



# THE ESSENTIALS OF PROPERTY MANAGEMENT

HOW TO  
**MAXIMIZE CASH FLOW AND  
MINIMIZE LIABILITY**  
THROUGH  
**STRATEGIC REAL ESTATE MANAGEMENT**



**KAVEH GORGANI**

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While the information in this book will be beneficial to property owners throughout the United States, it was written toward the rules, regulations, and laws of California. Please check the regulations of your local jurisdiction before employing any of the information contained in the following pages.

This book is not meant to provide legal advice. Please consult with an attorney if you have any legal questions.

For your convenience, there is a section reserved for notes at the end of this book.

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# INTRO

Real Estate. There is always money to be made, and the whole world knows it. So how does one make money in Real Estate? There are many options including earning commissions as a sales agent/Realtor, flipping houses, and investing in REITs (Real Estate Investment Trusts) among many others. While all of these are viable options and have their positive attributes, many view owning rental property as the easiest way for the average person to build long term wealth in the field of real estate.

Whether your goal is to own 1-2 properties to supplement your income and retirement, to become a full time real estate investor with a 15 unit portfolio, or to open a Property Management company of your own, there are many reasons that owning rental properties is an ideal means of building wealth. There are a plethora of tax benefits. The world will always need housing,

and real estate has consistently increased in value over time, well above the consumer price index. Owning real estate also **CAN** be an excellent form of passive income.

So how does one become a bona fide real estate investor? In some areas (California, for example), the process of acquiring, owning and managing investment property can seem a bit daunting. If you are fortunate enough to be in a position to own a portfolio of 5+ properties, congratulations- that is excellent! While you will still benefit from reading this book, you likely already have an experience level that has taught you much of what I will elaborate herein.

As I will cover in this book, prior to putting your home on the market as a rental, it is pivotal to set aside an adequate reserve fund for future repairs. If the rental property is older or has deferred maintenance, your reserve will need to be larger. Consider this reserve a part of your emergency cash fund. A common mistake new landlords make is buying a rental property without having sufficient reserve funds in the bank.

As I mentioned, rental property 'CAN' be an excellent form of passive income. The reason 'CAN' is in bold is that anyone who has been caught in a bad situation with tenants will tell you that it can also be a nightmare. Many are turned off from the field of rental real estate because they have heard horror stories about bad tenants, and unfortunately many of those stories are true.

In my years in the property management business, having been personally involved with over a thousand units in various parts of California, I have dealt with more difficult situations than I can count. Each has been a learning experience. As with any endeavor, each experience has made a repeat of the same situation that much simpler to address. These experiences have driven me to put together this guide in order to help property owners take the necessary steps to minimize risk, maximize profits, and simplify a form of income that can be anything but simple.

There is absolutely no way to write a book that covers every potential situation that could arise for property investors or that covers every bit of paperwork that exists throughout the country, or even within California. Even after having worked in property management for more than a decade, I continue to encounter new situations and learn new ways to solve problems. To further complicate matters new laws and regulations seem to be introduced every month<sup>1</sup>, though these are often beneficial to landlords and tenants alike. There is no way of eliminating risk entirely, but the following steps will provide some guidance on how to avoid headaches and how to succeed as a landlord.

1. For example, AB 1482 — which was passed in 2019 — caps rent increases and provides 'just cause' eviction protection to tenants.





# KNOWING YOUR MARKET AND PREPARING YOUR PROPERTY

We all want to maximize income from our property, and setting it up correctly is the first step. To elaborate on 'setting it up correctly', let me provide a personal example.

My first investment property, which I still own, was a 341 square foot micro-studio in San Francisco - a size that some might consider a decent sized living room. Squeezed into this living room-sized space is a kitchen, living area, dining nook, and bathroom.

You may wonder why I would purchase such a small space. For starters, I got a phenomenal deal on it! (Full disclosure, it was

also all I could afford at that time). Of course I understood at the time of purchase that there was a ceiling on what I could charge for such a property. Enter my first investment mistake: I put a beautiful, custom-made, polished cement counter in the mini-kitchen of this studio. My first tenant after the remodel ruined the counter (which required a great deal of maintenance), and the price of repairing the counter ended up being higher than the entire security deposit for the rental. I decided not to pursue collecting from my former tenant in court. The whole process, from the custom remodel to losing money on it a year later, ended up being a learning experience.

Installing a very fancy counter in the kitchen of a micro studio was not a smart move. With the rental value of a 341 square foot space being (comparatively) low, I would have been better off installing a counter that looked nice, but that was durable. What I didn't consider was that most tenants moving into a space that small do not care about a fancy kitchen; they are focused on finding a (relatively) budget option and will likely move out as soon as they can afford something better.

While I am a firm believer in keeping every property you own in great condition, it is important to consider every part of your rental property as an investment, and each characteristic of the unit should be treated accordingly. Don't spend \$30,000 on a high-end hardwood floor that is probably fragile and won't be

appreciated by the next tenant. Don't buy a \$15k stove for a low rental unit. The list continues.

Does this mean you should never invest in high-end appliances/amenities for your rental unit? Not at all. Within 10 miles in any direction of my 341 square foot studio is an abundance of homes that rent for \$15K per month or more. If you have the option of renting your home for a price that high, there could be a great return on investing in higher end luxury items.

The importance lies in knowing and understanding the added value of each item in the unit. Research the specific market segment of your property and add upgrades accordingly. Understand that outdated and worn kitchen appliances will not attract 'A paper' tenants. If you have the most expensive rental property in the neighborhood, however, many prospective tenants would be deterred by a lack of quality. New paint, nice floors and a professional cleaning is money well spent (it helps the unit rent faster, attracts better tenants, and allows you to receive market rent or higher), and I tend to suggest that my clients set up their property so that it is among the 'nicer' properties in the neighborhood. However, trying to make your property the one that changes the local economy will cause you great hardship.

Regarding appliances: I generally suggest that you do not include a washer, dryer or refrigerator with your rental for a number of reasons. They are additional items that you will

be responsible for repairing and maintaining which would obviously impact your cash flow. If a refrigerator's ice maker or a washing machine's hose leaks, you would be liable for the damages because you provided the faulty appliance. On the flipside, if the tenant provides their own appliances, they are responsible for any repairs, maintenance and damage to said appliances. In larger properties (3+ bedrooms), tenants will often have appliances of their own and may even request that your appliances be removed. That said, if the property is a small condo or apartment unit, an owner might consider providing appliances because it might be customary to do so in the area. As before, proper research of your market segment is key.

Speaking of keys, it is also crucial that you rekey your property between tenants during the turnover period. If you fail to do so and the previous tenant (or a neighbor who was given a copy of the key) burglarizes the new tenant, you as the owner could be held liable for not protecting your tenant's safety. Indeed, my company's approach is to rekey after the last repair or cleaning has been completed to ensure that no vendor other than the locksmith has had access to the new set of keys.



# **DETERMINING THE RIGHT PRICE FOR THE UNIT AND MARKETING IT**

Pricing a rental property correctly is much easier said than done. No one knows exactly how the market is trending or where prices will go, and real estate prices in particular constantly fluctuate.

The best place to start, of course, is by looking at comparable properties on the market. Something to be aware of when researching rental property markets is that you are only seeing the LISTED price, not the price that the unit ultimately rents for. Prices are negotiated all the time, and anyone can list any rental at any price; this does not mean the price point listed represents the actual rental price or the current state of the

market. An overpriced property listed one day at \$3500 might be lowered to \$3200 the next, and you would never know. In real estate sales, the on-the-market comparables are viewed as a completely different point of comparison than the recently-closed comparables. This is particularly of concern in areas like San Francisco or NYC where sales listings often close for 130% of asking price, and the asking price listed is often a bogus number meant to draw competitive offers and/or inspire a bidding war. If there were an accurate and comprehensive 'recently closed' database for rental properties, pricing units would be a whole lot easier.

Another factor to consider when choosing your rental price is the cost of vacancy loss compared to the cost of a slightly lower rent. Picture this common scenario: a property owner wants to receive absolute top dollar for their rental and lists the property at \$3k per month while research supports a rental price of \$2,700 per month. Here is a list of potential effects of this approach:

1. The overpriced property sits on the market for 30 days before the owner realizes they have to lower the price, costing the owner \$2,700 in missed rent.

A wise owner would quickly realize that their asking price is too high and lower it to the market price. The owner who decides to chase the market, on the other hand, might continue to incrementally lower the rent for the next 30+ days, gradually moving toward the market. If the property is

initially priced correctly it might rent 30 to 60 days sooner than an overpriced property, avoiding headache and leading to an additional \$2,700-\$5,400 in rental income which would easily cancel out the hypothetical \$100-\$300 per month the owner had hoped for.

When you pencil out the math, renting a property for less will generally make more money over the average term of tenancy. I know a number of seasoned investors who price their properties slightly below market because they understand the true cost of vacancy.

2. I often hear owners say that they are looking for a renter that is in a financial position in which they don't care about the \$300/m difference. Alas, it is not so simple. Prospective tenants today are savvy and have access to a wealth of information on the Internet -- they know when a property is overpriced. Here are a few additional concepts to keep in mind:

- A. Individuals with money tend to be good with their money. In other words, they may be even more likely to avoid overpriced items.
- B. Overpriced properties have a tendency of attracting desperate searchers who have no choice but to pay overpriced rent. Their applications may be lacking and they may not be well qualified, which can slip by the owner

if no other applications for the property are received. They may have trouble qualifying for the better deals due to poor credit, past eviction, etc. In other words, these are not ideal tenants.

- C. If your goal is to have long-term tenants (which it should be), you do not want them to feel like they are overpaying. If they are overpaying, they will likely be watching for other options and may move out sooner, causing you to incur extra fees, vacancy loss, etc.
3. Eventually you may find an applicant that is willing to rent at the \$3k/m price point, but it will probably take a while and you will likely only have a few options (if you are lucky). When a property sits vacant for a while and one applicant comes along, basic human psychology encourages the owner to try to 'make that client work'. On the flip side, if you price said property \$300/m lower, you may have 5+ applicants, and if one doesn't look good, you can pass on them and move to the next. It is always good to have options.

When it comes to pricing your property correctly, here is my advice: price it reasonably — don't shoot for the stars. Review and reassess the listing price either weekly or biweekly. If you are marketing the unit properly and it shows well, but you don't have any interest or applicants, it is probably priced too high. Understand seasonal differences in prices, and know your market and local economy. Avoid the trap of becoming



emotional in regard to pricing. Unfortunately we don't have the luxury of choosing what a property's rental value is.

One last point regarding rent pricing: I suggest you do not set your security deposit equal to your rent amount. If your rent is \$2000 then set the security deposit \$100 above, at \$2100. Interestingly, this makes a difference; tenants often will not pay the last month's rent because they confuse it with the security deposit when they are the same amount.

So you have set your price, and now you need to market the property. These days most marketing is done online. There are many sites that are commonly used, and I suggest using as many as possible. There is no single site that holds all the magic, and the 'number-one' site will evolve regularly<sup>2</sup>. The more places your property is listed online, the better.

Post a set of pictures that accurately represent the property. Try to show the property for what it is — be a realist. If you make the property look better/larger/more modern/etc than it actually is you will only waste your time and that of potential applicants, which is never appreciated by them and is somewhat like self-sabotage as your time is valuable. By all means, the pictures should look good, but they should also be accurate.

The listing should include all pertinent information for the property such as year built, square footage, utilities included,

2. In 2020, I would give that spot to Zillow. Craigslist had a good run for many years as well.

qualification requirements, appliances included... the list goes on. For some examples of comprehensive property profiles, here is a link to my company's listings:

**<https://www.rnbrentals.com/search-rentals.php>**

Every bit of information on each of our listings is relevant and has been thought through. The more information you make available, the less time you will be wasting responding to emails and phone calls and showing applicants a property that is not right for them.

Outside of listing the property online (where the vast majority of our applicants come from), I would also suggest putting a 'For Rent' sign up at the property. Neighbors often make great referrals, and responses are more likely to be from someone who already knows the neighborhood which is a plus.

Great, your property is now on the market. This means you must be sure to make yourself available to respond to emails, answer phone calls, and conduct showings. This is where many people who are managing their own properties run into trouble.

Your ideal tenant is very likely going to have a steady job and be very busy. This person likely won't be able to view the property on a Tuesday at 2:00 pm. They also may call after-hours or on the weekend. Make sure that either you (or the management company that you hire) is willing to show the unit outside of regular business hours and, ideally, on weekends. If you or

your company are not able to do this, then be conscious of the fact that the most qualified applicants may never actually be able to see the property. While there is the possibility that a tenant will agree to rent the property without seeing it, the odds of this are slim at best and confined to only the most competitive of markets.

If you have priced your property well, marketed it correctly, are available to answer/respond to inquiries, and offer multiple options for showings, then the applicants should come. While there are busier and slower times in every market, this is really all it should take to bring in applications.



# FINDING THE RIGHT TENANT

Now that your property is on the market, let's suppose you have five applicants from which to choose. Well done! How do you make the very important decision of whom you ultimately want to rent your property?

First and foremost, as I said about pricing, make sure your decision is based on concrete information rather than emotion. Emotion can betray you whereas concrete information is less likely to do so. You have worked hard to set up this passive income stream, so you need to ensure that it ends up working well for you. This is primarily done by having a strict set of objective criteria and policies that you stick to and apply equally to everyone.

RNB Property Management takes the following into consideration when screening applicants objectively: Net income, FICO score and credit history, employment verification, rental history/prior landlord references, eviction history, and foreclosure history.

➤ **Income.** This one is simple. If someone is not making enough reliable/verifiable income, they can't afford your property. No exceptions. A base that I recommend is to require a net income of two and a half or three times the monthly rent. The best way to confirm this is through paystubs, followed by bank statements. Note that this is based on net income (as opposed to gross income), which better captures how much money the applicant is actually bringing home. You will find most companies only look at gross income since it takes less effort to calculate. However, net income is an important consideration because some applicants may have considerable sums subtracted from their take-home pay, or additional taxes that are not seen in the gross number. Some legal obligations may take priority over your rent payments, so it's worthwhile to take the extra time to verify that the applicant can actually afford your property. Regarding co-signers, RNB generally advises against it, but this decision can vary depending on circumstances or the location of the property<sup>3</sup>. Co-signers can be a liability, as the person who

3. For example, if you have an applicant with a disability or if you own property in a college town.

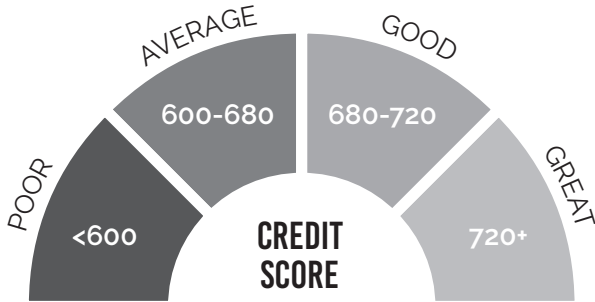
lives in the property is not the only one responsible for it. Think about this rationally — do you want someone who does not qualify on their own to be living in your home? For me, the answer to that question is a strong 'No'.

**Employment Verification.** Always confirm that your applicant is employed by who they say they are and that you have permission (in writing) to contact the employer of the applicant. You should be the one who calls the employer (not the other way around), and call them on a business line. If possible, take the extra time to verify the employer's phone number, for example by checking the company's webpage. Generally speaking, an employer will be happy to help out a good employee. Unfortunately, if the employee works for a very large company, verification can be difficult. Some large businesses now use third-party employee verification companies which require a membership/fee to confirm employment; these circumstances can complicate matters. In these cases, we generally attempt to get the contact information of a direct supervisor and request communication of the verification over email. Employees of large companies will usually have the company name in their email address, which can be proof enough. Many companies these days will require a signed consent form from the applicant before providing any employment verification. It can be useful to have a form prepared in advance as this is becoming increasingly common.

Sometimes you need to get creative and think outside the box to verify employment, but the point is that it must be done. I have heard more lies and sob stories than you can imagine; remember that your decision must be based on objective information, not on emotion.

› **FICO score and history.** While the FICO score should certainly be considered, it should not be the be-all-end-all criterion. Remember that an excellent FICO score takes time to build and some renters may not have had the time to build their score yet. Also remember that one of the fastest routes to a high FICO score is through a real property mortgage and obviously most renters will not have acquired one yet. You will very likely come across an applicant whose FICO score is not stellar, but if you examine their credit report you will see that they have a history of paying every bill on time. That applicant could be an ideal tenant, and you don't want to pass on them. The policy of my company is to make sure that the applicant has an 80% positive credit history; under our approach that carries as much weight as the FICO score itself. That said, if an applicant's FICO score and credit history are terrible, pass, and move on to the next.

Below is what we consider for each respective credit score range:



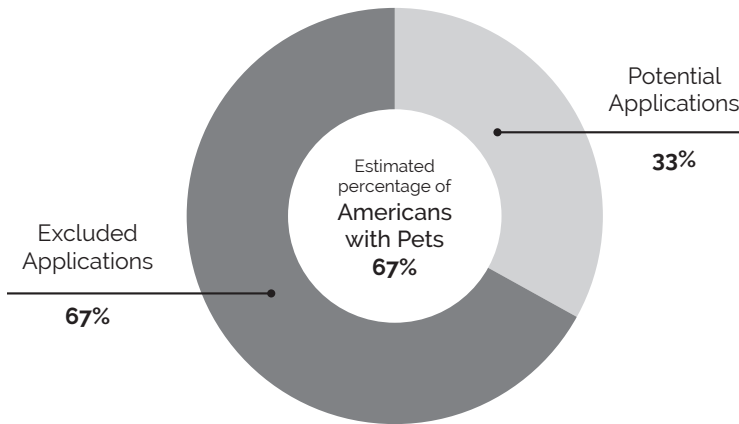
- › **Rental/ownership history and landlord references.** RNB goes back a minimum of 2 years for rental history and landlord references. Along with employment verification this may require some research, but practice makes perfect. I recommend cross-referencing tax records with the previous owner's/landlord's name listed on the application, to prevent bogus references (which happens frequently). Tax records are public information and can be found online on the county recorder's website or on a third party site. Management companies can be easily verified by searching for their website and confirming the phone number given. If the name provided is neither of those, proceed with caution. In shared living situations, be wary when given the name of a primary tenant; oftentimes this will just be a friend of the applicant. Also be conscious that current landlords may give inaccurate information in order to get a bad tenant out of



their property! In my experience, the most recent previous landlord is generally the best source of information.

- › **Eviction history.** If an applicant has on their record that they were evicted, I would suggest passing and moving on to the next.
- › **Foreclosure history.** This can go either way. Remember that during the mortgage crisis of 2008, many lost their homes for circumstances beyond their control. While this may seem easy to criticize, predatory lending was a serious issue at the time. Two things to consider:
  1. If an applicant went through a foreclosure it means that at one point they had their situation together enough to purchase a home. This may be a better choice than other applicants under consideration.
  2. If a person owned a home, went through a foreclosure during an extremely tough economic time and now has 5+ years of perfect credit history, they could still be an ideal tenant despite having what our guideline would characterize as an 'average' or 'poor' score. I would suggest considering foreclosures on a case-by-case basis.
- › **Pets.** People are very polarized on this one. Some animals are much easier on properties than others. Regardless, it is important to define specifically what animals you will allow

at your property. You can also break up specific animal types to certain characteristics, for example no bull dog breeds, 1 dog under 40 pounds, etc. Remember that an estimated 67% of American households have pets, so if you do not allow pets in your property at all, you are excluding 2/3 of Americans which - as demonstrated visually in the pie chart below - is a lot:



**Figure 1:** Estimated percentage of Americans with pets: 67%.

This does not mean I am always in support of allowing pets at rental properties. Owners must have a clear understanding of what this decision entails: if you have a "No pet policy", expect fewer applicants, longer vacancies, and potentially losing out on some great tenants.

If you do decide to allow for pets, I suggest increasing the security deposit by \$250-\$300 per pet. This will help offset any potential damages the pet may cause. Do not term this increase as a 'pet security deposit', as you will then be limited to using those funds for damage caused by the pet. Remember to account for legal security deposit limits. Asking too high of a deposit is a violation of the law. Also note that some tenants have service pets. The Federal Fair Housing Act requires owners to allow service pets, and owners are not allowed to charge an extra deposit or pet fee for service animals.

› **Criminal Background Checks.** This is an item that **is not** screened by RNB Property Management. That said, I have included it in this list because we often need to explain the rationale behind this approach to our clients. The attorney RNB uses has advised us not to perform criminal background checks in the interest of maintaining objective criteria in our screening process. As of 2020, there is no publicly available central database that captures all federal, state, and local agencies' criminal records. As such, even if you do attempt to screen for criminal history, your search will almost certainly be incomprehensive. Moreover, suppose you do find that one of your applicants has a criminal history -- what criteria will you use to determine if they should live in your home? Driving under the influence, assault, petty theft, tax evasion,

etc. - there are countless activities that fall under the umbrella of 'criminal activity', and an objective and standardized approach to comparatively assessing applicants with criminal histories is extremely difficult. Indeed, it is for this exact reason that many cities have begun making it illegal to perform background checks as part of tenancy applications. Regardless of the policies of your local jurisdiction, I strongly advise you not to use this criterion in your screening process.

Understand that no matter what you do, things can go wrong. Just because your tenant has a perfect credit score, the ideal job, great references, and a substantial amount of savings, there is no guarantee that everything will be perfect. A thorough application process significantly increases the likelihood that the relationship will work out well, but bad things happen to great people. Anyone is susceptible to unforeseen illness, injury, poor economic conditions (layoffs), and an endless list of potential setbacks that we might refer to as life. If any of these setbacks happens to your tenant, you may have to deal with the consequences as the owner. I have seen wealthy homeowners become tenants and I have recognized how those tenants need to downsize or even be evicted. You never know what will happen to even the best of tenants, and that is a risk you take when owning rental property. Reviewing and following these guidelines will help minimize that risk.



# PREPARING AN EFFECTIVE LEASE AGREEMENT

So you found a tenant that meets your objective rental qualifications. What's next? To begin, you must make sure you are using an effective lease agreement. The lease agreement RNB uses is thirty-five pages long. Remember that the lease agreement is for the protection of the owner (you) as well as the tenant and ambiguity is never a good thing when it comes to legal documents. Every part of the lease is important and applies to anyone renting a property from our company. It is comforting to know that the specifics of how to handle any situation is already spelled out and agreed upon by all parties who sign the agreement. It is important for the tenant to understand the agreement they are entering and the lease is a way of confirming their understanding in writing. With that in mind, it is absolutely essential that someone (whether that be

you or an employee) reviews the lease with the applicant, and that this person is able to thoroughly answer any questions and explain any clauses that are unclear to the renter.

While the basis for most leases will be the same, it is very important that you tailor the lease agreement to the city/county/state where you are renting. For example, San Francisco has many very specific laws when it comes to tenants' rights and rent control that differ from other parts of California and the rest of the United States.

An item I would suggest including in your lease is to allow showings during the *30-day notice to vacate* period (more on this in Chapter 8). Although by law you have the right to show during their tenancy, it's much easier to point out to the tenant that they agreed to this in writing rather than citing and explaining civil codes in an email to them.

Make sure that you have a clause in the lease requiring that the applicant acquires and provides documentation of renter's insurance<sup>4</sup>, and include that requirement in the marketing of the property (to avoid surprises). The cost of renters insurance tends to be moderate, and provides a great deal of protection for the tenant. However, also consider the following situations where it can also affect the owner:

4. The value of renter's insurance should vary based on location. For example, in 2019 the Sacramento Area RNB offices require a policy with a \$100k minimum (for personal liability) and in San Francisco RNB requires a \$300K minimum.

- There is an extreme storm or other act-of-nature that causes the roof of a property to cave in and many of the tenant's personal possessions are destroyed. While you as the landlord/owner wouldn't be legally responsible for this, the tenant's ability to recover this from their insurance company will likely prevent them from seeking reimbursement from you. Although the tenant would almost certainly lose that battle, I would prefer to avoid that conflict, protect my time, and have the tenant walk away happy especially on the dollar of an insurance company.
- The tenant provides their own washer at the property, and it is hooked up wrong, leaks, and damages the floor. This would be covered by renter's insurance.
- The tenant has a grease fire while cooking, damaging the kitchen. This would be covered by renter's insurance.

If the tenant has a pet I suggest including a pet section or pet addendum in the lease. This section should include that the animal has no history of aggression, is spayed or neutered, and that there is a pet clause in the renter's insurance.

If there is a pool and/or spa at the property, make sure that it is addressed in the lease agreement as well and that maintenance responsibilities are properly acknowledged.

The lease should also have a section that acknowledges which — if any — appliances are included with the property. If they

are included, the lease should specifically state that they are given in as-is condition, which means that the owner is not responsible for their maintenance, repair, or replacement. Understand that if nothing is said about appliances being given in as-is condition, maintenance/repair/replacement will be the responsibility of the landlord.

Now that your lease has been properly prepared, it is important that you conduct the lease signing with an air of caution. Anyone 18 years and older who will be living at the property is required to sign the lease agreement and must receive a copy of the lease and any addenda they have signed. Make sure that you collect the security deposit in the form of a cashier's check or money order as these are guaranteed funds. This will allow you to have security when you reserve the property for them, discontinue showings, and remove it from the market. Also make sure that you collect the first month's rent (also with guaranteed funds) before handing over the keys/possession of the unit.

If a tenant has a difficult time coming up with the initial funds, this can be a red flag. Can they really afford your property? Remember that income/employment verification and a good FICO score don't tell you about prospective tenants' spending habits. It is much more complicated to remove a tenant from a property once they have occupied it.



# CONDUCTING A THOROUGH MOVE-IN INSPECTION

This is a topic that I cannot emphasize enough. Many people are deterred from becoming landlords because they are worried about tenants trashing their investment. While it is impossible to know ahead of time whether or not a tenant will take good care of your property, it is very possible to perfectly document the condition of your unit before the tenant moves in.

Photos are key, and I suggest taking many of them. Memories of your property's condition two years ago can often be misleading and are debatable without photos as an accurate reference. The majority of move-in inspections consist of a relatively quick walkthrough and a checklist where you write 'clean, needs repair, dirty, etc.', and while this is helpful, it is by no means all-encompassing, nor is it likely to represent exactly

what you are attempting to document without photographs. Our company takes anywhere from a few hundred to over a thousand pictures of each home we manage, inside and out, from floor to ceiling, as a part of our move-in inspection. We take pictures of every window and sill, the inside of every cabinet, walls and flooring throughout the property, and ensure that every light and fixture is functioning properly. We test every appliance, the heater/AC, and every drain and faucet. We take note of every spot on the carpet and make sure that the window coverings work properly. I could continue, but you get the point. Pay particular attention to items that are prone to damage and/or expensive to repair such as garage doors, countertops, expensive fixtures and hardwood floors.

In addition to your own inspection, be sure to give the tenant a move-in inspection form at lease signing, and have them initial on the lease that they were given this form. This will give the new tenant an opportunity to document any issues that might have been missed. Have the new tenant fill out the form and provide you a copy. If the initial inspection was done correctly, everything the tenant includes on the form should already be accounted for. Address any discrepancies right away, and include your tenant's notes as a part of your inspection package. Note that although the tenant is not required to return the form, in many jurisdictions the landlord is required to provide such a form to the tenant.

Remember that when the tenant leaves, it is their responsibility to return the property in the same condition that they received it (minus normal wear and tear). Without thoroughly documenting the condition upon move-in, an objective comparison against the condition upon their departure is almost impossible. If you claim you gave it to the tenant clean but that it was returned to you dirty, without documentation to back up your claim, you will most likely lose any associated court case. With photo documentation, however, the tenant will not likely pursue legal action in the first place. If the case does end up in court, and you have photo evidence of a clean and empty garage upon move-in and a picture of a dirty garage full of garbage upon move-out, most judges will determine that you had to hire a cleaner and the associated cost would come out of the tenant's security deposit. That is, after all, one of the purposes of the security deposit to begin with.

# HAVING A GOOD TEAM OF PROFESSIONALS

If you are managing property, you will need to work with vendors. While you might want to take care of some minor issues yourself, be aware of your capabilities and don't attempt to do things beyond your skill level in the interest of saving a few dollars. I suggest you have the following vendors ready before you actually need them<sup>5</sup>:

- › General Contractor
- › Handyman
- › Roofer
- › Mitigation Company (for large loss prevention in case of flood or fire)
- › Pest Control
- › Cleaners
- › Carpet & Tile Company (if your regular cleaners do not provide this service)
- › Plumber
- › Electrician
- › Accountant

5. If you are managing an individual property, you may only need a subset of these. If you are a Management company or managing 5+ properties, I would suggest having the entire list at hand.

- Real Estate Attorney
- HVAC specialist
- Gardener/landscaper
- Property Management Company (often willing to provide information and advice, even without a business relationship)

Every contractor you work with should be required to have appropriate licenses and carry insurance. While this might eliminate some great options, it will protect you in a legal capacity which is of the utmost importance. In California, for example, a house cleaner can sue a property owner if they fall down the stairs and hurt themselves while cleaning. Things like this unfortunately happen all the time. Paying a little more to prevent that from happening to you (or the owners of the properties you manage) is well worth it<sup>6</sup>.

Having a team prepped in advance has many benefits. You will have accurate expectations of what to expect from your contractors, accurate expectations of their payment policies, and you won't need to spend time searching for someone in the event of an emergency. If you use them regularly, contractors will often make room for you in their schedules during busy times as they will want your continued business.

As far as attorneys and accountants go, having a good relationship with them before you need them can go a long way. You do not want just any attorney or accountant but one that specializes in real estate and specifically in property

6. A homeowner can also carry a workers comp insurance policy on their insurance plan, but that will likely cost more than hiring an insured contractor.

management. Many specific rules and regulations are unique to the field, and you want to be working with someone who is familiar with those. If there is one thing I have learned in the real estate industry, it is that good financial and legal advice is invaluable, and worth the price. A good friend once told me that more expensive attorneys often end up costing less than cheaper attorneys which despite being counterintuitive I have found to be true. Getting started with these professionals takes time, but once you have a relationship built, it becomes much more simple to reach out for quick questions.

# DOCUMENTATION, DOCUMENTATION, DOCUMENTATION

The owner of the first property management company where I was employed told me that every dispute in our industry could be solved by proper documentation. While 'every dispute' might have been a bit of an exaggeration, I have found the concept to hold true. If you have communication with a tenant, save and document that communication. If you send your tenant any notices, save a copy and the time/date/method of delivery. You are doing this both for yourself and for the tenant. As with any and every relationship, communication is key.

At RNB we even record all phone calls which simply serves as another form of documentation. While we encourage all

communication to be in writing, sometimes tenants will want to communicate on the phone, and I suggest keeping a call log for such instances. Remember that the burden of documentation will very likely fall on you if a situation goes to court. In California, the court tends to be very tenant-friendly. In 'he said, she said' circumstances, the court most often sides with the tenant. After all, you are the professional who is expected to follow protocol and regulations while the tenant can very often play the victim. If the record shows a series of verbal agreements with discrepancies in their content, the judge will have a difficult time siding with the accusing party and may write the case off as hearsay. But if the record shows that ALL agreements were documented in writing, then the paper trail will speak for itself.

Technology has made proper documentation easier than ever. In your email program, create a folder to store all email correspondence related to your property. Also be sure to have either a paper file folder and/or a computer folder to store all other documents and photos. If you run a property management company or manage more than a few homes, you should be aware that there is a form for just about every possible issue that could arise. Having access to said forms and utilizing resources (such as the CAA<sup>7</sup>) will make you look more professional both in the eyes of your tenant and in the eyes of the court, if necessary.

7. California Apartment Association





# DEALING WITH MAINTENANCE ISSUES

Maintenance issues are inevitable for any landlord. As mentioned, first and foremost you should have your appropriate contractors established **before** you need them. Finding good contractors on short notice can be very difficult, and oftentimes when you need them (after a storm, during a heatwave, etc) is when they will be the busiest.

Communication is fundamental for maintenance issues. Following up regularly with contractors, tenants, and owners goes a long way. I have found that the majority of tenants are understanding that things can take time but simply do not like to be left in the dark as to where the process stands.

I will also once again reiterate the importance of good documentation when dealing with maintenance issues. Document all communication between all parties, whether the communication be a phone call, an email, or an in person meeting. As I have stated before, all of our phone calls are recorded which is actually a layer of protection for all parties involved (not just us). In the worst case scenario, if an issue goes to court that layer of documentation will serve to protect the owner/landlord/management company.

Assuming that you have all of the above concerns addressed, how do you know which maintenance issues are the owner's responsibility and which are that of the tenant? The first question should be whether or not habitability is an issue. For example, if there is a gas leak, or a heater isn't working, or there is no electricity for the resident, the issue should be repaired right away and the details can be worked out later.

If the habitability issue was caused by normal wear and tear, it will be the responsibility of the landlord to fix it. An example of this is a very old plumbing pipe that bursts or gives out causing a leak. This problem would have happened regardless of who was living there and as such, the tenant should not be charged. On the other hand, if a drain is clogged and the plumber identifies that the tenant was directly responsible for an obstruction in the pipe, it is fair to charge the tenant for this. Another example is a maintenance issue that is the direct fault

of a tenant's actions such as running into the garage door with a car. A good contractor will usually be able to identify the cause of the problem and will be willing to provide it in writing.

In California, landlords have a reasonable amount of time to address non-habitability issues, such as a dishwasher rack that doesn't open properly or a light not working in a room with multiple light fixtures. RNB Property Managements' goal is to address all maintenance issues as soon as possible, but sometimes they cannot be taken care of immediately. Again, this is where documented communication between the landlord and the tenant is essential.

Also, keep in mind that if there is a maintenance issue that debilitates the tenants use of the property and/or takes an abnormally long amount of time to fix, it is reasonable to issue a rent credit to the tenant. Remember that your tenants are your customers. You are providing both a product (rental) and a service (maintenance, quiet use and enjoyment etc) in return for payment. This business relationship should be highly respected considering this is not only your investment but also the tenants' home.

Emergency issues, such as a gas leak, a flood, a fire, or something that could potentially cause an injury should always be taken care of immediately. As a landlord, you have a responsibility to keep your property in a habitable condition for your residents at all times. Even if the tenant causes the damage in question,

make sure you handle the repair so you have satisfied your legal responsibility. In a tenant-leaning court system, the last thing you want is to give the impression that you did not fulfill your legal responsibilities.

After the property has returned to meeting habitability requirements, you can attempt to recover costs from the tenant if it has been determined by a professional that they were at fault. Collectability from a tenant in the court system is very low; a more likely scenario is that you will have to deduct what you can from the tenants security deposit after they leave.

Another item worthy of mention is the option of purchasing a home warranty plan, which I do not recommend. Having handled numerous home warranty contracts on behalf of clients, I've observed that most landlords felt that their money was wasted. The idea of a home warranty sounds great in principle, but in practice it is not. In my experience, not only do warranty companies' slow response rates often result in unhappy tenants who have demanded rent credits, but also very often what is broken is not covered. If you do decide to purchase a home warranty, make sure you research the company first to see reviews and that you read and understand the fine print before making the purchase.

While maintenance issues can be stressful, remember that they are simply a part of home ownership even if you occupy your own property. Also remember that the sooner a maintenance

issue is brought to your attention, the easier it can be to address. Putting maintenance off will very often cause repairs to become more complicated and expensive. Such maintenance will need to be taken care of regardless, so you are better off addressing it sooner rather than later.

# RAISING RENT ON EXISTING TENANTS

So your tenant has moved in, all is well, and your one-year lease is almost up for renewal. Are you considering raising rent? Of course you are. After all, the goal is to maximize the return on your investment.

First and foremost: **know and understand the rent control laws and regulations of your area.** Rent control can exist on a city-wide level, a county-wide level, and a state-wide level. Always make sure that any change you want to make is allowed in your district. If that means consulting with a professional management company or an attorney, do what you need to do to understand the current regulations. And be careful searching the internet for this kind of information as there is a great deal of outdated or incorrect information posted.

While raising rent may seem like a surefire way to increase your income without increasing your amount of work, things are not always so simple. Let us consider two different scenarios. I have seen each of these happen many, many times.

Here is how this might play out:

You have great tenants, but you have decided it is time to increase the rent. Consider a change in the rent amount that you would like to receive. Let's say this number is \$100 per month from a base rent of \$2,000 per month. After all: vacancy rates are low, rents in the area have been increasing, your tenants' one year lease may be up for renewal, and the economy is strong. Perhaps your friend up the street just rented their house out for \$2,100, and you believe your house is nicer than theirs.

**Scenario 1 (best case scenario):** Your wonderful tenants agree that local prices have gone up. They understand that their home is your investment and accept the new rate with a smile. Over the course of the next year, you make \$1,200 more than you otherwise would have. Realistically though, depending on your marginal tax rate, that number could end up being closer to \$600-900, net of taxes. Either way, nearly a thousand dollars higher annual income without any extra work is excellent. Well done.

Here is another scenario, and one that is very probable, based on my experience:

**Scenario 2:** Unfortunately your tenants (who thus far have been great) were already considering moving to a different neighborhood but were undecided. When they receive notification of a rent increase, it is the deciding factor for them to pack their bags and take off. Not because you, the owner, picked an unfair price, but rather because they have appealing options elsewhere of which you were simply not aware. In their minds, if you had not raised the rent, they would have stayed.

So the tenant gives their 30 day notice, and hopefully the move-out goes smoothly. After their departure, it is time for some routine turnover maintenance that would not have been necessary had they stayed. As they are wear-and-tear based repairs, you will be paying for this, not the departed residents: a touch-up paint job that is due, replacing carpet in one of the bedrooms because it is time, the bathroom cabinets that you decide to replace in order to improve showings, etc. etc. After the tenant has left, you are \$2,000 in for repairs, and the unit has been sitting for 2 weeks (\$1,000 of rent loss) during the repairs.<sup>8</sup>

Now that the repairs have been completed, showings pick up. Let's be optimistic and say that you or the Management Company that you hired finds a tenant who signs the lease two

8. This is where an owner maintaining a 'vacancy and maintenance reserve' comes into play. A modest amount of money should be put into this reserve each month, and hopefully it will adequately cover expenses when the tenant leaves. Once exhausted, this fund will need to be replenished, hopefully by income from the succeeding tenant.



weeks after the repairs have been completed (another \$1,000 of rent loss). You have agreed with the tenant that they will move in 2 weeks after the lease is signed (another \$1,000 in rent loss). Let's suppose you are also paying the management company 50% of one month's rent to find the new tenant. At the new rent, which is now \$2,100 per month, this fee comes out to \$1,050.

Now, let's break down the numbers for each scenario:

**No raise in rent:** you would have brought in \$24,000 over the course of the following 12 months. With scenario 1, that number would increase to a net of \$25,200, which of course, is great.

With scenario 2, however, your income for the 12 month period after the tenant moves out is

lowered to less than \$20,000. This is factoring in vacancy loss, repairs, and the rent-up fee from the management company. While it is true that your rent could be higher from that point out, it is also true that the new tenants might not stay past their one year lease which could cause the situation to repeat. Effectively, your decision to raise rents may have just caused your income for the year to decrease by more than \$4,000. In this scenario, it would take over three years at the higher rate to recover your investment, not to mention the headache. And that assumes your house is rented out quickly. That is not what you had in mind!

Remember those few seasoned investors (mentioned in Section 2) who priced their properties slightly below market because they understand the true cost of vacancy loss? Those investors know that the longer the tenant stays in the property the more profitable their investment is. They will raise rents to keep up with the market, but as before, it would be slightly below market. When their tenant decides to look elsewhere, they will recognize that they are still getting a great deal and will likely decide to stay and pay the increased rent amount.

Does this mean that raising rent is always a bad idea? ABSOLUTELY NOT. It is simply a move that should be thoroughly analyzed before taken. This, once again, goes back to knowing your market and not making emotional decisions.

Another piece of advice I will give is that if you have a great tenant, you should appreciate them. If you are a great landlord, they will appreciate you. That is ultimately worth more than trying to squeeze every penny that you can from a great tenant. Also consider that if we as property owners/ landlords want to avoid rent control laws becoming more and more strict, we should collectively try to abstain from excessive rent increases every year.



# DEALING WITH PROBLEM TENANTS, AND THE DREADED 'E-WORD'

Problems happen in life; there is no way around it. You may have rented to what appeared to be the world's best tenant, and without warning they encounter a health issue or emergency family problem that hinders their ability to pay rent. Or perhaps you made a mistake in renting to a problematic tenant. Or perhaps you have had a wonderful tenant for decades who has a child with problematic friends. There are countless reasons problems can arise, and at the end of the day the reasons don't matter. If you are in this industry long enough, eventually an issue with a tenant will come up, and you will need to handle it. Once again, I suggest that you avoid letting emotion take

control and that you handle the problem as professionally as you would any other business decision.

For each potential problem there is a specific procedure for resolution. The two most common problems, as you might guess, are i) when a tenant doesn't pay rent, and ii) when a tenant violates the lease.

### **Late rent payments**

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If a tenant doesn't pay rent in the period agreed on the lease, you will absolutely want to serve a 'Three-day Notice To Pay Rent or Quit' form. At RNB Property Management, our leases stipulate that rent is due on the 1st of the month, and in the case of nonpayment or incomplete payment, we serve notices between the 5th and the 7th, depending on which day of the week those dates fall. I recommend attempting to discuss this with the resident before serving the notice (though you will still serve notice after the conversation); a good tenant will realize that they have a problem and will want to resolve it. It is easy to grant a one-time extension and it is generally appreciated. If you decide to grant an extension, make sure it is done in writing. Remember that a history of verbal agreements is much less impactful than a paper trail of written agreements in order to avoid a 'he said she said' situation. You don't want a tenant to show up in court and say "Your honor, my landlord said that I can always pay on the 15th of the month, and as you

can see from this copy of these checks, they have accepted on that date multiple times." Either way, serving a tenant with the proper 'Three-day Notice To Pay Rent or Quit' form keeps you in control should you decide or be forced to move forward with more extreme measures. The notice also legally tells them that even if you accept their rent payment late (with or without a late fee), they have made a mistake, and you are not granting permission for them to do it again. Remember: documentation, documentation, documentation.

### **Lease violations**

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Let's imagine your tenant is violating the lease in some way, shape or form. Perhaps, they have decided to start a rock band in a multifamily building and are causing excessive noise that is disturbing the other residents. Or perhaps, they have decided to run a business in the garage of a residentially-zoned house.

Once again, there is specific paperwork for handling such a situation and the form is called the 'Three-Day Notice to Perform Conditions and/or Covenants or Quit'. This form tells the resident that you are aware of a lease violation, and they have three days to fix the problem before you take further action.

After the notice has been delivered, I always recommend trying to solve all problems with conversation and mediation. You simply want your tenants to pay rent on time and follow

the agreement that is set forth in the lease. You must also remember that the residents of the building simply want to live their lives in peace and comfort. Most often I have found lease violations to be the result of a misunderstanding rather than malicious actions. Whether it be a late rental payment or a lease violation, I would advise you to serve the appropriate paperwork, but first call/email the tenant and let them know what paperwork you are serving and why. Because you have done this, they will be much less likely to panic when they see it and will understand that you are serious and are following the proper protocol should things not get resolved.

Kindness goes a long way when dealing with tenancy issues. The key is to keep the lines of communication open. It becomes much more difficult to work with a tenant who will not respond to your emails or phone calls anymore because you angered them. Don't forget that they still have the keys to your beautiful investment, so be smart and control your emotions. Stay cool — yet firm — and they will be more likely to cooperate.

Which brings us to our next section:

### **Eviction: The dreaded 'E' word**

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I am going to keep this section short, for one main reason: **your attorney will walk you through this; do not attempt to do it on your own, and know that this is not legal advice. Each circumstance is different, and there is no catch-all advice for**

**the eviction process.** What I will say is that you should not try to evict a tenant unless you:

- A. Have very good reason
- B. Have exhausted all other options
- C. Have taken care of ALL habitability issues

Remember that your attorney will have to convince a judge to forcibly remove a family from their home through a court order. You will need a very strong reason to win that argument; trying to recoup late fees will not be enough.

I have been involved with very few evictions over the years which I attribute to having followed the principles outlined in this book. Evictions should be a last resort and can often be prevented by proper mediation and, of course, by doing a good job screening tenants. That being said, evicting a tenant for appropriate reasons may be necessary at some point.

I am going to refer back to two items already discussed: the importance of having properly documented everything from the beginning of your relationship with the tenant and the importance of working with a great attorney.

This is where having established contact with a good real estate attorney will come in handy. You don't need to be in regular communication with this person, but if something comes up (such as a prospective eviction), you don't want to have to seek out a legal advisor at that time. As I stated in section 6,



do not get an attorney who is a generalist. Find an attorney who expressly specializes in property management law. I have met many extremely competent attorneys that have no experience in evictions or property management law. Despite their competency, these attorneys are likely to give poor legal advice to clients due to a lack of specialized experience. Would you want your podiatrist to perform your necessary brain surgery? They are, after all, both doctors...

Any seasoned real estate attorney will have experience with evictions in their respective county and will be able to walk you through the process. One of the first things they will request is the documentation of the events leading up to the prospective eviction. This is another time the importance of your detailed and systematic record-keeping comes into play.

If the tenant has repeatedly violated the lease or is late on rent payments to the point where an eviction is necessary, the straightforwardness of the eviction will be directly correlated with your ability to provide documentation of the series of events leading to the legal procedure. If you have filed all relevant notices and have maintained proper records, it should be quite simple. If it ends up being a 'he said, she said' ordeal in court, there is a good chance that the outcome will not be in your favor. It is for this reason that throughout the tenancy we hope for the best and prepare for the worst.

## **Taking the high road**

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Whether it be dealing with a noise complaint, addressing a tenant who is having a hard time paying rent, or pursuing an eviction, I always encourage owners to take the high road when dealing with tenants. Doing so will improve the owner's relationship with the tenant(s), will decrease the likelihood of legal problems, will allow the owner to run a more successful business and will also allow the owner to feel better about their work afterwards. The following example actually happened at a Sacramento area RNB Property Management office.

We had a tenant complaint about a roach infestation at a house we were managing. Our exterminator examined the property and determined that the roach infestation was caused by the tenants leaving food crumbs throughout the house. In this circumstance, the owner would have been able to bill the tenants for the exterminator service but instead chose to pay for the service as an act of good faith. A short time later, the tenants complained that there were dead roaches in their house which of course simply meant that the exterminator had done their job. The owner agreed to hire a cleaning company at their own expense (another act of good faith) to clean the house. At the agreed-upon time for the service, the tenants refused entry to the cleaning company such that the cleaners were unable to do their job. After refusing entry to the cleaners, the tenants called a local TV station suggesting that they do

a report on "a local slumlord", in reference to both the owner and our company. The TV reporter called our RNB office to ask questions about the report. After being told that the owner paid for exterminators and attempted to pay for cleaners (who were refused entry), the reporter agreed that the owner went above and beyond their obligations. He determined that it was clear that the tenants were being difficult and that there was no story here. If the owners had not taken the higher road, they (and RNB Property Management) may have been subjected to very negative publicity by being labelled by the media as slumlords in California. By taking the high road, RNB Property Management avoided humiliation and extremely bad press.

I am not saying that an owner should always pay for unnecessary expenses; I do, however, believe that taking the high road usually pays off in the long run.



# ENDING THE TENANCY

Ending the tenancy may seem very simple, but unfortunately it is anything but that. Even the best landlord/tenant relationships can go wrong if this step isn't completed correctly.

There are three reasons that a tenancy ends: **(1)** Your tenant has decided they do not want to continue living at the property, **(2)** You have decided that you no longer want the tenant living at the property, and **(3)** A lease with a pre-set date is about to expire without renewal (no holdover clause).

Your tenant is (or should be, depending on your lease agreement) required to give you 30 days written notice before vacating the unit. While we provide an 'Intent to Vacate' form that we strongly encourage our tenants to fill out, the 30 days begins as soon as they communicate to us (in writing) that they want to leave on the specified date.

The following items are very important to follow as part of a protocol when a tenant gives notice:

1. Require them to submit the notice in writing, as should be stipulated in your lease agreement. This is important to protect both you and the tenant. Also make sure that you receive (in writing) a forwarding address, as you will need this to send the return of the security deposit.
2. I suggest having a formal 'acknowledgement of notice to vacate' form. Again, this is just to make sure that all of your documentation is complete.
3. You are required to notify the tenant of their right to an initial move-out inspection, which is where the landlord/property manager goes to the property while the tenant still lives there (after notice is given), does a walkthrough, and points out items that need to be remedied before they vacate. You are required, with very specific statutorily required language, to provide in writing an itemized statement of deficiencies that allows the tenant to do the cleaning and/or repairs that they otherwise might not have done.

If it is the landlord/owner that is ending the tenancy, you will have to give one of two different types of notices: a 30 day notice to vacate if the tenant has not yet lived there for a year, or a 60 day notice to vacate if the tenant has lived there for a year or more. The notice to vacate does need to be in

accordance with the original lease terms. Doing this correctly is of the utmost importance, and I strongly suggest using the appropriate paperwork, as mentioned above. Although it is not legally required, I recommend retaining a copy of proof of service and – if mailed – a copy of the certified receipt. This is to avoid the possibility that the tenant claims they never received a notice to vacate. Also remember that under no circumstance can a 30 or 60 day notice to vacate be given with retaliatory or arbitrarily discriminatory intent.

### **Showings during the 30 day notice period**

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This was briefly mentioned in section 4, and I will elaborate here. If you plan to rent your property again after the current tenant vacates, you want to begin marketing it ASAP to minimize vacancy time. I recommend conducting showings while the former tenant still lives there, doing your best to cooperate with the occupant during this time. Once again, kindness goes a long way. Having to change residences is incredibly stressful, especially when the choice was not that of the person moving. Some occupants don't mind showings at all (which is great), but others put up a bit of a fight. A compromise that I have found works well is to request one weekday showing time that works, one weekend time that works and have those be the two, regularly scheduled, weekly showing times for the 30 day time period (for example, Thursday at 3:00 pm and Sunday at

Noon). We still always confirm showings with the occupant, and in this situation limit each showing to three parties. While the occupants may not love this situation, it will only last for a short period of time. Reassure the current tenants that the sooner you find a new tenant, the sooner you can stop showing the property and inconveniencing them.

If a tenant requests a pre-move out inspection (remember that they don't have to and often won't), that is usually a good sign. Tenants who value their security deposit will go to great lengths to get 100% of their deposit refunded. During the pre-move out inspection, document anything and everything you discover that is beyond normal wear and tear. Pay particular attention to those expensive items mentioned in the move-in inspection section. I suggest having a pre-written letter stating your expectations for their move out regarding maintenance, cleaning, and turning in keys followed by a list of items found during the pre-move out.

When the tenant actually does vacate the property, make sure that they give the keys to you or an employee/associate in person, so that the date and number of each key type turned in can be documented. Tenants frequently ask if they can 'leave the keys in a drawer', or something along those lines — the correct answer is 'no'. Your lease should state that possession is transferred once the keys are returned to the owner.



# **MOVE-OUT INSPECTION, MOVE-OUT MAINTENANCE, AND RETURNING THE SECURITY DEPOSIT**

So your tenant has moved out and returned the keys. It may seem like the landlord/tenant relationship is over, but the subsequent three weeks is often the period that causes the most headaches. Over the years, many property managers have told me that the move-out was far and away the most difficult part of the property management process.

As a rule, I recommend conducting the move-out inspection as quickly as possible after the tenant leaves. Most often, our company schedules the move-out inspection to be the day after the tenant vacates the premises. As a landlord, you have



21 days to identify necessary repairs, have them completed, balance out the costs against the security deposit and return the difference to the tenant. If you conducted a pre-move out inspection, this will speed up the move-out inspection. Be ready to contact your vendors immediately after the move-out inspection is completed to give them as much time as possible to resolve the necessary maintenance issues.

In the best case scenario, the tenant leaves the property in phenomenal shape, so you can return the full security deposit and rent the property again right away (if that is your intent). This is a win-win situation as you have very little work to do and the now former tenant gets their money back in a timely manner which, of course, makes everyone happy and reflects well upon you and your business. A less than ideal scenario is one in which upon conducting the move-out inspection you realize that the property is a mess, and you have a large amount of work to be done in 21 days.

The straightforwardness and effectiveness of your move-out inspection is directly correlated with the quality of the move-in inspection you completed at the beginning of the tenancy. Be aware of the expected lifespan which is often provided by the manufacturer for different features of the property. For example, perhaps the anticipated lifespan of the interior paint in your property is 2-3 years and the anticipated lifespan of the carpet is 7 years. This means that if a tenant has

lived in a property for 10 years, I would recommend against charging them for any wear and tear on the paint or carpet, as both have outlived their expected life. This is very important to keep in mind — **A tenant leaving does not give an owner a blank check to remodel their property at the tenant's expense.** The security deposit is only meant to cover damage beyond normal wear and tear.

If you have followed my recommendations, your move-in inspection should contain anywhere from 200 to 1500 photos of the property, taken in a sequential order, plus detailed notes on anything worth mentioning. The move-out inspection is basically the same process, referencing photos and notes taken during the move-in inspection. Any items damaged beyond reasonable wear and tear or areas of the property not cleaned appropriately should be noted on a list, and photos should be taken. You will want to have a before (move-in) and after (move-out) photo for every security deposit deduction to avoid any disputes with the tenants. If you are managing the property on behalf of an owner, that list should be sent to the owner immediately, along with your suggestions on what the owner should pay for and what should come out of the (former) tenant's security deposit.

From this point, this list should be sent to the appropriate contractor for repair after written approval from the property owner is obtained (if applicable). I will repeat this once again: **Do not wait until after the tenant has moved out to find a contractor; time is of the essence, and you will have very little**

**of it. That being said, do not schedule your contractor until you are certain the repairs are needed.**

The last step of the move-out process is to contact the local utility companies<sup>9</sup> to confirm that the former tenant has closed the accounts and paid in full. If this step is neglected, utility companies often come after the property owner rather than the former tenant. If there is a remaining balance, this bill can also be deducted from the security deposit (with proper documentation, of course).

Once the listed work is done, deduct the costs from the security deposit accordingly, document everything in detail, and send the former tenant a check with the remaining balance of the security deposit along with a ledger as to the work performed and itemized costs. Copies of any invoices or bills associated with charges taken from the tenant's security deposit must be included in this package of documents. The check needs to be postmarked within 21 days of the former tenant's last day at the property. I suggest keeping a copy of the certified mail receipt in case your tenant claims that you violated the 21-day requirement.

If the tenant is responsible for any work that cannot be completed within 21 days, the landlord may deduct the amount of a good faith estimate of the charges that will be incurred

9. This only needs to be done for the utilities that were not provided by the owner.

and provide that estimate with the itemized statement. I would encourage you to avoid this situation — if you have done your diligence and used your time effectively, you should be able to get everything done within the 21 day timeframe.

So, the check has been sent to the tenant and maintenance has been completed. Congratulations-you have just gone through the entire cycle of property management!



## SHOULD I DO IT ALL AGAIN?

How did it all go? Did you have any major problems? Did the tenancy bring about a return that you are content with? Did the tenant of your property stay there for a long period of time and were they happy with your relationship?

Sometimes everything is smooth as can be, and renting properties seems like the easiest way of making money in the world. You will hear some landlords wonder why anyone would hire a management company when managing their property directly seemed so straightforward and effortless. And sometimes, those landlords are right!

And then there are those other times. There are tenants who can be nightmares, causing all kinds of problems, though they may have looked great on paper during the application

process. There are those tenants who are simply not agreeable, who will threaten to take you to court over the smallest issue. If you take anything away from this book remember to document EVERYTHING in writing and with digital photos. No verbal agreements!

People are people — some are easy, and some are difficult. Some are complicated, and some are simple. Some are agreeable, and some dispute everything. Unfortunately, an online application or credit report says very little about an individual's personality. To further complicate the matter, 'home' is inherently a very emotional concept both for owners and renters. Remember that property management is an investment and a business; leave emotions and feelings at the door! As I continue to learn in this industry, I have found that I tend to have many repeat personality types and situations, and every repeat experience is easier than the last.

Managing real estate effectively takes quite a bit of time, energy, patience, and learning. I suggest thinking very strongly about whether or not it is worth your time to do it on your own, and if it is not something you can invest the energy and time into yourself, factor the price of a management company into your profit and loss statement and the value of your investment.

If you have had a great experience with rental properties, you don't need me to tell you that owning rental properties is a phenomenal way to increase your net worth. If you have

had a bad experience, you may want to give it another try and potentially change your approach. Often engaging a professional — while slightly reducing returns — can make the difference between a fantastic experience and a nightmarish one. Don't let one bad experience prevent you from realizing the long-term benefits of owning rental real estate.



# **CONCLUSION: IS HIRING A PROPERTY MANAGEMENT COMPANY WORTH IT?**

This is a question that I am asked often, and it inspires many people to have strong opinions. Unfortunately, it is quite a loaded question and one that does not have an easy answer. After reading the sections of this book, you will have gained knowledge of how to handle the situations that arise in most landlord-tenant relationships. As mentioned before, it is not my intention to cover every possible scenario that could occur. Such books do exist, and they are usually to the tune of 400-500 pages and are formatted more like a university textbook rather than a primer of this nature. I purchased my first investment property while working full time as an analyst for a commercial real estate investment brokerage. Even while working in real estate investment as my day job, I found it extremely difficult to



find the time to properly market my property, procure a tenant and deal with maintenance issues. I made it work, but I have never been able to conclude that it was fully worth the trouble.

Yes, property management companies can be expensive. I, however, believe it is extremely difficult to manage rental property while working full-time in another field. In this age of connectivity, tenants expect their landlords to be available at all times with a very short response time. As mentioned earlier, rapid response times are often even legislated. Will you be available for showings? Will you be able to respond to requests in a timely manner? Where will you find all of the necessary paperwork (lease forms, notices, etc)? Do you know who to call if there is an emergency at 3:00 am? Do you understand the potential consequences of responding to that emergency incorrectly? What if you go on vacation and something happens while you are gone? Do you have systems in place to conduct move-in & move-out inspections, and do you know how to avoid/prevent lawsuits from tenants who are not happy with their security deposit returns? Are you following the constantly changing set of laws regarding tenant/landlord relationships? You get the point.

If you have the time and energy to do all of this correctly on your own, then it may be a good idea for you to save the money that a management company would cost. That said, remember that the price of hiring a (good) management company can be much less than the financial price of making a mistake.

Like you, most of the owners who are clients of RNB Property Management are very capable and intelligent people. If they put their mind and attention to it, I have no doubt that they would be able to manage their real estate portfolios on their own. The reason they hire us is not because they couldn't do it, but rather because they realize their expertise lies in other areas. For example, a highly paid software engineer in San Francisco could very well decide that it is not worth their limited time or energy to manage a property on their own while RNB can take care of all the work for a relatively small percentage of their gross income. This individual may still want to be a part of the incredibly lucrative San Francisco real estate market but would rather pay someone else to do the work and deal with the headaches, nuances and legalities of an entirely new field. Rental property is not naturally a passive investment like stocks or bonds, but hiring a management company moves a property investment considerably toward being a passive, hands-off investment.

I have found that many of the people who are opposed to working with property management companies have strong opinions due to bad experiences. Like any industry or product, there are certainly many property management companies out there that give our industry a bad name. That said, there are also many excellent companies that make property investors' lives considerably easier. Knowing what to look for can make your search for a property management company much more efficient.

## **What To Look For In A Property Management Company**

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While this is not an exhaustive list by any means, it is important to consider the following factors when choosing a property management company. You will find that many of these factors have already been brought to your attention through this book.

- 1. Hours of operation, and times for showings.** Make sure that the company you hire does not only work and show properties Monday-Friday, 9-5. This is when the majority of potential tenants work, and that will make it very difficult for them to view your property. The more restrictive the hours of the management company, the higher your vacancy costs will be. My company, for example, is available 7 days a week. Our incentives are aligned with those of our clients — the sooner we rent a property, the higher the profit margins both for the owner and for RNB Property Management. Also make sure that the management company is willing to show the occupied property during the 30 day notice period. Many companies only show units when vacant, adding thousands of dollars to vacancy costs.
- 2. View online reviews with caution.** Online reviews can be deceptive in the industry of property management. While it is easy to look at a company and see that they have '4-stars' or '5-stars', I strongly recommend reading the actual reviews to gain context. It is very common in this industry for a tenant to leave a negative review of a management company for

reasons that have nothing to do with the company's work. For example, a tenant can leave a negative review for the management company for items such as rent raises, or an owner not agreeing to modify/upgrade the rental unit. While the tenant may be upset and leave a bad review for the management company, the dispute is actually based on the owner's decision. The management company is simply relaying information and should not be held responsible for the decision of the owner provided it is following local laws.

- 3. Gauge the response time of the management company from a potential tenant's perspective.** I strongly recommend reaching out to the management company to see if they pick up their phone, respond to emails, and return phone calls. If you reach out and tell them you are a property owner, they will most likely respond right away, as they want to increase their number of owner accounts. What you really want to know is how well they respond to potential tenants. Look online to see if they have a property listed and contact them with a question about the listing. If you do this, you will see how quickly they respond to people who would not be their direct clients. How they respond to you as a potential renter is the same way they will respond to potential tenants of your property. If they do not follow up within 24 hours, then you have an obvious issue. If you want to take it a step further, I might even suggest scheduling a showing with them. See how they present the property.

Are they on time? Are they professional? Do they properly answer questions about the property? Remember that the way they represent another person's property is the way they will represent yours.

4. **Make sure the company is transparent regarding the management agreement & fees.** Unfortunately, the property management industry has a reputation for charging owners hidden fees and for nickel-and-diming clients. Make sure you understand if there are fees for fine print items. A common fee is a markup on normal maintenance and repair fees, and owners often do not find out about this until after they are billed. Another common problem is that some management companies collect a 10% fee from vendors for their work (virtually a 'finders fee'); when this happens, the vendors regularly up their rate and charge the property owner more, and the owner might never be aware of their vendor's increased fee. RNB Property Management does not conduct any of these practices, and I would consider any of them a red flag in your search.
5. **Understand the contract term that you are committing to.** Make sure you are clear about the term requirement of the management company. Our company agreement is month-to-month rather than annual. I personally would not want to enter a year-long contract with any company for residential management. At risk is more than just the price you pay for their services; at risk is the potential rental

income of your property. Do you want to be stuck with an ineffective company in the management of a 5-6 figure annual revenue source?

6. **Find out if their maintenance team is in-house or if they work with 3rd party vendors.** Similar to item number 4, in-house vendors open the door to the owner being taken advantage of. If a company is going to make money off maintenance repairs, they may be motivated to find problems. They also have an incentive to charge owners above-market prices for services whose prices owners may not be aware of. If the company does not get paid for maintenance jobs, they will have no incentive to fabricate jobs that are not necessary or associate services with above-market rates.
7. **Marketing photos & Marketing information.** How complete, thorough, and organized is the information for their company and the properties they have listed? This is easily assessed by examining their webpage. If they do not have a strong online presence, I would not suggest working with them. The vast majority of housing searches, scheduling of maintenance issues and repairs, application processes, etc, are done online. A company's level of organization and attention to detail will tell you a lot about the company. Remember-this is the company that will be looking after your investment!

- 8. Be wary of 'Jack-of-All-Trade' companies.** While real estate sales, property management, and mortgage offices all fall under the umbrella of real estate, each is its own animal, and they actually have very little in common (other than the required licenses). I strongly suggest hiring a company that focuses SOLELY on property management. Outside of the company having a clear specialization and focus, this will also ensure that the company doesn't have false incentives to sell you an unwanted service. When a property owner I work with chooses to sell their property, refinance, etc, I refer them to a specialist who does just that. I have a strong network of people that I work with, and I am also aware of where my skill set and expertise lies.
- 9. Service Area.** I recommend working with a company/office that specializes in a specifically defined area. This will help to ensure that they know their market and that they are not spread too thin. While Real Estate Licenses allow you to work state-wide<sup>10</sup>, you want to work with someone who is a specialist in the area and market of your property.

While the above list is not comprehensive, it provides some basic principles to follow when choosing a property management company. I have included an 'Interviewing Property Management Companies' questionnaire in the online

10. Some state licenses even have a reciprocal agreement that allows you to work across multiple states.

resources section of this book, which I strongly suggest you utilize when determining which property management company best suits your needs and investment goals.



## ABOUT THE AUTHOR

Kaveh Gorgani began his career in real estate shortly after graduating from the University of California, Davis in 2004. His first career real estate position was at a commercial real estate investment brokerage in Palo Alto, CA where he focused on providing analytics for the senior vice president of the national multi-family housing department. Kaveh then assisted with the opening of the original RNB Property Management Office in Rocklin, CA in 2007. Since that time, Kaveh has acquired multiple real estate properties in the Bay Area and has managed over a thousand residential units, primarily in San Francisco, Marin, Sacramento & Placer Counties. Kaveh is currently the manager of RNB Property Management Golden Gate, which is headquartered in Sausalito, California.

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