Tactics for buying rental property

By Alex Veiga
Associated Press

Low mortgage rates have made buying a home more affordable and turned rentals into an attractive option for investors.

Throughout the downturn in the housing market, average investors, sometimes pooling their money, have bought foreclosures at a sharp discount and turned them into rentals. Many homeowners also have purchased a second home and rented out their first property.

Although the housing market is showing signs of recovery, demand for rental housing is expected to remain strong. The national unemployment rate remains high at 7.9 percent, banks are still working through a backlog of foreclosures and tight lending requirements prevent many renters from becoming homeowners.

And the Fed has said it will keep its short-term interest rate, the federal funds rate, at a record low until U.S. unemployment falls below 6.5 percent, something many economists don't expect to happen until late 2015 at the earliest.

"In this market, at this point, it's a sweet spot," said Chris Princis, a senior executive at financial advisory firm Brook-Hollow Financial and owner of two rental properties in Chicago. "You're getting the market where it's just starting to rebound, but still at the bottom, with what's looking to be a great recovery."

Here are six tips on becoming a landlord or investor in rental property:

1. Understand what it means

Residential real estate generally provides three possible ways to get a return on your investment: when it's sold, assuming it has grown in value, by collecting rent and through tax savings, such as the mortgage interest deduction.

So, if you elect to buy a property for the long-term invest-

See RENTAL, Page 5B

RENTAL

Continued from Page 3B

ment potential, the goal should be to ensure that the rental income covers the cost of your mortgage and monthly maintenance costs.

If you buy a foreclosed home, you'll have to factor in the cost of repairs to ready the home for rent. And if you have a mortgage on the property, you'll need to be prepared to cover the costs for however long it takes to find a tenant.

2. Buy in an area with a history of strong rental demand

Neighborhoods near universities are a good option. For homes in residential areas, proximity to schools can be a good draw for families.

If you're going to buy a foreclosure, be prepared to compete with other investors, many of them paying in cash.

And because many require upgrades and repairs, expect that it will take longer until you will be generating rental income.

Websites like Zillow.com and Trulia.com list foreclosures, as well as rentals in a given area.

3. Consider a using a management firm

Determine whether you want to select the tenant and handle property issues or hire a company to do it. If you take on the responsibility, you are obliged to fix any problems (leaky faucets, broken furnace, etc.) or find professionals to do it.

"Are you prepared to do all of this this on your weekends or evenings or get calls while you're at work because a pipe burst and it's flooding?" asked Jim Warren, chief marketing officer for property management company FirstService Residential Realty. "What's that threshold worth to you?"

4. Do the math

Although prevailing rental prices will go a long way toward determining what you can charge, getting the best return on your investment starts with making sure you're going to get enough rent to, ideally, cover expenses and costs.

Princis' formula is charging 15 percent above monthly mortgage and maintenance costs. So if those costs add up to $1,000, he'll look to charge $1,150.

5. Screen tenants thoroughly

Once your rental starts drawing inquiries, it pays off to screen prospective tenants by asking for previous landlord references and running a credit and a criminal records check.

Experts also recommend asking for a deposit equal to one month's rent, plus extra if the tenant has pets.

That will help cover any damage to the property and protect you if a tenant moves without paying rent.

6. Get familiar with landlord laws

As a neophyte landlord, it's important to know your exact responsibilities under the law.

Two good resources for rental rules are the U.S. Department of Housing and Urban Development's Web site (www.hud.gov), and The Landlord Protection Agency (www.thelpa.com), which includes state-specific rental guidelines and standardized forms for rental agreements.

An attorney or the Landlord Protection Agency also can help you craft a well-written lease, which is crucial to protect your property.

It will help you evict a tenant or hold them accountable for damage if necessary.

ONE MORE TIP

Have a walk through of the unit with prospective tenants and ask that they sign off on the condition of the property before they move in. That will help avoid conflicts over the security deposit if there is damage once they're ready to move out.