

This is a sample chapter from “Renting Out Your Property For Dummies” supplied to LandlordZONE by John Wiley & Sons Ltd, publishers of the Dummies series of books.

Do You Have What It Takes to Manage a Buy-to-let Property?

In This Chapter

- * Being aware of the advantages of owning rental property
 - * Identifying the differences between owning property and managing it
 - * Assessing your own management skills
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Congratulations! Either you already own rental property or you’ve made the decision to buy. Property is great whether you’re looking for a steady supplement to your retirement income or a secure financial future. Most buy-to-let landlords want to become financially independent, and property is a proven investment strategy for achieving that goal.

But after you sign your name on the dotted line and officially enter the world of owning rental property, you face some tough decisions. One of the very first concerns is who will handle the day-to-day management of your rental property. You have properties to lease, rents to collect, tenant complaints to respond to, and a whole host of property management issues to deal with. So you need to determine whether you have what it takes to manage your own buy-to-let property or whether you should hire and oversee a letting agent. In this chapter, we give you the low-

down on some of the advantages of owning rental property. Then we'll help you assess whether you have what it takes to manage your own property.

Recognising the Advantages of Owning Rental Property

A great advantage to building wealth through property is the ability to use other people's money - both for the initial purchase of the rental property and for the ongoing expenses.

The wide availability and low rates of interest on buy-to-let mortgages makes buying a second property a viable and realistic option for virtually everyone. Most people raise a deposit and then borrow the rest of the cash from a mortgage lender.

<Warning>

The deposit required for a buy-to-let mortgage tends to be higher than that needed for a "regular" mortgage. Expect to pay at least 20 per cent of the purchase price, depending on the lender.

<Technical Stuff>

The ability to control significant property assets with only a small cash investment is one of the best reasons to invest in bricks and mortar. For example, you may have purchased a £100,000 buy-to-let property with a £20,000 cash deposit and a mortgage for the remaining £80,000. If the property's value doubles in the next decade and you sell it for £200,000, you will have turned your £20,000 cash investment into a £100,000 profit. This is an example of *capital appreciation*, where you are able to earn a return not only on your cash investment but also on the entire value of the property.

Rental property also offers you the opportunity to pay off your mortgage using your tenant's money. If you've been prudent in purchasing a well-located rental property in a stable area, you'll have enough income to pay the interest on your mortgage, as well as all the expenses, utilities, maintenance, taxes, and insurance. Each month your property should be appreciating in value while your tenant is essentially paying all your expenses, including the interest on your mortgage.

Your lender and tenant aren't the only ones who can help you with the purchase of your rental investment property. Even the government is willing to offer its money to help your cash flow and encourage more people to become landlords. In calculating

your income tax obligations each year, the government allows buy-to-let landlords to offset their income against interest payments on their mortgage and certain expenses. For example, you can claim 10 percent of the annual rent for wear and tear on fixtures and fittings in furnished properties.

Over time, you will generally find that your rental income outstrips your operating expenses. And after your tenants have finished paying your mortgage for you, you'll suddenly find that you have a *positive* cash flow - in other words, you're making a profit.

Being Honest with Yourself about Your Skills and Experience

One of the first steps in determining whether to completely self-manage your rental property or delegate some or all of the duties to other people is to analyse your own skills and experience. Many very successful property owners find that they're better suited to deal-making, so they leave the day-to-day management for someone else. This decision is a personal one, but you can make it more easily by thinking about some of the specifics of managing property.

Property management requires basic skills, including marketing management, accounting, and people skills. You don't need a university degree or a lot of experience to get started, and you're sure to pick up all kinds of ideas of ways to do things better along the way.

<Tip>

Examine your own personality. Are you a people person? Serving as a landlord is a labour of love; you must love people, you must love working with your hands, you must love solving problems. Most of all, you must be able to do all this without getting much in the way of appreciation.

<Warning>

If you're impatient or easily manipulated, you aren't suited to being a property manager. Conveying a professional demeanour to your tenants is important. You want them to see you as someone who will take responsibility for the condition of the property. You must also insist that tenants live up to their part of the deal, pay their rent regularly, and refrain from causing unreasonable damage to your property.

People who need people: Putting your interpersonal skills to the test

<Tip>

Whether you're confident you have what it takes to be a good manager of rental property or you're still not sure, take stock of yourself and your abilities by answering these questions. Interview yourself as though you were a job applicant. Ask the tough questions. And more important, answer honestly.

- * Are you a people person who enjoys working with others?
- * Are you able to keep your emotions in check and out of your business decisions?
- * Are you a patient and reasonably tolerant person?
- * Do you have the temperament to handle problems, respond to complaints, and service requests in a positive and rational manner?
- * Are you well organised in your daily routine?
- * Do you have strong time-management skills?
- * Are you meticulous with your paperwork?
- * Do you have basic accounting skills?
- * Do you have maintenance and repair abilities?
- * Are you willing to work and take phone calls on evenings and weekends?
- * Do you have sales skills?
- * Are you a good negotiator?
- * Are you willing to commit the time and effort required to determine the right rent for your property?
- * Are you familiar with or willing to find out about the laws affecting property management?
- * Are you willing to consistently and fairly enforce all property rules and rental policies?
- * Are you interested in finding out more about property management?
- * Are you willing to make the commitment to being your own property manager?

Ideally, you answered yes to each of these questions. This assessment is not scientific of course, but it does raise some important issues, particularly the level of commitment that you need to succeed as a rental property manager.

You need to be fair, firm, and friendly to all potential tenants and those who do actually become your tenants. Treat everyone impartially and remain patient and calm under stress. Be determined and unemotional in enforcing rent collection and your policies and rules. And maintain a positive attitude through it all. Not as simple as it looks, is it?

Even if you didn't answer with an enthusiastic "yes" to all the questions in this section, you may still make a good rental property manager if you're prepared to be flexible. Learn from your property management experiences. The really good property managers graduated from the school of hard knocks. The following sections give an overview of the key skills you need to manage your property effectively.

<Tip>

If your assessment revealed that your skills may be better served doing something other than managing your own property, turn to Chapter 2 for some alternatives. Owning rental property can still be a great investment, even if you don't manage it yourself.

Making sure you have good management skills

Good management leads to good financial results. Having tenants who pay on time, stay for several years, and treat the property and their neighbours with respect is the key to profitable property management. But, like most things, it's easier said than done. One of the greatest deterrents to financial independence through investing in rental property is the fear of management and dealing with tenants.

If you choose the wrong tenant or fail to address certain maintenance issues, your buy-to-let investment may turn into a costly nightmare. By doing your homework in advance, you can reduce those beginners' mistakes. Experience is a great teacher - if you can afford the lessons.

If you already own your *own* home, then you already have some basic knowledge about the ins and outs of owning and maintaining property. The question then becomes how to translate that knowledge into managing *rental* property.

Delegating management activities

As a landlord, you may choose to handle many responsibilities while delegating some of them to others. Look at your own set of skills to determine which items you should delegate. A contractor

may be able to handle the maintenance of your rental property and grounds more efficiently and effectively than you can.

The skills you need to successfully manage your own rental properties are different from the skills you need to handle your own property maintenance. Most buy-to-let landlords find that using trusted and reasonably priced contractors can be a valuable option in the long run.

Ultimately, you can delegate all the management activities to a professional letting agent. But hiring a letting agent doesn't mean you're off the hook. Depending on the arrangement you have with your letting agent, you may still oversee the big picture. Most letting agents need and seek the input of the property owner before they start so that they can develop a property management plan that meets the owner's investment goals.

Keep in mind that no one will ever manage your rental property like you will. After all, you're more motivated than anyone else to watch out for your buy-to-let investment interests. Only *you* will work through the night painting your property for the new tenant moving in the next day. And who else would spend her vacation looking through the local newspaper classifieds for creative ad ideas?

Start by being honest with yourself. Know your strengths and your weaknesses as a property manager. You may find that you're able to do the job but wind up with frazzled nerves when you do. If you're not truly excited and challenged by handling your own property management tasks, then you're not likely to have success in the long run.

You may find that a letting agent can run the property more competently than you can. Many buy-to-let landlords possess the necessary skills and personality to efficiently and effectively manage their rental properties, but they have other skills or interests that are more financially rewarding or enjoyable. Hiring professionals and supervising them is often the best possible option.

Recognising how well you manage your time

If you're like most buy-to-let landlords, managing your property is a part-time job. You can handle calls from the tenant, collect the rent, show the property to prospective tenants, and even perform most maintenance in the early evenings or on weekends. The challenge is finding the time required to do this. The good news is that the time required to be a landlord is in your control.

If you develop proper skills in marketing, tenant screening and tenant selection, you can greatly reduce the amount of time you

spend managing your rental property. You also have to work smart or you may find that your time is better spent in other areas than management.

<Tip>

You can save a lot of time by asking your tenants to pay their rent by direct debit each month, with the money transferred straight into your bank account. A cheque in the post is also acceptable but not as convenient. The days of actually collecting the rent in person from the tenant are, thankfully, in the past.

<Tip>

Many of your contractors and suppliers will want to be paid immediately. But you can be more efficient and save time if you have a policy of paying all your invoices at the end of each month.

Time management is really about evaluating how much time you have and then looking for ways to streamline your tasks so that you make the best use of your time.

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The book is a comprehensive guide to the whole process of renting out property. It’s brim full of practical advice based on years of letting experience. In our opinion this new UK edition of a long-established US title is an absolute must for the bookshelf of serious landlords, novice and experienced alike. We can highly recommend it.