PROS & CONS

OF OWNING A RENTAL PROPERTY

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INTRODUCTION

Owning rental property is generally considered as one of the best strategies to get on the fast track to financial freedom. Over the years, rental property has become a popular investment choice for investors. However, definitely not everyone that gets into rental property investing ends up successful. Like all investments, there are several risks associated with owning rental property. This leads many aspiring investors to the question, "Is rental property a good investment?"

I started with one rental property over ten years ago and have grown that one into a decent portfolio. What I have seen over the years that it's always hard for someone to buy their first one, and that is why I have put this book together to help you make the best decision for you and your family.

In this book, we have discussed and analysed the pros and cons when it comes to owning a rental property. After reading this book, you will be able to decide on your own if owning a rental property is a good investment or not. My company Constant Cash Flow Properties offers a free consultation to anyone who has bought this book to see if investing in rental properties is something you should try out.

TYPES OF RENTAL PROPERTIES

Before we begin to look at the various pros and cons of owning a rental property, let us talk briefly about the types of rental properties there is.

Property is generally divided into three categories: residential, commercial, and mixed-use properties. None of these is inherently better than the other! Each type of property requires a different kind of attention and care. Remember that diversifying your portfolio is vital. If you’ve been managing a small residential property for a few years now with little hassle, consider branching out and buying more residential or commercial. This way, you will have multiple revenue streams at all times!

Residential Properties

Residential properties are like the gateway into property ownership and management. These are homes, apartments, condos, and townhouses: any dwelling meant for full-time living. With more people working from home than ever, residential properties are in high demand. If you can find a property in a part of a town in high demand, you can expect a good return on investment. Residential properties are stable; you can expect high turnover between tenants. People always need a place to live. If you invest smartly, you can buy a home that will never go a month without a tenant inside.

Commercial Properties

Commercial properties are storefronts, restaurant spaces, and office buildings. These are great for diversifying your investments and can bring in a lot of money. Commercial properties experience a little less wear and tear than residential properties. There is less that can go wrong! The process of claiming your commercial properties is different, though, so make sure you have a trusted accountant come tax season. Some commercial properties require some amount of expertise depending on type of property it is.

Mixed-Use Properties

Mixed-use properties are a combination of residential and commercial spaces. These often come in the form of apartments over a restaurant or retail center. Mixed-use properties are also those with multiple purposes, such as an office building with multiple stores below.

Mixed-use properties usually require a more considerable investment, as you will be purchasing an entire building with multiple spaces. These properties take some work to maintain and manage but pay off beautifully! You may have to hire a team to help you manage the property, but the profits will still be high.

If you are a seasoned property owner or feel confident in your management abilities, seek out some mixed-use spaces. Your portfolio will be nicely diversified.

PROS OF OWNING A RENTAL PROPERTY

IT GIVES ROOM FOR DIVERSIFICATION OF INVESTMENT

One of the risks that investors can face is having all of their eggs in one basket, so to speak. Because it is easy to purchase stocks and bonds online, people may end up over-weighted in traditional investments. Many investors use rental property as a strategy for diversifying their portfolios.

As an experienced investor or a newbie in the whole investing world, it is recommended and expected of you to diversify your portfolio as keeping all your investments in one place can be risky. One way you can diversify is through owning rental properties. Investing in rental properties can be very profitable in the sense that during economic crises, when stocks are fluctuating, etc. People will still need houses to rent, shops to rent and warehouses rent, especially on how poplar drop shipping has become. Rental property investment are a bit of safety net.

What is diversification?

We can simply say that diversification involves spreading your money out in different markets, across different asset types, and with various investment strategies. You do not want all your investing power in one stock or even in one sector of exchange-traded funds. The sum total of your investment portfolio is expected to have stock investments, ETFs, mutual funds both commercial and residential real estate, metals like gold, etc. The bottom line is, you should not put all your eggs in one basket

If you carefully observe the wealthy individuals of this generation, you hardly find any whose income is from a single source. They spread their investments on different businesses like joint ventures, or passive income avenues. This act of spreading their investments on different businesses makes them immune to sudden economic crises. If a business should suffer huge loss, their wealth will still be preserved by the other business.

Benefits of diversification

There are several benefits of diversifying your investments portfolio. The goal is to spread your risk among different investments. This way, when an investment turns out bad, the losses will be covered up from other investments. Diversifying your investments serves to ensure that your wealth-building journey is not at risk of crash landing all of a sudden. There are those who have their investments solely on a business. When this business experiences a crash, their entire wealth comes to ruin.

Why own a rental property as a means of diversification?

Generally, investing in real estate is considered to be a conservative investment strategy, this is so because, over time, the value of properties tends to appreciate regardless of the status of stocks
There are different ways to invest in real estate. One of such ways is by owning a rental property. Owning a rental property gives you the opportunity of earning income without putting in additional energy or effort. When you own a rental property say, a prime vacation rentals there is a regular cash flow. And guess what, there are companies that manage the everyday task like cleaning, maintenance, finding renters, etc. So little of your attention is required. Over time, prices of properties appreciate in value. This means more income for you through your rental property.

These are all reasons why you should own rental properties as a way of diversifying your investment portfolio.

IT HAS THE POTENTIAL FOR RECURRING, HIGH MONTHLY RENTAL INCOME

The potential for recurring, monthly net income is another advantage to owning a rental property. Unlike the S&P 500 which has offered a dividend yield of 1.34% (September 2021), rental housing may offer significantly higher returns.

Rental income if defined, we can say it is the money the tenants of a property pay to the owner of the property. There are several determinants of the price that the property owner charges his tenants. Below, we will discuss these factors that determine the cost of rent on a property.

The costs that are factored Into Rental Income

As we have already established, rental income is the amount of rent a property owner receives from his tenants. The rental fee does not only include payment for the space that the tenant rented. It also include any additional services that the owner of the property is providing. If the property that is rented out is furnished then there will also be charges for the furniture. The possible charges that the owner of the property could be providing include cleaning of communal areas hot water, heating, repairs to the property, etc.

Depending on different property owners, rental income do varies. There is also variation in the rental income of each property that is rented out. This variation extends further to the services that are rendered this is because all the properties are not the same. Some are located in areas that are hot while others are located in cold areas.

Determining the Rate of Rental Income

This can be very difficult. This is because, if the rental rate is very high, the property will not be attractive so it will be difficult to rent it out. However, if the rental rate is too low, the property owner might not be able to benefit from the property. It is expected of him to put into consideration all the cost both variables and fixed. So what then is included when calculating a competitive rate?

The Current Property Value

Due to fluctuations in market price, the current value of the rental property must have changed by now to align with current market conditions. This makes the current rental value to differ from the initial value as at when it was originally purchased. This is the first consideration that should be made. To get the accurate estimate of a rental property, you should hire a professional appraiser. But you can also choose to use online estimators such like, Redfin or Zillow's "Zestimates" these online estimators can calculate an estimate of the current value of the house

Undoubtedly, online estimators are much more easier to use as compared to professional appraisers. But you are likely to get more accurate results using offline professional appraisers. This is because professional appraisers will put into considerations all factors such as upgrades and changes done since the house was sold. On the other hand, online estimators make their calculations based on past value of the rental property and a few other factors. For a house that has been renovated after it was purchased, the online estimators will fail to put this upgrade into consideration when they are calculating the rental rate. In this case, it is wise to make use of a professional appraiser.

When the owner of the rental property has an idea of the current value of the property as compared to other similar properties around the area, it will help him to decide the rental rate.

Look at Comparable Rentals in Your Area
This is a crucial thing to do. Take your time and analyse the environment where your rental property is located. Look out for similar properties and compare their rental rates. This will help you determine the rental rate for your own rental property.

In doing this, you have to ensure that these properties are actually similar to your own. It will not be ideal to be comparing the rental rate of a single room apartment to a whole family apartment. You will either suffer loss or your rental rate will be too high and this will make it difficult for you to rent your property out.

Steps to take when comparing your rents

- *Brows online:* You can go online to check for other properties that are similar to you own that are in your area. You can check on Craigslist, Onerent, Zillow, rentometer and any other listing site that you can find.
- *Find similar rental properties:* Make sure that the rental properties you are using as template are exactly the same as your own. They should have the same number of bedrooms, bathrooms, etc. and if your own property has been remodelled, then you should freely increase the price.

A quick tip that will be of help to you when making comparison, make a list of 5 to 8 different rental properties that you can compare against each other that are in the same area as your own property. Pen down from the lowest to the highest rents on your list then take the median rental price.

Determine what your pricing strategy is going to be
You should decide what your pricing strategy is going to be. Will it be aggressive or conservative? You can decide for your rates to be

very high, be the same as market price, or you can decide to have lower rates.

A quick tip: make sure you get your data from at least 5 relevant rental properties. The more data the better.

Make use of the 1% Rule

This rule states that the property owner has to charge 1% of the property price as the baseline rental rate. For instance, if the rental property is worth $300,000, the monthly base rent should be $3,000 Often, property investors make reference to this rule when they are buying a property that they will rent out.

The Demand for Rental Property

This can prove highly invaluable. It goes a long way to determine the rental rate of your property. For you to know what the demand of your property is, you should check out the following:

- The number of listings in your area. As with other market, when the number of listing of properties similar to your own are many in your area, the demand will be expectedly lower. However, when the number of listings of properties like your own are few in your area, then the demand for your property is expected to be high.

- Demographic factor: Demographics has to do with human population data around the area where your rental property is located. This data include gender, age, migration patterns, disposable incomes, and growth of the population. The knowledge of the demographic data of the area where your rental property is located helps you to determine the rental demand in that area. Not only that, it will also help you determine the specific rental properties that are in high demand in that area. Let say in an area that the younger people, there dominate the population will be a higher demand for rental properties. This is because they will definitely prefer to rent than to buy properties. When you compare the price of renting a property against the price of buying, the result shows that it is cheaper to rent than to buy. Therefore, the demand for your rental property will be high.

- Job opportunities in the area: The job opportunities in the area where your rental property is located influences the demand rate of your rental property. If there are many jobs in the area, then the population in the area will be high and this means high demand for your rental property. On the other hand, if the job opportunity in that area is few, the population will also be few and this means low demand for your rental property.

- Tourism: This factor has a major effect on short-term rental demands. Tourist are only visitors, while they are around, the demand for your rental property will increase but once they return to their various destinations, demands will be low.

Rent Rates and Seasons

When making decisions what your rental rate would be, it is paramount that you put into consideration the season factor. During spring and summer, more tourist and students are attracted that are searching for apartments ahead of the upcoming academic year. This will increase the demand for rental property. However, fall and winter tend to be calmer, often with vacancies, unless the rental property is in a winter tourist destination such as in the mountains

With this knowledge, it is important to make proper research about the price variations are at different times of the year and so regulate your rental rate accordingly.

Location
The geographical location of your rental property is also a determinant of how the market rental rate fluctuates. This factor is mostly common for short-term rental properties.

The Effect of Rent Control Laws
In some states in the US, there are laws that determines the price property owners can charge on their properties and how many times they can change this price in a year. It is necessary to carry out proper research to know the particular locations where these laws are being implemented. The rental control law affects the following states: California, Maryland, New Jersey, New York, and Washington D.C.

Costs of Maintenance
The property owner should make an estimate of the cost of maintenance. This cost will be deducted from the rental income. The cost of maintenance include taxes and others such as Homeowners Association Fees, mortgage cost.
It is advisable to make the maintenance cost estimate for a long duration of time such as a year.

Costs of Vacancy
There is bound to be times when a tenant will move out of your property. Before another tenant comes to occupy the property, it will be vacant for a period of time. This time could be long or short depending on how high or low the demand for a rental property is. During this period of vacancy, the property will still be maintained but not from the rental income. The maintenance cost will now have to come from the personal savings of the property owner.

The property owner has to out this factor into consideration when deciding the rental rate. He should decide a rental rate that will be able to cover for the cost of maintenance of the property during time of vacancy when the property is not yielding rental income.

LESS VOLATILITY – IT IS A MORE STABLE FORM OF INVESTMENT

Volatility measures the amount of change in an asset price over a specific period of time. Most investors view low volatility as a good thing, because prices and financial performance is more predictable over the long term. While there may be some ups and downs, rental property is generally a more stable investment relative to other markets. For instance, the property market is typically less volatile than the stock market. This is partly because the demand for rental property is always high as the population grows faster than the housing supply. Regardless of the economic situation, people always need houses. Rental property also tends to take longer to sell. Single-family rentals (SFRs) have historically offered more attractive risk-adjusted returns than the S&P 500 and bonds, providing nearly identical returns to the stock market with far less volatility. The rental income of rental property is relatively more predictable. Even though owning rental property can be safer than owning shares or some other investments, there are still no guarantee just like every other business and investment portfolio out there

IT HAS THE POTENTIAL OF APPRECIATING

Another advantage of owning a rental property is the appreciation potential. You can gain from capital growth if you purchase a rental property at a good price and its value increases over time. Property value growth will depend primarily on market conditions like population growth, neighbourhood development, and economic performance. Rental property that is situated in a prime location with development projects and is in good condition will likely increase in value over time. Apart from market conditions, you can also add value to your rental property by upgrading it.

With an increase in value, you will be able to charge more for rent and sell at a higher price than the purchase price. For this reason, a negative cash flow property may still be a lucrative investment. It depends on the projected appreciation rate during the time you will be holding it. To increase your chances of benefiting from value growth, be sure to do a proper market analysis prior to purchase

Home prices in the U.S. have historically increased over the long term. As the Federal Reserve reports, the median sale price of houses sold has increased by more than 52% over the past 15 years. However, during that time frame, home prices did go up and down. During the Global Financial Crisis of 2007 – 2009 housing prices dropped by about 20%, and declined by nearly 5% between Q4 2017 and Q2 2020.

POTENTIAL TO GENERATE POSITIVE CASH FLOW

One of the main benefits of owning rental property is the potential to generate positive cash flow. Ideally, your rental income should be enough to cover the cost of your mortgage and operating expenses, and hopefully leave a surplus. If you are thinking of making money owning rental property as a beginner rental property investor, you should focus on positively geared properties. With positive cash flow, you can have the funds to upgrade your rental property and increase the rent. This way, you will be able to increase the rental rates, improving your cash flow even further.

When you build substantial equity, you can even refinance your mortgage to acquire a second rental property. In short, cash flow breeds more cash flow. With time, positive cash flow can help you build wealth and attain financial independence. Nevertheless, buying a positively geared rental property requires a great deal of research. You need to analyse not only the housing market but also the rental properties for sale. To find rental properties with positive cash flow, be sure to use Constant Cash Flow Properties rental property calculator. This tool allows you to calculate the potential cash flow for rental properties for sale in the U.S. housing market in just a matter of minutes. You can also calculate other metrics like rental income, cap rate, cash on cash return, and occupancy rate.

DIRECT CONTROL

People who own rental property directly have complete control over their investment. For example, property owners are free to choose the best tenants (provided all applicants are treated fairly). They can use the property as a short-term or long-term rental, and they can decide when and if the time is right to sell.

TAX BENEFITS

Many beginning real estate investors are pleasantly surprised to learn just how friendly the tax code in the U.S. is to real estate investors. Some of the biggest rental property tax benefits include:

- Operating expense deductions from gross rental income
- Capital improvements added to property cost basis and recovered through depreciation
- Depreciation expense used to reduce pre-tax net income
- Owner deductions such as traveling to the rental property and tuition for continuing education
- 20% pass-through tax deduction for qualified real estate investors

FINANCING OPTIONS

Residential rental property is generally easy to finance. Loan programs for investment real estate include conventional mortgages from banks and savings and loans, conforming loans backed by Fannie Mae and Freddie Mac, private lenders who invest in real estate debt instead of equity, and money raised from real estate partnerships.

HOUSE HACKING

Right from time, it has been known that real estate is a nice way of building wealth. This is because real estate investment is a bit stable when compared to other forms of investment like the stocks market. When an investor purchases a building, over a period of time, the value for the building will appreciate. This means an increase in the profit margin when the property is sold.

Among the methods that are available for a property owner to earn returns from his property, house hacking is one of such ways. This method could even generate more money from the house.

What is house hacking?

It is a strategy used in investing; it has to do with the investor making a down payment on the house – the payment is usually low – afterwards, he rents out the house in order to generate income. This strategy can act as a long-term investment strategy whereby they can earn income from the property and also they can pay up mortgage. The nice thing about house hacking is that, you acquire a property with a low down payment and on the long run, you can convert it to an investment property.

How it works

You buy the multi-unit residential building with the mind of staying in just a unit of the apartment and renting the other ones out. This allows you to leverage conventional and FHA mortgage loans, which require as little as 3% to 3.5% as a down payment on primary residences. When you are done with the down payment on your loan, you then move into one of the unit as planned then you give the others out. You will use the rent from the other unit to settle mortgage and also the property cost.

Normally, interest for primary residential buildings is lower compared to investment properties. But for someone to qualify for these low interest rate, the person must inhabit the residence for a minimum of one year. This is the beautiful aspect of house hacking, the property owner will be residing in his own property free of charge while the rental income from the occupants of the other units will be used to pay the rent hence, the mortgage.

This method of house hacking could simply be used by the property owner to cover for housing expenses. Also, it could serve as a long-term investment strategy that will keep yielding income in as much as it remains on rent. When the one-year period that is required for you to stay in the building as the occupant is complete, you will be free to move out, you will also be free to buy another property using the same strategy. If you keep doing this over and over, within a couple of years you will become the owner of so many housing properties. This is a very useful tool to start an investment career especially for persons with low start-up capital

Before I move on to the next pro of owning a rental property, I will quickly explain the steps that are involved in starting up as a house hacker.

The process involved in this method of owning a rental property – house hacking – works exactly like that involved in buying a normal building. Just that you as the property owner has to be very conscious of the rental demand for such property in other to reduce the chances of not getting tenants to occupy the additional units of the house.

First Step

You need to ensure you have ready at least, the smallest down payment possible. This is because conventional loans require at least a 620 credit score and FHA loans require a minimum of 580. If there is a chance that you have not been able to hit this target, you will have to sort other means of raising your minimum down payment available. Lastly for this first step, before you go into house hacking create a plan B. this is very essential because things do not always go as planned. On the occasion that after the house hacking has been done, you could not get a tenant for some months, say 5 months or you were able to get a tenant but they did not pay or one thing or the other just happens that goes against your plan; you will have to settle the mortgage from your personal savings. So it is highly advisable and recommended that you have enough savings that can pay up to 5 months in case things goes the other way round.

Second Step

Get a mortgage. Now is the time to get yourself preapproved for mortgage. This process as expected requires lots of documentations and all that. You will have to fill an application form with the borrower. Once the whole documentation process is done, the borrower will then tell you if it is going to borrow you the money, if it will give you; how much you are qualified for and then it will give you an estimate of your loan cost. It is nice to have this information, because with this knowledge you will be able to search for the property to buy accordingly because you know how much property you can afford.

Third Step
Get a good estate agent. It is not just enough to search for houses to buy. Will you be able to identify and analyse a house that will be nice for a long-term investment? You will need the help of an experienced agent who has a broad knowledge about house hacking. Apart from identifying and analysing the potential of a house for long-term investment, an experienced estate agent can also help you select tenants that will occupy the house once you secure it. This will limit vacancies and help you yield more rental income.

Fourth Step
Carry out a market research. This is a very vital step to take. It involves you finding out possible places where you can buy a property that has a high demand. This will help you get rental income fast so that you will be able to settle your mortgage.
Among the things you should study include the local laws regarding rental properties of the area the property you wish to buy is located. This is important because most places do not allow rental properties. Also take time to study tenant protections and any other law that can have effect on your rental property.

Fifth Step
Find the right property. After researching the market, go ahead and search for the property you want to house hack. In doing this, it is strongly recommended that you consider and analyse the house as “purely rentals” why so? If you do not base your analysis on the fact that the property will be for rentals, there are certain details you will not put into considerations and this might negatively affect the potential of you earning reasonably from your rental property.

Other things you will put into considerations include the property’s potential of yielding good rent, what it will cost to maintain the property, the mortgage it will come wilt. According to Evelyn Fred, a broker associate with Baird & Warner. "Factor in all the costs, including insurance, property taxes, common area maintenance, and operating expenses."

Sixth Step

Finalize your loan. Once you have made an offer and the seller has accepted, your lender will order an appraisal, underwrite your loan, and schedule a closing date. This is when you will sign the paperwork, pay your down payment and closing costs, and get the keys to your property

Seventh Step

Move in, Find tenant. This is the last thing you will do after you have secured a loan. You have to move in for the required one-year period. Then you will now have to work closely with your estate agent in finding, selecting and admitting of tenants.

When screening it is advisable to do background check, a credit check, and employment verification for each possible tenant. You can decide to make use of a property management company that will be in charge of rent payment, the maintenance of the property, and every other management that the property needs. This is only if you do not wish to do these things yourself. This will definitely attract extra cost and it will in turn have an effect on how profitable you could be. So if you can handle these things yourself, by all means go ahead.

Advantages and Disadvantages of house hacking

Just like how everything has an upside and a downside, this strategy – house hacking – also has its own advantages and its disadvantages. On the good side, you will be able (depends) to settle the cost of your housing. You will also stand a chance to enjoy a long-term investment or you can decide to engage this method repeatedly and raise up enough cash to buy other properties. Remember earlier we said that the rent income your tenants pay will be used to settle for the mortgage while you can add to the remaining one to buy another property.

There is nothing that has a good side that does not have a bad side. Having in mind the advantages of house hacking, you should also and always to remember that there are bad sides associated with it. For instance, there is the risk of vacancy and this is hardly avoidable. Another risk is that of a tenant who fails to pay as at when due or fail to pay at all. In some occasions it might not be easy to get out of house hacking. In an instance that you want to sell the house, you will have to wait for every tenant of the house to evict the property before you will be able to carry out sales. This can be some weeks to few months.

There is also the issue of more maintenance due to higher number of occupants of the house. The more the tenants the more the house depreciates and as this is happening, it will require you spending more money on maintenance and this can have a really negative effect on your profitability.

One last thing that you should carefully put into consideration is the fact that you will now have to share space with your tenants. They could obviously be strangers. In this case, there are high chances of conflict arising between you people. This could even be worst when their ways and life style differs entirely from your own. House hacking might not be the best investment strategy for you if can hardly tolerate other people's differences.

Is this strategy suitable for you?

With the few things I have said above, you should be able to decide if house hacking is the right investment strategy for you. Yes! Your mortgage and housing cost will be settled with the rental income from your tenants, and you can even purchase other properties. But remember you will have to keep up with roommates or house mates for a minimum of one year. Remember also the financial risk involved such as the increase in cost of maintenance.

Therefore, it is a personal decision for you to make. If you can or cannot put up with the downside involved. If you decide you can then by all means, go ahead but remember to take safety precautions such as having a financial backup plan in case anything should go wrong.

According to Moreno, "When you analyse the property purely as a rental, not just to eliminate your rent entirely but also for the exit strategy, that, in my opinion, is an effective house hack."

EXIT STRATEGIES

Rental property owners have choices when the time comes to sell. People who own commercial property or even small apartment buildings end up selling to other investors. If the demand for the asset class is low (such as some office buildings or retail properties) buyers may be few and far between.

On the other hand, investors with single-family rental homes have the option of selling to another investor or to someone looking for a home to call their own. As the saying goes, people always need a place to live.

TAX DEFERRED EXCHANGE

Taxes on rental property work a little bit differently than a primary residence. For example, people selling a primary residence can qualify to exclude up to $250,000 of the gain from taxable income, and up to $500,000 if married filing a joint return.

Investors who sell a rental property do not receive a capital gain exclusion, and have to pay tax on depreciation recapture. However, investors who choose to conduct a 1031 exchange by selling one rental property and buying another may indefinitely defer paying tax on capital gains and depreciation recapture.

TAX BENEFITS

Owning rental property comes with significant tax benefits. A rental property investor can claim many tax deductions on the property each year and amplify tax savings.
Here are some expenses related to owning rental property that can be written off, reducing the tax you owe:
Depreciation, Repair and maintenance work, Mortgage interest, Travel costs, Insurance premiums, Legal fees, Property management fees, Home office expenses, Accounting services, Utility bills if they are included in the rent, Losses.

If you are not sure about the possible tax benefits of rental property or how to file your taxes as a rental property investor, be sure to consult a tax professional. Also, make sure you keep detailed records of all the income and expenses related to your rental property business.

YOU CAN USE LEVRAGE

An investor can leverage a rental investment by putting down a deposit on the rental property and financing the remaining amount with a mortgage. The mortgage is paid off using the rental income and equity can be built over time. Using leverage means that you can purchase more with less compared to buying rental property with all cash. Leverage also helps to increase your return on investment when the investment property appreciates in value.

IT IS A GOOD PASSIVE INCOME INVESTMENT

Owning rental property is a good way to earn passive income and be able to focus on other things in life. In fact, you can own multiple rental properties and still keep your full-time job.
It is true that rental properties come with many responsibilities. However, in this digital age, there is property management software that can help you to organize and manage rental properties more efficiently.

You can also hire a property management company to take care of day-to-day tasks. With professional property management, owning a rental property out of state is also easier. You can still make money even if you are physically unable to work, are busy or simply do not want to be involved in the managerial work.

CONS OF OWNING A RENTAL PROPERTY

LANDLORD'S RESPONSIBILITY

It takes more time and know-how to effectively manage a rental property than owning stocks, mutual funds, or bonds. Some of the responsibilities of a property owner include finding tenants, tenant screening, conducting house inspections, property maintenance and repair, attending to tenants' requests and complaints, rent collection, complying with landlord-tenant laws and fair housing laws and doing paperwork. Moreover, if you are thinking of owning vacation rental property, you should be prepared to devote even more of your time since it is a more hands-on rental strategy.

As mentioned, if you have no interest in active involvement, you can hire a property management company. However, be sure to factor in the additional costs of outsourcing management. If hiring professional property management is not viable, are you willing to take on the responsibilities of being a property owner? Some investors decide to self-manage a rental property. Others choose to hire a good local property manager to take care of day-to-day details.

Regardless of the option an investor might select, the fact is that the buck stops with the investor. Decisions still have to be made about issues such as when to make a costly capital repair (such as replacing the roof or the HVAC), or when and how to evict a tenant.

If you chose to manage your property by yourself, the workload might just be too much for you to handle

You are a landlord or as I prefer using a property owner if you decide to give your property, in this case, – a house – out for rent. It does not matter if the house you are renting out is a single family home or apartments in a multiplex building. There are many responsibilities that comes with the position of a landlord. Some of these duties as we listed earlier are obvious such as collecting rent or finding tenants for a vacant unit. Others, however, may be less obvious.

Below I want to briefly talk about these landlord's duties in details

Knowing the Landlord-Tenant Laws for Your Jurisdiction

Ignorance of the law is no excuse. It is your responsibility as a landlord to know and understand all tenant-landlord regulations for your city and state. Landlords can be (and often are) sued for not obeying their state's laws, even if they weren't aware they existed.

Preparing a Legal Lease Document

The lease agreement and any other legal paperwork is all part of a landlord's duties. It is your responsibility to ensure the rental contract is legally written and abides by all laws. Leasing periods, monthly rental rates and tenant names must be clearly indicated. In some jurisdictions, legal disclosures, such as security deposit details, must be included. The lease should also contain all appropriate clauses, such as advising tenants to purchase renters' insurance. Many states have required language that must be included, such as the Megan's Law clause in California lease agreements.

The Duty to Deliver Possession

Once a lease contract is signed, it is the landlord's responsibility to deliver possession of the rental unit to the tenant on the agreed-upon date. The unit must be in move-in condition and any previous tenants must have vacated the premises.

Implied Warranty of Habitability

Another obligation is to make sure the rental unit is in a safe, habitable condition. The property must not have any serious deficiencies, and any supplied appliances, fixtures, plumbing and heating must be in good working order. The property must be free of insects and pests. Landlords are generally responsible for getting infestations under control, even if they occur after tenants have moved in, although in most states landlords can avoid this by specifying in the rental agreement that pest control is the tenant's responsibility.

Respect the Tenant's Right to Quiet Enjoyment

According to most landlord-tenant acts, tenants have the right to quiet enjoyment – meaning to have the benefit of living in their home without being disturbed. Once a tenant has possession of a property, the landlord may not interfere with this right. It is therefore the landlord's responsibility to ensure he or she does not enter the rental unit without proper notice (usually 24 – 48 hours, except in emergencies). When a landlord enters the rental property, it must be at a reasonable time of day and for a valid reason.

Completing Repairs in a Reasonable Time Frame

Tenants have the responsibility of reporting any repairs that need to be done. Landlords' responsibilities include responding to these reports and completing repairs in a timely manner. Urgent repairs should be done right away, while minor issues can be addressed more conveniently. But beware that unrepaired damage tends to cause more damage and tends to encourage tenants to vacate the rental property.

Providing Safety Measures

It is your duty to protect your tenants, to a point. In some jurisdictions, landlords must provide specific safety measures. These may include fire and carbon monoxide detectors, fire extinguishers, front door peepholes, deadbolt locks on exterior doors and window locks.

Reporting Crime

If a landlord becomes aware of any criminal activity taking place in one of their rental units, they must report it to authorities. For example, some landlord-tenant acts have specific laws that can find a landlord liable if their property is used for dealing or creating drugs.

On-Site Property Management

In some states, the law requires on-site property management of multiplex buildings of a certain size. In California, for example, landlords must provide on-site management of all residential rental buildings of 16 units or larger.

Responsible for Property Manager's Acts

An often-overlooked concern is that you can be liable for your property manager's acts, including illegal ones. If a property manager does not follow local landlord-tenant laws and a rental application is refused based on their religion or race, for example, the landlord can also be held responsible. Stay up-to-date on your rental property's operations and keep a watchful eye on anyone who works for you.

Being a landlord is not all that easy. In order to avoid getting yourself in trouble of lawsuit, you should carefully study and know these duties. You can also surround yourself with experts who can put you through.

PROPERTY TAXES

Taxes are a way of giving back to the government for the security, social amenities etc. that you enjoy on your property. However, most times they can be very high.

While there are plenty of things an investor can control with a rental property, two of the expenses that can be a challenge to predict are annual property taxes and the cost of insurance. For example, taxes on property vary widely from state to state, and may significantly increase year over year due to the operating budget of the local government. In some states, property taxes readjust each time a home is sold, a fact that some investors overlook when putting together a profit and loss pro forma before purchasing the property.

For the time being, the tax code is real estate investor friendly, and has been for quite some time. However, that does not mean that tax laws will not change. For example, the current administration has proposed raising the top capital gains tax rate from 20% to 39.6% for people making more than $1 million a year. So with this, you cannot imagine what might happen to the tax rate with the next administration.

NEIGHBORHOOD CHANGES

Just as it was listed among the pros of owning a rental property, the area where your property is located has a great effect on how much your property will be in demand and this in turn determines the rental rate and rental income

The neighbourhood a rental property is located in can change over time, which in turn affects the value of the property. As the CDC explains, when gentrification occurs, the transformation of neighbourhoods goes from low value to high value.

Unfortunately, the opposite can occur as well. Signs that a neighbourhood is beginning to decline may include rising property taxes, falling ratings for public facilities like schools and hospitals, and “For Rent” signs suddenly appearing everywhere.

If your rental property is in an area where the population is low or an area that is not a commercial center. This will have terrible effect on your rental property.

LACK OF LIQUIDITY

Rental property is not a liquid asset. Unlike shares that can be sold easily for cash, it can take several weeks or months to sell your rental home, depending on market conditions. Even in today's hottest real estate markets, homes can take 30 days or longer to sell. Investors who need to sell fast may end up selling a home for less than what the property is really worth. Depending on the property condition, a seller may also need to make a significant amount of repairs to find a buyer willing to pay a fair price. Completing the sale of a rental property can also be costly due to possible repairs, legal fees, and other costs.

ENTRY COST AND REQUIRED CREDIT

Rental property investment is associated with high entry costs compared to shares and other assets. To start owning a rental property, you often need a down payment of at least 20%. This can be thousands of dollars. Getting into the property market continues to become even harder as property prices continue to rise. This makes it difficult for many aspiring investors who do not have a lot of money to finance the purchase of a rental property.

Most lenders offering loans for a rental property require a down payment of at least 25% of the purchase price.
In addition to a large down payment amount, borrowers can expect to pay a higher interest rate than with a primary residence, generally between 0.5% and 0.75% more. Investors are also expected to have a minimum credit score of 620 out of 850, and keep enough cash in reserve to cover up to 6 months of loan payments.

BAD TENANTS

This could be a major issue to property owners. Humans can be unreasonable. When admitting a tenant into your rental property, you have to ensure that you carry out a proper background check on the "to be" tenant. This can save you worst stress in future. However, Bad tenants can adversely affect your cash flow and bring emotional stress to the property owner. Even with the best tenant screening process in place, it is possible for a property owner to end up with a problem tenant some of the possible issues from Tennant include,

Damage to rental property: Some tenant do might not leave your property the same way they met it. They will leave in worst having the mind that they paid security deposit. Most times their security deposit will not cover half of the damage they did to the house.

Refusal to pay rent: Some tenants cannot or will not pay the rent on time, or break the lease or just do something illegal. While collecting a tenant security deposit can help to reduce the risk, most states have laws that limit how large of a deposit a property owner can require from a tenant. This is very common among tenants. Most of them always find it hard to pay their rent.

CONSTANT MAINTENANCE

Rental property requires constant maintenance and repairs to keep the home habitable and maintain the property value. Although some investors use the 50% Rule to Ball Park the operating expenses of a rental property, maintenance costs will vary from month to month. In fact, it is possible to have negative cash flow in a month where repair costs are unexpectedly high. This factor could be worst when there happen to be a large number of tenants in your house. Because the more the number of tenants, the more the maintenance required and of course this will have an effect on your profitability.

REAL ESTATE MARKET CYCLES

While home prices historically increase, the real estate market also moves through predictable 18-year cycles, even if it does not seem that way today. Since the late 1800s, real estate has cycled through phases of hyper supply, recession, recovery, and expansion. Investors buying for the short-term at the top of the market may find property values declining for several years before they begin to rise again. This might cause the investment capital of investors to be tied down till the cycle goes round again and prices increase.

PROFIT IS NOT GUARANTEED

Owning a rental property is not a guaranteed way of making money. Home prices can go down, operating expenses can be much higher than expected, and it can take much longer than expected to find a qualified tenant willing to pay a fair rent. Even when you finally get a tenant, they might default in paying their rent or paying as at when due. You can decide to check these issues by hiring an real estate agent or even listing an real estate management company. But are you willing to pay the cost of hiring these professionals? Their pay could really be expensive and this will in turn affect your profitability.

UNEXPECTED EXTRA EXPENSES

Another drawback to owning rental property is the risk of unexpected expenses other than the ongoing expenses. This may include unexpected major repairs that must be done to keep the home rentable, a sudden increase in interest rates, or vacancies. Keep in mind that even when your rental home has no tenant, you still have to pay for the ongoing costs like property taxes, insurance, and HOA fees. It can also take additional expenses to find another renter. These expenses often come as a surprise when you least expect them and can put a strain on your cash flow. You may have trouble paying for such unexpected costs unless you have set aside an emergency fund.

YOU ARE TIED TO THE REAL ESTATE MARKET

The housing market can fluctuate over time due to a number of factors. Ideally, your rental property will flourish if the neighbourhood thrives. However, if there is a neighbourhood decline, your real estate investment will be adversely affected. The fact that you are a slave of the market where you invest is a big drawback to owning rental property. It is important to do your due diligence before picking where to buy a rental property. If not, you will end up purchasing a property that might not be in demand therefore there will be no income from it. But it will still be requiring maintenance cost and other cost regularly. This can lead to loss.

ASSET CONCENTRATION

For most people, purchasing a rental property is a significant concentration of their assets. This means that, for an average person's net worth, a fully owned rental property would take a significant portion of their net worth. Whether you pay cash or get a mortgage, you will be investing a huge sum of money in a single rental property, on a particular block, in a particular neighbourhood, and in a particular city. With no diversification, the risk is amplified. If there is an unfortunate event that cannot be handled by insurance, you might end up losing a lot of money. Nevertheless, as you add more rental properties to your portfolio, this will be less of a factor. Rather than being a concentration of risk, owning rental property can be a diversification tool.

HIRING A PROPERTY MANAGER

If the cons seem too scary, and you shiver in fear of the midnight clogged toilet (which has never happened to me in 11 years of owning rentals), then you could offload the management to a professional property manager. However, it will cost you dearly. In fact, it will likely cost you 10% of your rental income after all fees are calculated in. The average property management company takes one month's rent whenever they find a new tenant for you, and then they take 10%.

It is true what you have heard — property managers can be an immense help for small-asset property owners like yourself. It is also true that property managers are a luxury that not all property owners can afford. So, before you decide if you can afford one (and need one), let us look into what a property manager actually is and what they can do for you.

Who Is a Property Manager?

The name is pretty self-explanatory here — a property manager manages property. But what do they do on the day-to-day? A property manager is an employee hired by a property owner to manage the everyday work that goes into a rental property. A property manager:

- Sets the rent for the rental property
- Collects rent from tenants
- Adjusts rent according to competition and market value
- Advertises property to find tenants
- Screens tenants
- Deals with the leasing process
- Handles complaints and emergencies from tenants
- Deals with move-ins and move-outs
- Handles evictions (if it comes to that)

- Schedules maintenance and repairs to the rental property
- Deals with finance and budget aspects
- Keeps things organized and running smoothly

Seems like many responsibilities, right? If you are a property owner, then you are balancing all of these responsibilities on your own. If things are starting to get hectic, you may want to consider hiring a property manager. If you are not sure what you want in a property manager, below are a few qualities you should look out for.

Qualities of a Property Manager to Look For:

The most important aspect to consider when hiring a property manager is their attitude. You want someone who is dedicated to keeping the line of communication open, while being able to maintain the property without contacting you frequently with questions and concerns. Their main purpose is to assure you that your investment is being properly taken care of – not only your investment in the property, but also your investment in the property manager.

You May Want to Hire a Property Manager If:

- You have too many properties to manage alone. Many property owners can only handle a few properties at a time – so if you are managing five to ten (or more) properties on your own, you may want to consider gaining the assistance and expertise of a professional property manager. You will have peace of mind knowing that your properties and tenants are in good hands.

- You live far from your properties. Do you live more than an hour from your properties? If so, it may be in your best interest to speak with a local property manager who has quick and easy access to the area your rental property is located in. If you are a long-distance property owner, then you will need to have contacts within the area of your rental property for any maintenance issues or emergencies that arise with the property or tenant. Make it easier on yourself by hiring a local property manager!

- You are not very familiar with the business. If you do not enjoy keeping track of every detail of a business or if you do not feel secure enough in your knowledge of managing rental properties, then property management probably does not suit you. But that doesn't mean you cannot own the property – simply hire a property manager who can help you with the parts of the job you prefer not to do (or aren't comfortable doing), such as marketing the property, screening tenants, collecting rent, dealing with maintenance, etc.

- You are too busy. Perhaps being a property owner is not your full-time job – if you have another career, then you may be too busy to be both the owner and manager of your rental property. Lessen your stress by hiring a professional property manager who can help you keep things in order.

- You have the funds to hire a property manager. There are some properties that you probably do not need (or cannot afford) to hire a property manager for. However, if you feel that you have a surplus of funds to do so without going underwater, then it is probably a good idea to hire a professional. You will feel a weight lifted off your shoulders knowing that your rental property is being managed efficiently. Property managers or property management companies can charge various amounts for their services. You can expect to pay between 8-12% of the monthly rental value of the property, or you may be charged a flat monthly rate depending on the value of the property.

- You are struggling to fill your vacant units. We cannot all be marketing pros – and that is okay! If you're having trouble filling your units, and you find that they are often vacant despite your efforts, then you'll likely benefit from the marketing techniques of a professional property manager. They can help you advertise your property and get more tenants interested in and applying to rent your unit.

- If you are still wondering if you should hire a property manager, remember that the most important factor to consider here is budget. If you feel that a property manager would keep you from getting a positive return on your investment (your rental property), then it may be best to continue to do the work yourself. However, if you have the funds, and you lack time (amongst other things), then consider relying on the support of a property manager — the choice is yours!

CONCLUSSION

It is important to first weigh the pros and cons of owning rental property properly before getting into the world of rental properties. The weight of the pros and cons of rental property will vary from one person to another. Ultimately, the decision on whether to invest in rental property or not is totally up to you. If you have been asking yourself, “Is owning rental property worth it?” hopefully, with everything that has been written down in this book, you will have insight that will help you make a more informed decision.

To schedule a free consultation with us, please visit our website at https://constantcashflowproperties.com and fill out the form and we will schedule a thirty minute call with you.

MIKE PUGLIESE

Mike has been investing in real estate for the last ten years. Starting with a tiny $13k property, he and Mike Oborn have built it into a multi-million-dollar real estate company. He's invested in everything from hundreds of single-family homes, all the way to a 4-city block, 7 story multi use commercial development. He's an expert in wholesale acquisitions, rehabs, turnkey properties, and real estate investment coaching.

Mike is a real estate investor with a true passion for the business. Mike has enjoyed training hundreds of thousands of real estate investment students to achieve their financial goals. Mike believes that sometimes people need a little help to achieve their goals by learning from others. Mike believes in education and continues to invest in his own education in all areas of his life. Mike loves his family and friends and enjoys the freedom of real estate investing to spend time with them.
with them.

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