On Becoming a Landlord!

During the last month or so, I have run into six different people, all of whom are giving serious consideration to the idea of purchasing property as an investment. The overall plan for each of them is to get in on the ground floor now, acquiring a unit or units, the "plan" being to benefit financially from the anticipated appreciation in the property's value. It appears that they have all bought into the now generally held confidence in the local economy; and they believe their plan will insure them a positive outcome and at least a tiny piece of the action.

There's no doubt that for the most part, real estate values improve over time. And there's even less that within the capital city and outlying areas, prices will increase significantly over the next few years. But owning a second, third or more properties is not just about getting richer; particularly in the short term. Ultimately it's about becoming a landlord. That's a role which is accompanied by both risks and time commitments. Additionally there's also the prospect that the current boom will in fact become a bust; which places you in quite a different and precarious position. After all, empty apartments do not generate incomes but they certainly bring on costs. Furthermore, a long-term dry spell, or a serious decline in local economic conditions has the potential to cause personal financial havoc. I recall working with one couple who held six houses with a total of 15 apartments back in 1995. By 1999, six of the fifteen were vacant; one had been for eleven months. Consequently the mortgages on all units were in arrears and mortgage holders had commenced with foreclosure. Eventually the couple lost all the houses along with the equity which had grown in each. Most noteworthy, their own house, which had been heavily mortgaged to support the other six, was slipping as well. And they owed just over $60,000 in other loans, the bulk of which had been used to support, you guessed it; mortgage payments and to carry out repairs and maintenance. To avoid forfeiting their own home to the bank, we found ourselves negotiating with their creditors and establishing a Debt Repayment Program. Over the next five years these folks paid off their debt. But, their hope of being able to eventually liquidate six houses and to pocket a total of $500,000.00 by their 60th birthday when they planned to retire was dashed. They will likely never recover from the financial calamity.

So if you're looking to buy as a means of securing your future, you need to ask yourself some key questions before jumping in with both feet. Start by talking the prospect out for a long time, particularly with your partner. After all, your decision affects two lives.

You need to ask yourself.

- Do you have what it takes to be a landlord? How much time will go into managing the property, and do you have that time? Are you "handy"; a "Ms. or Mr. Fix-it" if you like, or will you have to farm out all repairs and renovations? Could you evict a tenant who fails to pay rent on time and yet still sleep at night? Are you willing to be "on call"? This is a particularly important question if you intend to purchase a number of units.
- How big a financial risk are you prepared to take? What are the financial consequents if your venture fails? Do you have a recovery plan? What exactly are you risking; your own savings or your children's education fund, or both for example?
- Do you have a plan for long periods of vacancy? Can you support mortgage payments from other income sources during these periods. Have you a strategy to deal with a catastrophe like a tenant who destroys one of your units and makes it un-rentable for several months? There's out of pock costs to consider in these instances as well.
- How much do you know about legislation governing matters relating to landlords and tenants? What are the municipality's requirements, including health, fire, and safety considerations?
- What are the financial consequences in personal terms? You'll begin generating an income from your investment almost right away. While expense such as mortgage interest, taxes and insurance can be written off, any "profit" you make is taxable each year. So ask yourself if you have access to good tax advise and information before you jump in.
- And finally, ask yourself what your gut is telling you. Your gut knows you better than anyone. Listen to it closely.

Upon the reflection of all these points, you may have a good, even comfortable feeling around the notion of becoming someone's landlord. If so, then plod on; most likely you will do well. But if your apprehensions out-weigh your enthusiasm; well - maybe its time for a sober second thought. And maybe you need to find another way to get in on "the Boom".

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