

ENSURING A PROFITABLE RENTAL



RHINO 
PROPERTY MANAGEMENT

Many people get into real estate thinking it will be an easy investment; a sure thing. However, the truth is that landlordship isn't for everyone. When mismanaged, property ownership can be a major drain on your finances and resources. In fact, a surprising number of landlords lose money, and sometimes even wind up declaring bankruptcy.

How can you make sure that you're one of the wise and thriving landlords out there instead? Here are some tips:

The Most **Common** Landlord **Mistakes**

Here at Rhino Property Management, we work with hundreds of local property owners and we get to see firsthand what works and what doesn't. Some of our clients are pros who have been in real estate for years. Others are new to the game, or people who have found themselves as "accidental landlords," simply because they're looking after a family member's property. There are a few major pitfalls that, in our experience, can cause your property to be a major money sinkhole, rather than a source of income.

- 1 - Running Your Rental like a Charity:** Some people who are new to being a landlord have a hard time enforcing rental payments. Not every tenant you get will be a perfect dream. And others will be lovely people who just can't pay. But your rental property is a business, and you have to run it as such. When tenants aren't paying rent, you have options for laying down the law.
- 2 - Misjudging Your Property's Value:** We find that a lot of people wind up thinking that their rental property is worth more than it actually is. This could be because a real estate friend tried to convince them that they could get \$1700/month rather than \$1500/month. Sometimes, real estate agents can inflate the perceived value, or compare the price with nearby homes that have many more upgrades. Sometimes, property owners over-value their rental simply because they need it to be worth more in order to have a positive cash flow. That's why we guarantee occupancy only when we're allowed to set the price. Due to our years of experience, we know what kind of rates are realistic for certain areas.
- 3 - Wanting to "Get Rich Quick":** Property is not, and never will be, a short-term investment, unless you're house-flipping. Those who see the biggest profits from renting out their property are always those who have a long-term mindset. If you're hoping to simply get your toes in the water for a year and then sell, you'll probably have to eat some costs.
- 4 - Skipping Inspections:** Maintenance costs, as we'll get into next, can be a huge part of your budget. One of the best ways to prevent maintenance costs from strangling you is to do thorough inspections between tenants. Not only does this put certain costs onto the tenant instead of you, but if they know that you're thorough and proactive about maintenance checks, tenants are more likely to be respectful of the property.



The Costs of Property Ownership

Hands-down, the biggest mistake that we see people making is miscalculating the actual costs of ownership and renting. Usually, it seems like a simple equation: you pay your mortgage, your tenants pay you, and you keep the difference. But there's much more to your property costs than the mortgage. In addition to mortgage payments, you'll need to factor in payment for the following things:

- **Homeowner's Insurance:** Sometimes, homeowner's insurance is included in your mortgage payment, because the lender requires insurance and ensures that it's paid by using an escrow account. However, remember that just because you have homeowner's insurance, that doesn't mean that you won't have to budget for major repairs. Depending on your policy, the things that insurance will pay for can be very limited.
- **Property Taxes:** Taxes will vary from year to year, and from one area to another. In fact, they can vary from around \$6,000 in low-tax areas to about \$30,000 in high-tax areas. You can get a good idea of your property tax rates by looking at last year's rates, but in order to truly understand how to get the best deductions, it's worthwhile to consult with a tax specialist.
- **HOA Fees:** Some areas have a Homeowner's Association in order to protect property values and maintain good living standards in the neighborhood. These fees can range from \$200-\$400 each month.
- **Utilities:** Depending on the situation, the utilities might be paid by you or by the tenants. Some utilities might be easier for you to deal with, like the local garbage and water utilities, if you're in charge of maintaining the yard. However, it's a general rule that tenants will be more conservative of energy if they're also responsible for paying.
- **Vacancy Costs:** This is one cost that very few new landlords factor in, but once you've been around the block a few times, you learn that it can be a major drain. If it takes even a month to fill a vacancy, that's a month of rent that you have to do without, and that month in and of itself might be the difference between making a profit this year or not. If you're misjudging your property value, neglecting upgrades that boost the appeal of your property, or failing to advertise properly, vacancy costs can eat more than 10% of your income each year.
- **Maintenance Costs:** People seldom realize how much keeping a property functional costs, and if you're renting your property out, you can't afford to postpone major necessary upgrades. A good rule of thumb when estimating this cost is to set aside 1% of your property's value for upkeep each year. That means that a \$250,000 home could cost \$2500 per year in maintenance, on average.
- **Property Management Costs:** Whether or not you utilize a property manager, there will be costs associated with this function. Even if you do it yourself, you'll need to budget for office materials, travel costs, advertising rates, etc.



Usually, these additional costs will cost about half of what you make on the rental property. (And note, the additional costs listed above do NOT include your mortgage payment; this is all separate from that.)

Mindset Alone Can Influence Profitability

We've noticed that our best clients are those with a long-term investment mindset. Often, it takes a 10-20 year commitment to see the best return on your investment. In addition, 10-20 years of experience can help you avoid common pitfalls and understand how best to budget for and maintain your property in order to get the most out of it.

However, until you're a seasoned pro, it can be helpful to have the advice of someone who knows a thing or two about rental properties. Here at Rhino Property Management, we've been helping landlords in the Greater Salt Lake Area for years, and we understand what needs to happen in order for you to make a profit on your rental.

About Rhino Property Management

Rhino was founded by property managers for property managers. We have a wealth of local knowledge unmatched by any of our competitors. We help property owners get the most out of their investment by taking care of the heavy lifting and using our expertise to get you the best tenants out there. To learn more about our services, visit us at RhinoPropertyManagement.com.

Sources:

HSH.com

Zillow

Investopedia

Utah Apartment Association

