

REAL ESTATE INVESTOR BASICS

Preparing Yourself for Success



Real Estate Investor Basics: Preparing Yourself for Success

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Real Estate Investor Basics: Preparing Yourself for Success

Introduction

Whether you're an experienced real estate investor or the owner of a single-family home that is being leased to tenants, you want to have a successful and profitable investment experience with your property and your residents.

The basics can be confusing, even if you've been renting out homes for years. Things change, too. The best practices from ten years ago are different from what we're doing today, and the laws and regulations are always shifting. Juggling the needs of your property with the needs of your tenants isn't always easy. Sometimes it's a challenge just to find those tenants - especially highly qualified tenants you're willing to trust in your property.

We put together this book because we know that there are lots of landlords and investors like you who are always searching for information and resources, even when it comes to the basics.

Here, you'll find some tips on what to consider before you even get started. This will help you with the planning process.

We'll talk about why our experience has shown us that single-family homes make the best investments. We'll also talk about tenant screening, maintenance costs, and all those unexpected costs that will leave you wondering how to budget. There's a chapter on inspections too, and how they can help you preserve the condition of your investment.

The most important chapter, we think, is the last one. It covers professional property management and how that can help you have a better investment experience.

At Key Partners, we believe it's our responsibility to share our knowledge. We hope you'll find this guide helpful, and we look forward to answering your additional questions.

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Chapter 1 Key Points to Consider

For new real estate investors and homeowner landlords, there's more to the rental process than how much rent you can charge or how to find a tenant.

Owning Kansas City rental property offers financial and other benefits, and you'll want to think about a few key points as you establish and follow your real estate goals.



Investment Income and Appreciation

Kansas City real estate increases in value every year, so it's a great way to increase your net worth. Once your rental properties are paid off, you can use the earnings to supplement income or early retirement.

Owning investment properties can also help you diversify your earnings, especially if you lose your primary source of income. You'll want to rent out a home that will earn you positive cash flow every month. That can include rent income, tax depreciation, equity build up and appreciation year to year.

Rental properties are also low risk investments.

If the stock market and other investments make you nervous, you'll be happy to know that the returns on your real estate will be fairly steady. Stock values can fall or disappear, but real estate is a tangible investment and it isn't going anywhere.

Benefits of a Diverse Kansas City Rental Market

If you're thinking of buying your first investment property, you will encounter a lot of diversity in the market. You can invest in a single-family home, multi-family unit, or even a small building.

Work with an experienced property manager to find an investment home for sale that fits your budget and investment goals.

This is a great time to buy a rental property because home prices are still low and rents are increasing.

Turning your personal property into a rental is also a great option. Rental income is taxable, but you can deduct most of the expenses related to your home.

Talk to a professional accountant for what may apply to your tax situation, but you can expect to deduct any property management fees, attorney costs, insurance, depreciation, repairs, and mortgage interest.

Leverage Your Rental Property

A large down payment isn't required in the Kansas City market, and if you already own a home, then you may not need any cash up front.

Once you start investing in real estate, you can add more assets by leveraging what you already own.

Real estate also allows you to diversify your investment portfolio. This is an important component of investing. You can even diversify within your real estate portfolio. For example, you might want to buy multi-family properties if you already own single-family homes.

Professional Property Management is an Asset

Hiring a professional Kansas City property manager will save you time and money. The experience, advice, and income provided by property managers provides peace of mind and freedom.

Property managers can also provide some help in growing your portfolio and creating some independence through the wealth generated by your rental properties. Many people who start with one investment property go on to invest in more properties and even become full-time real estate investors.

These are a few of the early things to consider in your investment journey, and paying attention to them will set you up for success.

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Chapter 2

What Kind of Property Should I Buy?

We love Single Family Rental Homes as investments!

Investing in Kansas City rental properties provides a lot of options, whether you're looking to buy your first home or adding to an already successful investment portfolio.

Single-family homes are particularly good investments in the current market, and we would like to tell you why we love them.



Single-Family Homes Serve Demographics

Demographic changes favor single-family homes in the Kansas City rental market.

These properties are the fastest growing segment of the U.S. housing market, and we don't think that this trend is going to slow down any time soon.

People enjoy renting single-family homes because they allow for space, privacy, and access to safe, established neighborhoods that are family-friendly and usually in good school districts.

Tenants rent these homes because they want to live in a house but they don't want to maintain a house. They prefer maintaining a flexible lifestyle where they can easily move if they need to for job changes and financial factors.

When you invest in single-family homes, you're ensuring that your tenant pool will be strong for many years to come.

Higher Returns with Single-Family Properties

Cash flow can be achieved with single-family properties because they usually rent for more money than multi-family homes or apartment units.

Rents have increased steadily for more than a decade. In Kansas City's rental market, the rental values of homes remained fairly steady and even grew during the housing crisis of the late 2000s. This is significant for investors who want to count on positive cash flow.

The returns are also more reliable than what you may achieve on the stock market.

Good Tenants Are Not Buying Homes

To buy a home, people need a down payment and they need to pass strict credit checks. Additional money is needed for taxes and insurance and maintenance.

This is unappealing to many people who are currently in the rental market but might have otherwise been expected to buy a home.

For many tenants, renting is more affordable than buying.

The rise in home ownership costs helps you as an investor, especially if you're renting out a single-family home.

Studies show that monthly home ownership costs were up 14 percent in July 2018 over the same period in 2017. Rental costs for the same period were only up 4 percent.

Your single-family home will be attractive to good tenants because it's the type of property they want to live in. They simply want to rent it instead of buy it.

Serving Tenant Retention Goals

We also love single-family homes because they contribute to higher tenant retention rates. Tenants in single-family homes tend to be older and better educated than the tenants who rent apartments. This creates more stability and contributes to those tenants taking better care of the properties.

While we are happy to manage any property you bring us, we thought it was important that you understand why single-family homes make such excellent investments.

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Chapter 3 Expected Costs – Maintenance & Repairs

Owning rental property allows you to earn consistent rental income and build wealth for the future.

However, it also comes with several routine and periodic expenses.

You'll need to make sure you have a competent property manager taking care of the leasing and management of your Kansas City rental property. You'll also need to budget for vacancy periods, marketing, and high-quality tenant screening.

Many of your investment expenses will come from the repairs and maintenance that are required on your rental home.



**HOW MUCH
MONEY SHOULD I
ALLOCATE FOR
RENTAL
PROPERTY
MAINTENANCE?**
PROPERTY MANAGEMENT ADVICE

Create a Rental Property Maintenance Budget

Most property managers recommend saving between one and three percent of your property's value for maintenance.

As you know, expenses are going to vary from year to year, and what you spend will often depend on the age and the existing condition of your investment.

If you set aside a percentage in a maintenance savings account one year and you don't use all of it, roll it over to the next year. This will allow you to continue building a reserve for any surprise expenses or major repairs.

When a roof needs to be replaced, you'll have a healthy amount of money saved to pay for that large expense. If you are consistent in funding your repair account, you will be prepared financially for any of the maintenance that might be necessary.

Conduct Routine Inspections

We recommend you have your property inspected periodically, either by a professional Kansas City property manager or a licensed home inspector.

These inspections will tell you what types of large ticket items may be on the horizon. You'll know when to expect roof repairs, HVAC systems, and new appliances.

With routine inspections, you'll also have the opportunity to address any unreported or deferred maintenance that needs immediate attention.

Routine inspections allow you to budget, and they also protect the condition of your investment.

Regular and Preventative Maintenance

Emergency maintenance issues will always inspire a sense of urgency. When you get a phone call that the water heater is leaking or a tree has fallen through a fence, you take care of the problem right away.

We always recommend that you give the same careful attention and responsiveness to routine maintenance.

Put together a preventative maintenance plan so you can keep everything in good shape. When you're attentive to small things, you can prevent large disasters and unexpected costs.

Seasonal maintenance is especially important in Kansas City.

Schedule fall and spring inspections and service calls for all appropriate items like your heating and cooling systems, the cleaning of your gutters, and checks on appliances and structural items. Seasonal maintenance provides great opportunities to look for leaks, wood rot, and other potential problems.

Property owners who work with professional managers don't often have to worry about maintenance because the seasonal and preventative work is scheduled for them. Consider getting some advice about budgeting for maintenance and keeping up with the condition of your investment.

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Chapter 4 Unexpected Expenses

Kansas City rental properties are excellent investments.

Even new investors know that owning rental property comes with expenses. Some of them are expected and others are surprises.

When you're renting out a home, you need to be prepared for the expenses that will cut into your cash flow and long-term ROI.



Tax Planning and Paying

Rental income is taxable and if your income exceeds your expenses, be prepared to pay taxes.

You can protect your financial security and assets by incorporating, but there are extra fees for that as well.

Look for tax deductions.

The interest you pay on your mortgage is tax deductible, and you can also deduct any repairs you make on the property as well as the costs of professional fees you pay, such as property management.

Seasonal Maintenance Expenses

Seasonal maintenance is important in Kansas City. Even if your tenants mow the yard and trim bushes, landlords are responsible for routine and ongoing lawn care. This might be a weed and seed program, which requires professional servicing.

Have your home professionally inspected annually.

You can save money by taking care of small maintenance items early.

You never want to wait until a tenant moves out before you inspect the property. Have the HVAC system inspected and serviced twice a year and get the roof, exterior, windows, plumbing, and basement checked at least every other year.

General Repairs and Maintenance

No one likes to pay for repairs, but remember that you have a long-term investment and those costs will be absorbed and more than paid for by the returns you ultimately earn.

You want your renters to keep you informed about maintenance issues and report any problems right away. In addition to annual inspections, train your tenants to report small problems as soon as they're noticed.

Cosmetic issues can wait, but minor leaks can lead to major problems.

Update Your Insurance Policy

Change your homeowner's insurance policy to landlord's insurance.

You'll need comprehensive liability insurance for potential injuries and property damage. Require your renters to have and maintain renter's insurance with liability protection as well.

Understanding Wear and Tear

Normal wear and tear is part of every tenancy. There are several expenses to prepare for and things you can do to minimize those costs, including:

- Expect to paint every three to four years, especially in high traffic areas.
- Require your renters to have the carpets professionally cleaned every year and before they move out.
- Look for drippy faucets, loose handles and hinges, deck steps and rails.
- Make sure all windows open easily and schedule gutter cleaning in the spring and fall.
- Require that tenants change furnace filters at least every three months.
- Wood rot is common in Kansas City and is easy to avoid if checked annually.

The amount of wear and tear will depend on the age of your systems, functions, and property. The cost of wear and tear will also increase when a tenant stays longer, but it's often much less costly than turnover costs.

Evictions and Lease Violations

The best way to prevent evictions is to hire a Kansas City property manager with good screening practices. Even the best tenants can lose a job, get sick, or have a life-altering event that will require them to break the lease and move out.

Be prepared for the worst, and talk to your property manager about the threat of eviction and early move-outs.

You need to be consistent with your tenants when it comes to enforcing the lease. If you allow them to be late with rent or miss a payment one month, you could be facing huge legal costs and time-consuming court visits.

We don't recommend that you allow month-to-month leases. You will likely end up with a vacant property and no rent coming in.

If your tenant wants to move out early, make sure your lease covers this contingency. A good property manager will find a new renter to minimize any loss of rent.

These are just some of the expenses that most property owners don't expect when they begin renting out properties. Start preparing for them early.

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Chapter 5 Tenant Screening 101

Are you struggling to find a Kansas City tenant?

Knowing how to find tenants is an important part of being a landlord. But, you don't just want tenants – you want good tenants.

A good tenant will pay rent on time, take care of your property, and follow the terms of your lease.

Your experience and success as a landlord will largely depend on the tenants that are placed in your property.



WHAT IS A GOOD TENANT
AND HOW DO I FIND ONE?

Tenant Screening and Selection

The screening process should embrace everything that allows you to understand a tenant's history. You will want to conduct a background check that includes

running a credit report, asking for income verification, checking employment history, and talking to landlord references.

On the credit report, you want to know that bills are paid on time and there aren't any outstanding balances due to former landlords or Kansas City property managers.

Check to make sure utilities aren't paid late, and make sure there's not a lot of debt that would make it hard for the tenant to pay rent on time.

Talk to former landlords about the tenant's performance. Ask if rent was paid consistently, if any damage was left behind, and if proper notice was given before the tenant moved out. Find out if there were complaints from neighbors or pets that caused problems.

Be careful of tenants who have past evictions.

Communication During the Application Process

Talk to your prospective tenants. Before they fill out an application, make sure they understand your rental criteria so they know if they have a good chance of getting accepted.

It takes time to interview tenants, find out about their past rental history, and understand why they're moving. They may have to explain some of the things that are on their application.

It's better to hear about credit problems or gaps in employment from the tenants themselves. You'll know you can trust them if they're willing to talk about their challenges.

Retention and Relationships

Once you find good tenants, you want to keep them.

Tenant turnover and vacancy costs are high, so develop professional, respectful relationships with your tenants and be attentive to their needs.

At Key Partners Property Management, we have a great success rate with placing good tenants. We are very picky about whom we move into our properties, and we take our time and allow our screening process to work.

This is what you should look for in property managers.

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Chapter 6 Preserving the Condition of Your Investment

Regular rental inspections of your investment properties will help you take care of necessary maintenance, preserve the condition of your asset, and ensure your tenants are following the terms of your lease agreement.

You should inspect your rental home a minimum of three times during a tenancy: at move-in, move-out, and while a tenant is in place.



The Move-In Inspection

First, inspect the property before your tenant takes occupancy.

It's important to walk through the home and make sure everything is safe and functional. Take care of any

maintenance needs before the lease is signed and the keys handed over.

When tenants move in, ask them to do their own inspection with you and note anything that's broken or in need of repairs.

During this inspection, you want to take pictures. The inspection report will be used again, after a tenant moves out, so you can establish whether any damage was left behind.

The move-in inspection gives you the opportunity to document the condition of the home when you turned it over to your tenants.

The Move-Out Inspection

The move-out inspection occurs after your tenant leaves the property. It needs to be detailed and well-documented in case you need to charge the security deposit for damages.

Compare the condition of the home at move-out to the way it looked before the tenants moved in.

Make sure you know the difference between damage and normal wear and tear before you charge the deposit. You don't want to violate any landlord/tenant laws, and this is easy to do if you're not educated on what you can and can't charge from the deposit.

This inspection will tell you if the tenants left the home in good condition, and it will also give you an opportunity to document the things that need to be done before a new tenant moves in.

Inspections During Occupancy

There is an opportunity to have your property inspected each time a vendor or maintenance person goes into the property to complete a repair. Make sure they are trained to look for lease violations and signs of damage.

It's also a good idea to do a formal inspection at least once a year. Take your licensed contractor with you to look for leaky pipes, broken shingles, and other things that need to be repaired immediately or in the future. Most property management companies will do this for around \$250. We charge even less than that - at Key Partners Property Management, our contractors charge \$99 for a professional inspection.

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Chapter 7 How a Property Manager Can Help

Working with an experienced and competent Kansas City property management company will add significant value to your investment.

Smart real estate investors will tell you that a good management company is worth a lot more than their management fee.

Hiring the wrong management company only costs you additional time and money, and you want to be sure your property management partners have a proven record of inspiring success for their owners and investors.

There are dozens of benefits to hiring the right property managers, and today we're focusing on two of the most important advantages for rental property owners like you.



High Quality Tenants

A good property management company will place outstanding tenants who will contribute you a successful investment experience. Once you get bad tenants in your home, the hassles of getting them out are tremendous.

You are much better off never accepting them in the first place.

Most of the landlord horror stories we here are a result of owners finding their own tenants instead of hiring professionals to manage the leasing process.

A thorough screening process results in reliable tenants who will pay rent on time every month, continue to renew their leases for the long term, add less wear and tear to your home, and in general cause fewer problems.

You want tenants who communicate openly and work with you rather than against you.

An experienced, professional management company has processed thousands of rental applications and understands credit reports. Property managers know what to look for and what to avoid when it comes to rental history, credit, and criminal backgrounds.

You can benefit from property management by having well-qualified tenants in place.

Good property managers will also protect you from legal mistakes and fair housing complaints. You'll be protected from rental scams directed at owners and discrimination lawsuits from inconsistent screening processes.

High quality tenants are really one of the most significant benefits a property management company will provide its owners.

Avoiding Legal Problems

Who has time for a lawsuit?

A good property manager understands the current landlord and tenant laws and will make sure that you aren't at risk for lawsuits and tenant claims.

You can also expect your property manager to stay up to date on any legal or regulatory changes that may be expected.

Understanding local Kansas City rental laws is important, but your property manager will also know the state and federal requirements for owners who are renting out property.

When you work with a professional property manager, you won't have to worry about:

- Safety and property condition violations
- Inspection requirements and restrictions
- Lease addendums and important disclosures
- Rent collection and handling security deposits
- Tenant screening and placement
- Terminating leases and evictions

A lot of tenants know how to work the system. Protect yourself from lawsuits and claims by working with a professional Kansas City property management company.

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Conclusion

The goal of this book is to do exactly what its title suggests: to prepare you for success as an investor and a landlord. There are multiple details to manage when you're acquiring a property, preparing to lease it, and then manage and maintain it.

This is just a brief introduction to the basics. There's a lot more for us to cover, and much of the additional information you need will depend on your investment goals and on your unique property.

Maybe you're comfortable renting out just one home. Maybe you want to grow your portfolio and rent out multiple properties.

Whatever your plans, we hope you've also realized the value of professional property management. When you're investing in the Kansas City rental market, there's no one better equipped to help you navigate the local real estate trends than Key Partners. Let us know how we can help you.