have pets. Therefore, by not allowing pets, you have just reduced your potential rental market by nearly 70% leaving roughly 30% of the prospective tenant pool available to pick your property. So if you are looking to rent your property faster and keep it rented, allowing pets makes good business sense.

I know what you're thinking; what if the pet damages the property? Good question. First, we require all tenants with pets to have their pet screened. That's right. We have a pet application and the pet is screened with photos, vaccination information, spade or neutered information along with a series of qualifying questions. If the tenant claims the animal is an assistance animal, there is specific qualifications obtained for verification. So back to the concern about potential damage caused by the pet. We charge the tenant a pet fee and then we cover up to \$1000 in pet damage. In addition, we collect a security deposit that can be used for pet damage as well. We don't recommend a pet specific deposit because if you set a specific deposit amount for pet damage, you can only use that amount for pet damage even if you have a normal security deposit.

Also, if you obtain the Scheer landlord protection insurance noted in problems 1 and 2 discussed above, there is also \$1000 coverage for damage done by an assistance animal.

4

MAINTENANCE, LIFE EXPECTANCY OF HOUSEHOLD ITEMS AND REPLACEMENT COSTS

Maintenance and repairs are a necessary part of owning rental property. The problem is that most landlords and property managers take a reactive approach to maintenance. Having a systematic, proactive approach can save you big time. The important thing to understand here is that tenants evaluate their rental experience largely based on how maintenance is handled. It can be the single factor in the decision your tenant makes on whether to renew their lease or not. Turnover repairs and releasing costs are generally the most expensive part of owning rental property. So strategies to keep your tenant in the property longer is worthwhile and that starts with being pro-active when it comes to maintenance.

Unless expectations are established up front, tenants will think everything is an emergency. We suggest setting these expectations by giving tenants a category of maintenance which outlines when specific things will be handled. This is reinforced when a service request is made so that expectations can be met and hopefully exceeded which makes for a happier tenant who will stay with you longer. Here is the category of maintenance form we use.

CATEGORIZED MAINTENANCE

To service you more efficiently, we have divided the types of maintenance into categories.

EMERGENCY = SAME DAY SERVICE

These items may cause harm to people or damage to the unit. For example:
Heating Repair (No Heat)

Pipes Bursting
Drain Backing Up
Unit Not Secure (Door/Window not locking or is broken)

URGENT = SAME DAY/NEXT DAY SERVICE (1-3) DAYS

These items are an inconvenience, but not an emergency. For example:

A/C Maintenance
Drain Clogged
Electrical Repair (no electricity)
Refrigerator Out
Smoke Detector Not Working
Toilet Not Working
Water Heater Not Working/Leaking
Window/Entry Door Broken
Garage Door Repair (car closed inside)

REGULAR = 3-10 DAY SERVICE

These are items that are general maintenance.

For example:

Ceiling/Wall Repair
Dishwasher Repair
Disposal Repair
Door Repair (Inside Unit)
Gutter Repair
Stove/Oven Repair
Washer/Dryer Repair
Window Repair (minor)
Plumbing Repair (minor, misc)
Roof Repair
Screen Repair

In order to set expectations for you, take a look at the useful life of appliances, common repairs



with estimated costs and what to expect if you have to replace any of them. We are using average appliances that one would typically put in an average property. Average cost includes delivery, install of all except gas appliances, recycle of old and tax for standard. Keep in mind there are reconditioned appliance options as well.

Dishwasher: Est Life: 10-13 years Est Replacement Cost: \$520

Most common repairs and cost to fix:

- ▶ Drain pump cleaning: \$100-\$300
- ▶ Water inlet valve: \$160+
- ▶ Control board failure: \$190+

Washing Machine: Est Life: 10-13 years Est Replacement Cost: \$560 Top Loading, \$850 Front Loading

Most common repairs and cost to fix:

- ▶ Rubber door gasket replacement \$200-\$300
- ▶ Lid switch failure on top loading machine: \$140+
- ▶ Water inlet valve issues: \$160+

Dryer: Est Life: 10-13 years Est Replacement Cost: \$520 electric, \$620 gas

Most common repairs and cost to fix:

- ▶ Coils: \$170
- ▶ Thermostats : \$130+
- ▶ Belts: \$180+

Oven Range: Est Life: 10-15 years Est Replacement Cost: \$525

Most common repairs and cost to fix:

- ▶ Igniter cleaning or failure: \$110-\$200
- ▶ Broken control board: \$260+
- ▶ Bake element problems: \$160+

Refrigerator: Est Life: 10 years Est Replacement Cost: \$700

Most common repairs and cost to fix:

- ▶ Ice maker failure: \$275-\$325
- ▶ Main control board failure: \$260+
- ▶ Clogged drain line : \$ 109+

Microwave: Est Life: 8 yrs Est Replacement Cost: \$340

Garbage disposal: Est Life: 12 yrs Est Replacement Cost: \$250

Carpeting: Est Life: 8 yrs Est Replacement Cost: \$1.70+ per SF

Smoke/CO detectors: Est Life: <10 yrs Est Replacement Cost: \$15-\$35

Asphalt roof 3 tab shingles: Est Life: Asphalt roof 20- yrs

Architectural shingles: Est Life: 30- yrs Est Replacement Cost: \$3.50 to \$5.00 per square foot or \$350 to \$500 per square of architectural shingles installed. A square is equal to 100 square feet of roof surface. An average roof size is about 1,700 square feet.

Furnace: Est Life: 15 – 25 yrs Est Replacement Cost: \$3500

Air Conditioner: Est Life: 10-15 yrs Est Replacement Cost: \$3200

Water Heater: Est Life: 10 yrs Est Replacement Cost: \$1200

Decks: Wood planks: Est Life: 15 yrs,
Structural wood (Cedar, Pressure treated: Est Life: 10-30
Composite decking: Est Life: 25 yrs

Many landlords have a mortgage payment for their rental property. Although it's always desirable that the rent covers the mortgage payment, the rent you can get for the property has nothing to do with the amount you pay for your monthly mortgage payment. The rent amount is based on many factors, but the amount of your mortgage payment is not one of them.

You need to start with a rental analysis. On our website, go to our rental analysis page, enter your property address and get a rental analysis

report. Since the rental analysis does not take into consideration property values, a double check to see if you are in the right range is to take 1% of the value of the home; then take 60% to 70% of that to see if the analysis is in the right range. For example, you have a \$300,000 home. One percent is \$3000 and 60% to 70% of that is \$1800 to \$2100. This range depends on features, how updated the property is, number of bedrooms and bathrooms.

Many new landlord think that cash flow, or the difference between their rental income and expenses is the only benefit of owning rental property. There are actually four main benefits. Cash flow is certainly important, but as your tenant is paying rent to help cover your monthly mortgage and other expenses, the principle balance owed on your mortgage is being reduced. This alone can be many hundreds of dollars every month. Also with rental property, you are typically able to write off certain expenses that you would not be able to do as a home owner, like your mortgage interest. We always recommend that you speak to a tax professional about this. Lastly, over time, history has shown that real estate does appreciate in value. There certainly are adjustments where prices go up and back down, but over time, they trend upwards. So depending on the market, you might have some appreciation in value, which could be significant the longer you keep it as a rental property. To help you with the numbers, we have included a link on our website to the benefit analysis we use. Take a look and play around with it.





6

TENANTS LIABILITY

As a condition of the lease, we require all Tenants to carry a Tenant Liability Insurance policy with a minimum \$100,000 per occurrence in coverage for accidental tenant damage resulting from fire, smoke, explosion, backup or overflow of sewer, drain or sump, water damage, falling objects and collision with vehicles. As an owner, your insurance might cover these things, but if you have to file a claim against your policy, you likely will have a deductible to pay and it could also affect your future premium. By requiring your tenant to have this coverage as a condition of the lease, your

insurance might not need to be involved when a tenant accidentally causes damage caused by one of these covered event.

Don't confuse tenant liability insurance with renter's insurance. With renter's insurance, there is a benefit to the tenant whereby the insurer is also covering the belongings of the tenant and providing theft coverage, and the premium is based on the credit score of that tenant. In most cases, the cost will be more than a uniform premium of a tenant liability policy. We have the program already set up for any property we manage.

When managing property, regardless of having your property professionally managed or doing it yourself, there are federal and state laws that you need to be aware of.

Here are some of the more important ones to know. Fair housing act, disparate impact, Lead Based

Paint Disclosure Program, Renovation Repair Paint program, Megan's law, MN Landlord/Tenant Handbook. These alone could fill a book. Just keep in mind that if you are going to manage property yourself, you better become familiar with each of these. Below are the links to get information on each of these:

Fair housing act:

https://www.hud.gov/program_offices/fair_housing_equal_opp/fair_housing_act_overview

Disparate impact:

<https://www.gpo.gov/fdsys/search/pagedetails.action?granuleId=2018-13340&packageId=FR-2018-06-20&acCode=FR&collectionCode=FR>

Lead Based Paint Disclosure Program: <https://www.epa.gov/lead/lead-residential-lead-based-paint-disclosure-program-section-1018-title-x>

Renovation Repair and Painting program:

<https://www.epa.gov/lead/renovation-repair-and-painting-program>

Megan's Law:

<http://www.meganslaw.com/>

MN Landlord/Tenant Handbook:

<https://www.ag.state.mn.us/Consumer/Handbooks/LT/default.asp>





8

ADDITIONAL INSURANCE NEEDED

Now that you have a home that is going to be used for rental purposes, your typical property dwelling insurance coverage does not give you the additional coverage needs as a rental property. You will now have a 3rd party living in the property and need additional insurance to cover that risk. You need to have comprehensive public liability property insurance, Fire and extended coverage

hazard insurance in an amount equal to the full replacement cost of the structure and other improvements. It's called Dwelling Property All Risk (DP3) insurance. Simply tell your insurance agent this and they can set you up properly. Be prepared to pay more for this coverage. We typically see a 20-30% increase over your normal homeowner's dwelling policy so plan accordingly.

ACCOUNTING – CAPITAL GAINS EXCLUSION AND PROVIDING A CERTIFICATE OF RENT PAID FORM TO YOUR TENANTS.



Properly accounting for all the rent income and expenses on your property is another problem landlords face in managing their own rental property. Professional property managers generally have management specific software to help make this task consistent and accurate. There are, however, a couple accounting things that many a home owner turned landlord don't think about. The main one is the capital gains 121 exclusion. Section 121 of the Internal Revenue Code, which is often referred to as the 121 exclusion, generally allows homeowners to sell real property held (owned) and used (lived in) as their primary residence and exclude from their taxable income up to \$250,000 in capital gains per

homeowner, and up to \$500,000 in capital gains for a married couple filing a joint income tax return.

PRIMARY RESIDENCE

The 121 exclusion can only be used in conjunction with real property that has been held and used as the homeowner's primary residence. It does not apply to second homes, vacation homes, or property that has been held for rental, investment or use in a trade or business.

QUALIFICATIONS

Homeowners are required to have (1) owned and (2) lived in the real property as their primary residence for at least a combined total of 24

months out of the last 60 months (two out of the last five years) in order to qualify for the 121 exclusion. The 24 months does not have to be consecutive. There are certain exceptions to the 24 month requirement when a change of employment, health, military service or other “unforeseen circumstances” have occurred.

Simply put, if you have been living in your home as your personal resident for at least 2 years and have equity in the home, talk to your accountant or financial planner about this exclusion. The last thing you want is to rent it out longer than the above qualifications indicate. When you go to sell the home, not only could you be in a situation where you no longer qualify for the capital gains exclusion, you could be hit with capital gains tax.

The 2nd over looked accounting issue is state specific. In Minnesota, if you own a rental property and rent it to someone, you or your managing agent must provide a Certificate of Rent Paid (CRP) to each renter.

You must give each renter a CRP by Jan. 31 of each year. Renters need the CRP to apply for the Minnesota Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund. Failure to do so could result in a fine from the state.

For information on the program and where to obtain the proper CRP form got to **www.revenue.state.mn.us**



10

RENTAL LICENSING

In the Twin Cities metro area, nearly all of the municipalities have rental licensing requirements which involves an application, paying a rental license fee and/or rental conversion fee and having the city inspect your property for compliance. Many of the cities are going to a tiered system where the property gets rated based on violations. Passing the inspection can mean the application renewal and fee and city inspection can be set to two or three years or longer which of course saves you money and time. If you fail the inspection, you will be given a certain amount of time to correct the

violations, pay for and attend a city re-inspection and your property may fall into a lower tier. This lower tier can mean more frequent city inspections and renewal application fees.

In order to help you pass these inspections the first go around, we have put together a pre-inspection form which goes over the more common violations city inspectors find. We suggest going through the property prior to the city inspection and make sure these items are in compliance.

RENTAL LICENSING

PRE-INSPECTION CHECKLIST

Please use the following checklist to prepare for the Rental Licensing Inspection. The list highlights things often found to be in violation.

Addressing deficiencies prior to the inspection reduces the need for a re-inspection.

ITEM	CONDITION
Smoke Alarm	Within close proximity of each bedroom and one inside each bedroom
Carbon Monoxide Alarm	One within ten feet of bedrooms
Laundry Area/Room	Free from lint and debris behind dryer
Dryer Venting	Smooth rigid metal or approved piping, not flexible type or plastic. Approved Duct tape and no screws used
Plumbing Pipes & Fixtures	Working & free from defect. Exterior faucets need back flow prevention device
Electrical (fixtures, plates & covers)	Working & free from defect
Furnace/Mechanical Room	Free from defect & no combustibles or items within 3' of furnace or water heater
Interior Rooms & Spaces	No excessive clutter/unsanitary condition
Bathrooms	Openable window or mechanical venting required. Caulking is intact and fully functional; mold or mildew caulking requires replacement
Light Fixtures	In place and in good repair. No metal pull chains on basement light fixtures

Windows, Doors, Walls	Working & free from defect. Operable windows must have locks and screens
Roof, Siding & Walls	Working & free from defect, leaks and peeling paint
Flooring	No loose tiles or carpet. In kitchen and bathrooms, must be impervious to water
Building Address Numbers	Visible from street and alley if applicable
Stairs	Handrails required on stairs of 4 or more risers.
Deck	If over 30" above grade, must have guardrail and balustrades no more than 4" apart
Escape (Egress) Windows	Window can't be blocked by furniture. No sleeping use permitted in basements without a proper egress window
Bathrooms	Must have operable window or mechanical ventilation system. Floor must be impervious to water
Extension cords	Not allowed for permanent wiring in house or garage. These are one time use cords
Window Treatments	Required on all bedroom and bathroom windows
Garages	Overhead garage door has safety sensor and/or auto reverse if equipped with automatic opener
Fences	No leaning, missing panels, deteriorated, or damaged fences
Yard	No litter/debris, junk, tires, auto parts, or construction debris in yard. No vehicles parking on an unapproved surface ie. Grass
Paint	No peeling, chipping, chalking, or deteriorated paint