

Casa Grande Real Estate Reality

-Special to Grande Living by Debbie Yost

Do you have what it takes to be a landlord?

In this hot real estate market many have increased their net worth dramatically by purchasing single-family homes as investments. As with any strategy, there are positive and negative aspects.

Minimal Cash Investment: Depending on your credit score and financial statement usually five to ten percent of the purchase price is the minimum amount of cash needed. Paying a larger down payment reduces the monthly payment.

Tenant Pays the Mortgage Payment: Based on the length of loan and loan amount the monthly rent will cover most or all of the payment. I've had clients who purchase a rental property designated for each child's college fund. Over the time period of a child growing up there will be significant appreciation, enough to cover typical four year college tuition and living expenses.

Tax Deductions: The IRS allows you to deduct various expenses on this property from your taxable income, such as mortgage interest, taxes, insurance, etc. Depreciation, which is just a paper loss, is another deductible expense. Check with your tax advisor as the amount of deductions vary based on your financial situation.

Defer Taxes or Pay No Taxes When You Sell: You have the option to reinvest the proceeds and postpone paying the tax on the gain you've realized through a 1031 Tax Deferred Exchange. If you buy a property you'd consider living in you may make it your primary residence for two years. If you meet the occupancy requirements you can sell and pocket the gain without paying any taxes at all! This is a real gift if the rental property purchased is located in an area you consider retiring in! Again, please consult your tax advisor or financial consultant.

Before you rush out to play monopoly in real life let's consider some of the negatives:

You May Have to Feed It: Sometimes even the best tenants have life situations occur that they weren't financially prepared for and the rent is late, or even unpaid. In the case of an eviction you'll pay for court costs and legal fees and wait for resolution of the legal action. This can range from a few weeks to several weeks depending on the tenant's legal response. During this time you'll be making the mortgage payment without receiving rent. If the evicted tenant is angry, they can inflict some damage as they move out of the home.

Becoming Emotionally Involved With Your Property: Sometimes people buy a new home and can't bear to sell their old home. This is not a good reason to turn your home into a rental! Typically these landlords physically intrude on their tenants, constantly popping in to check on the property. They

become angry, disappointed, or even despondent over their perceived lack of care by the tenant.

Becoming Emotionally Involved With Your Tenants: When the tenant faces a financial hardship the landlord may feel guilty about enforcing his legal rights. I've seen landlords allow tenants to remain in a property without paying rent for months because they are too emotionally involved.

Not Having the Necessary Financial Reserves For Proper Maintenance: Consider these as a general rule of thumb: interior painting every few years; carpet/flooring every 4 to 8 years, exterior painting every 5 to 10 years; air conditioning/heating system maintenance, roof maintenance, landscape watering system maintenance annually with repairs and occasional replacement. Some landlords expect to charge tenants for items considered normal wear and tear. Even the best tenants will never care for your home the same way you will.

If you believe you have what it takes to become a landlord, do some additional research before taking the plunge... Read books on the subject such as "Rich Dad, Poor Dad" by Robert Kiyosaki and the Arizona Tenant Landlord Act. Talk to your financial/tax advisor. Interview property management firms (most work in conjunction with a traditional real estate brokerage) to find one whose philosophies fit with your expectations in terms of tenant selection, repairs, improvements, maintenance and financial reporting. Ask their advice about the property type most in demand. Once you've hired the property manager, let them do their job. A good property manager uses credit reports, prior rental history and references to select tenants. Drive by your property occasionally (don't get out of your car!) and review your monthly statements thoroughly. Never forget that your property is an investment and try to keep emotion out of your decisions as a landlord.

Debbie Yost, CLHMS, CRS, GRI, is the Broker/Owner of RE/MAX of Casa Grande. She can be reached at Debbie@YostHomes.com.

