# WHAT YOU SHOULD KNOW IF YOU WANT TO BE A RESIDENTIAL LANDLORD

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Becoming a landlord can be a great option for anyone who wants to generate wealth. As of today, there are over 10 million landlords in the United States with small to medium size investment portfolios. Buying a residential property and renting it out can be one of the best ways to create a steady stream of income for yourself. You can take advantage of both passive income and long-term growth through appreciation.

**Benefits of passive income**

Passive income is money made without you having to continually work for it. In one sense, it’s like turning on the autopilot switch to your cash-generating activity and letting the money accumulate regularly, as with investments. You make money in your sleep.

Owning rental property is a sure way to generate passive income. You purchase a property and find tenants. Then, month after month, you receive payments in the form of rent money, without having to go out and earn those dollars.

Some of the benefits of passive income are:

* It gives you the freedom to do whatever you want to do without being tied to a money-generating activity where you are actively working, such as a job.
* You have a hedge against times of unemployment or economic downturns.
* It can be a catalyst for wealth-building. With passive income, you multiply your earning power because your dollars are working for you.
* It opens up doors, allowing you to live where you want and work when and where you want.
* It can help lower your stress levels.

**Steps and tips**

There are several steps and tips that can serve as guideposts in helping you on the path to economic freedom through owning rental property. You do have to work smart, but, when approached properly, becoming a residential landlord can be a profitable and meaningful venture.

Here are steps to follow if you want to become a landlord.

1. Know your price range and determine your financing (loan or cash). Find out the monthly mortgage payment, including taxes and insurance. You can do that with the help of a loan officer. Keep in mind three things with price: a) down payment (it’s typically higher for an investment property); b) going rental rates (can the rent cover the mortgage each month and give you some left over for emergencies?); and c) factor in whether you could afford to carry the mortgage a couple of months in the event of vacancies.
2. Research some areas that you would like to invest in. Look for neighborhoods in school districts with good ratings. Pay attention to the surroundings—amenities, stores, restaurants, activities, etc. Is it a place where people would flock to and be interested in living? The greater extent to which it is a desirable area, the likelier you are to have a wider pool of people from which to rent to.
3. Select a property. After doing some comparative shopping, decide on a property that suits your needs. Some things to keep in mind: 3 bedrooms (townhouses or single-family homes) are ideal and will attract the widest number of people. If you go for a 2 bedroom or even 1-bedroom condo, that will likely appeal to a single person or a couple. Four-bedroom homes can be too big and too expensive, where the rent would not cover the mortgage. Also, many people, by the time they are ready for a 4-bedroom, are homeowners themselves.
4. Know the local rental laws. Call your county landlord-tenant office. There may be requirements for you to have the property inspected prior to a tenant moving in. Also, make sure to get a lease. This is crucial to being a landlord and a well-written lease will help protect you down the road in case of any issues.
5. Decide on management. Are you going to self-manage or are you going to hire a property management company? You need a system in place for collecting rents, taking care of repairs, and addressing tenant concerns.
6. Set realistic rents. Make sure your rents are realistic enough and the neighborhood in general, and your property, in particular, can command those rents.
7. Screen. Screen. Screen. This can’t be emphasized enough. Do your due diligence when conducting a background check on prospective tenants to avoid problems down the road. While you cannot discriminate, you can be discerning and can take into consideration income, creditworthiness, and criminal history. Even if you are having a property management company find a tenant for you, you still have the final say.

**Pitfalls to avoid**

Being a landlord is a complex job, these are some mistakes to avoid that might have serious repercussions.

1. Avoid asking discriminatory questions that relate to race, religion or anything offensive.
2. Avoid using illegal provisions in your rental agreement.
3. Don’t rent without making sure you are in compliance with any local laws, inspections, etc.
4. Don’t let your relationship with your tenants become unprofessional.

Owning a rental property can be one of the wisest investment decisions you will ever make and be a gateway to allowing you to build wealth. If you need help managing property that you currently have or are considering purchasing, give us a call at Supreme Property Managers. We work with owners in helping them secure their financial futures and enjoy the benefits of passive income and take the headache out of oversight.