

# **The Only Apartment Investing Book You'll Ever Need**

***The Exact Steps To Building  
Wealth Through Apartment  
Investing That Anyone Can  
Follow.***

**Andrew James & Morgan Johnson**

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## **Introduction: Why Invest in Apartment Buildings?**

Investing in apartment buildings can provide you with excellent cash flow and profit one time. It is the “big leagues” of real estate investing apart from commercial building purchase and investment. Returns from apartment building investments can be sky high as each building has numerous renters, resulting in excellent cash flow for you every single month. In some sense, investing in multi-family units can be considered the ‘gold standard’ in real estate investing. Investing in real estate can also help you become financially independent and to retire early.

The primary barrier to entry is the upfront cash that is needed. Investors will need to be able to put down a

payment of \$100,000 or more to invest in a sizable property and large apartment buildings can cost \$1 million or up. When you are ready to buy an apartment building, you will want to have access to an experienced real estate professional who can guide you through the process. This book will give you an overview of the entire process so you are prepared and know what you will need, the opportunities and risks involved and how to get started.

When purchasing and investing in an apartment building, you will want to pay attention to the risk-adjusted return or the amount of money that you expect to make depending upon the risk you have taken. Most apartment buildings have a good risk-adjusted return where you gain a profit that exceeds any risk you take on. In general, investing in apartment buildings is a good investment, but it is important to note, that every apartment building that you see is not always the right investment for you.

Evaluating an apartment building prior to purchase and investment is important. You will want to take into

consideration numerous factors such as the condition of the property, the price in comparison to other properties, local real estate trends, rental demand in the area, employment rates and more.

One good thing about investing in apartment buildings is that people always need a place to live. Renting is often the most affordable option. With high demand for apartments all over the country, rental income is reliable and steady.

### **How Much Money Can You Make Investing in Apartment Buildings?**

According to Reonomy, the average value of multi-family properties average is \$764,477. The average sales price is \$1,804,625. The median sales price is \$236,222. The average price per square foot is \$1,154.

Investing in apartment buildings can be very lucrative. How much you make depends upon the property value and the net operating income. While the initial cash you have to put upfront is sizable, you can make a good profit if the rent

prices exceed mortgage payments and costs. There are other costs to consider as well such as maintenance and repair or if you have unexpected vacancies. You can make money by owning an apartment complex in two principal ways — by renting and selling.

How much money you make from rent is called the Net Operating Income or NOI. You get this number by taking your total rent payments and subtracting the operating expenses from them. For example, if you received \$300,000 in rent a year and then have expenses of \$150,000, your NOI is \$150,000. Also if you have a mortgage, you will need to subtract that too before you get your final NOI figure.

The higher your NOI, the more money you make. Hence choosing a good real estate investment is key. For example, investing in a real estate apartment complex in New York City could give you several millions of dollars a year while you get less in smaller cities but also invest less as well.

Unlike a vehicle, real estate property is an appreciating asset that builds over time. Your investment grows and when you

are ready to sell, you can sell your stake or ownership of a building for a profit. You can also reinvest your cash in a new investment property by using the IRS Form 1031 that helps you save some money on taxes.

While investing in apartment buildings is a significant investment that goes beyond just cash outlay to ongoing maintenance and repairs as well as management of tenants, the return on investment is also considerable and consistent. In this book, we'll explore the fundamentals from the steps involved in purchasing and investing in your apartment building to screening tenants and choosing the right property for you.

We'll also discuss the essentials of how to buy an apartment building in detail. There are five key steps to remember, which will make the whole process seem more manageable and easier to begin.

### **1. Is owning an apartment building right for you?**

This basic question is important to answer right away

before you invest to ensure that you are making the right decision for you. Whether you are purchasing your first apartment building or are building a portfolio, it is important that you make sure that investing in apartment buildings is right for you. You will need to consider various factors ranging from cost to time, maintenance fees, management and more. Owning an apartment building includes paying for the initial capital outlay, on-going cash for managing units, marketing, repairs and regular maintenance as well as tax. You will also need to be prepared to manage related costs such as finding good tenants, managing them and dealing with turnover, all related paperwork and maintenance issues.

## **2. What type of apartment building is right for you?**

There are all kinds of apartments available today for investing from small Victorian mansions that are divided into multiple units to modern multi-story

buildings. What is right for you? Making your decision just based on whether you like the property's aesthetics is foolhardy. Make sure you cover the fundamentals of your investment — how much you can afford to buy, what types of buildings offer an excellent return on investment and how much repairs cost. Also if you use the services of a real estate agent, you will want to factor in the cost of the fee involved.

### **3. Identify a property you like.**

After you have determined the type of apartment complex you want to own, it is time for you to find it. Get help from a professional real estate agent to get a comprehensive listing of all suitable properties that meet your criteria in the area and also learn about any in-demand features. You can also search online and via local papers. You can also learn about upcoming investments by joining a regional real estate investing club or organization.

#### **4. Do your due diligence.**

It is important that you check out your property before you buy it. Get a proper inspection to check any areas that need to be repaired. Obtain prior leases, tax returns and legal documents from the seller so that you can fully understand the property's value and any problems. You will also want to analyze the deal in detail, considering factors such as the location, the number of units, the building's condition and any amenities or in-demand features. Then you can figure out how much to charge for rent and how much to spend on repairs and maintenance. You will want to know how much it costs to maintain the property ongoing and how much this will affect your cash flow. The location of the property is also impacted by social and economic factors that will affect the rental rate, occupancy rate, resale value and profitability.

## **5. Make an offer, finance and close the deal.**

Once you have found a suitable property and inspected it and determined that it is a good investment opportunity, it is time to make an offer. You can make an offer based on market analysis where you figure out how much it would cost to own a building of similar value.

You can pay for the property with cash, cash and loans or just loans. Lenders can vary in their requirements so be sure to check first before signing on any dotted line as lenders often ask for cash reserves and charge interest. They may also prefer certain properties with known market resale value and high occupancy rates. Commercial lenders typically focus on the income value of the property Moree than the personal finances and credit history of the investor.

Once you have determined your financing method, pay for the property and close the deal.

You are now a business owner of an apartment building! Congratulations. In the next section, we will explore in more depth some of the benefits of apartment investing.

## **Benefits of Apartment Investing**

The demand for apartment buildings is huge today and continues to grow. Renting has continued to grow sharply across all age groups and demographics over the last decade, according to [an extensive study by Harvard](http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/ahr_2013_01-intro.pdf) ([http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/ahr\\_2013\\_01-intro.pdf](http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/ahr_2013_01-intro.pdf)). This trend is not limited to young people fresh out of high school or college, but also is very popular for families with children. Fueled by the collapse of the housing market, the Recession of 2008 and fluctuating income and employment levels, apartment renting has steadily gone up over the last eleven years.

Data pulled from Harvard University's Joint Center for Housing Studies, between 2004 and 2013 has revealed that

Millennials, followed by Baby Boomers, are increasingly renting instead of buying. Millennials have been named “Generation rent” and are expected to drive apartment renting demand through 2024. Roughly 10,000 Baby Boomers are turning 65 years old almost every day for the next decade, and many of these people are turning towards apartment living for their housing. Renting has continued to rise among the Generation X population as well, with most renters around the age of 40 or older, and a rising trend for people aged 50 to 75. While assert Millennials are interested in homeownership, many have too much debt to pursue it.

At the same time, investing in apartment renting has gone up among both income investors and retirees. [Deloitte's Commercial Real Estate Outlook](#)

(<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/financial-services/us-fsi-dcfs-2019-cre-outlook.pdf>) for 2019 revealed a ton of information about real investment strategy based upon a detailed survey of 500 global commercial real estate investors that asked them what

factors will drive their investment decisions over the course of the next 18 months. 97 percent of the real estate investment trust (REIT) investors surveyed said they would increase their investments in real estate. This is happening despite concerns about tax changes, trade tariffs, Brexit and interest rates.

Purchasing an apartment building for future rentals is simpler and easier than buying office buildings or shopping centers with lenders. Lenders actually typically love apartment lending. Apartment investing is considered low to medium risk with a steady and consistent income stream.

1. Cash Flow and Expected Returns
2. Passive Income Source
3. Tax Benefits

### **Cash Flow and Expected Returns**

Apartment investing offers a way of earning steady, relatively secure high income that is not volatile, predictable, consistent and protects against inflation. You can expect 10-15% annual returns.

Having a multi-family family is more profitable than a single family unit as it offers greater cash flow through several units and the risk of vacancies is lower as there are more units to pay the rent.

As mentioned above, the underwriting process and loan qualifications for buildings with more than two units are often the same as those for single family dwellings. Buildings with more than four units are considered commercial properties and are financed by commercial loans. You also have the opportunity to sell properties to buyers who are both owners and occupants as well as investors.

## **Passive Income**

Passive income is essentially considered money you earn while you are doing something else — whether you are running another business, have a job, take care of the family at home or are retired. Passive income is a very appealing way to bring in income on a regular basis, though not many achieve it.

Passive income can be earned through apartment investing, which in turn functions as a vehicle for your financial freedom. You achieve financial freedom when your passive income exceeds your living expenses. Passive income is income that does not require constant care and your full attention. It is income you can earn while you are on vacation or taking a break. The system is in place to earn you money essentially while you are away.

How much passive income you need or want is up to you and depends upon your own living expenses and goals. Investing in apartment buildings (and other commercial properties) can be a great way to achieve financial freedom. You can receive monthly passive in-come from apartment renting indefinitely (or as long as you own the building and have tenants).

Real estate ownership has been avoided by some because of the fear of having to actively manage a property and becoming the dreaded landlord who has to worry constantly about the “terrible three T’s” or tenants, toilets and trash.

When you manage your own property yourself, you would become the go-to person for all property concerns and may get phone calls at 2 a.m. to fix problems. But you do not have to be a landlord to benefit from passive income strategies through apartment investing. You can have a manager on site or hire a management company to manage your entire property rental.

You can earn a lot of passive income from apartment investing and real estate in general if you successfully buy, operate and manage your real estate portfolio. Your success comes down to your knowledge and application of that knowledge.

You can also own a fractional stake or be a limited partner for a real estate investment, thus sharing the risks and rewards with other investors and usually hiring a management firm to manage your properties. Thus you can benefit from the real estate acquisition and rentals without having to worry about daily management. You enjoy the

cash flow, tax benefits, appreciation and amortization benefits. Your goal as a passive investor is to create stable streams of passive income and equity growth without the headaches of management.

The Internal Revenue Service (IRS) designates three categories of income — portfolio income, active or earned income and passive income. Portfolio income is income from royalties, capital gains, dividends and investments that are not considered passive. Active or earned income is income from working a job or running a business. Passive income is income derived from rentals or trade or business activity that you do not materially participate in. Of these methods, passive income is typically taxed the least amount, while earned income is taxed the most.

Passive income can be earned while you sleep. Passive income unlike earned income is money working for you instead of you working for money. Passive income gives you more time to do the things you love.

Passive investments in commercial multifamily real estate offers a proven way to invest in real estate without being a landlord and enjoying a stable stream of passive income that comes with tax advantages. This frees you up to do the things in life that matter most to you.

While single family home rental properties can offer good returns, they require significant upkeep and can be affected greatly by vacancy, resulting in the owner struggling to meet mortgage and other payments if the building is not fully occupied. Owning a multifamily real estate property on the other hand, lowers the risk and helps you expand your real estate income earning potential.

### **Benefits of Passive Investing in Multifamily Real Estate Investing**

Having a multifamily real estate investment offers real passive investing successfully and offers the investor the peace of mind that the success will continue no matter what happens in the real estate market. This is because apartments are always in demand and increasingly so. This

business model is tried and true and brings consistent revenue again and again.

Some investors hesitate to enter multifamily real estate investing because they lack direct experience and knowledge. However when you invest passively, you rely upon the expertise of real estate investment professionals if you do it collaboratively and if you do it with the help of an agent and use a management professional to run the property.

A real estate limited partnership gives you, the real estate investor, the benefit from the return on investment that comes with owning rental properties, without having to worry about the day to day rental property management. Sometimes, the property management company also acts as the general partner in a limited partnership. This means they also have a vested interest in it working out successfully. They handle the rental property management. They also offer partnership equity for the real estate investment. You as the real estate investor who join a limited partnership will

finance the investment property. You receive consistent, passive income in the form of cash flow from the investment property.

The limited liability also means that you are only liable for the property value if the investment does not work out. This reduces your risk.

Also several real estate investors use turnkey property companies for passive investing in single family homes. You can extend this to rental properties too. It helps to first locate a turnkey property company that gets multifamily homes ready and also offers ongoing rental management services.

You can work with a professional real estate agent or company that will help you first locate a range of suitable properties. Then you narrow down the list and determine which one is right for you. You can also do your own research to complement this and then do your due diligence before you commit. With the support of a professional agent you can find an excellent investment property for multifamily real estate investing.

When you have got professional property management services from a company also, you no longer need to worry about becoming a landlord or all the headaches that come with direct management and supervision of your property. You pay a fee to this company and in return you are free of the headaches and daily management. Thus you can genuinely earn passive income.

AirBnB apartments have become an excellent stream of income for multi-family real estate investing. These apartments are typically well managed by successful real estate investors.

Your passive income increases significantly when your investment increases and goes beyond one building to a multi-dwelling unit (MDU), which is residential housing consisting of two or more units under one roof or several buildings in an apartment complex. There are many variations of this, ranging from duplexes to townhouses and condos. Each unit typically is self-sufficient with its own living area, kitchen, bathroom and bedroom. Owning a multifamily

property involves owning the property and the land on one recorded deed. These properties offer steady monthly income and steady appreciation.

There are many advantages of owning a multifamily property such as bigger cash flow, control over value, larger pool of tenants and scalability.

### **Bigger Cash Flow:**

Investing in a multifamily property produces multiple forms of monthly income and more than owning a single-family unit.

### **Control Over Value:**

Multifamily properties offer more units, which enable you to earn multiple streams of income. These properties increase in value as they receive more income over time.

### **Larger Pool Of Tenants:**

Having a multifamily unit also lowers your risk as you are less worried about low occupancy rates compared to smaller

units. You have more tenants and your risk is lower. This reduces the total economic loss for investors.

**Scalability:**

You can scale up much easier with a multifamily investment and grow your real estate investment portfolio faster.

While investing in multifamily properties takes effort to get it set up and managed right, the effort is worthwhile as you set yourself up for ongoing passive income retirement investing. It is important to find the right properties to invest in and you can do this best by doing the research, crunching the numbers and evaluating the property well instead of going on the aesthetics alone or the friendliness of the seller — both appealing qualities but should not be the sole determinants of your investment choice. It is important to know when to walk away from a deal as much as when to embrace one.

## **REIT**

An REIT (real estate investment trust) offers you a way of owning an interest in a portfolio of anywhere from ten to 100 properties or more. Your risk is lowered as you are part of a group. Also by law, an REIT has to pay out 90 percent of net income in dividends to shareholders. This means that you will earn consistent income from a passive investment.

REITs are publicly listed and you can buy and sell trades online easily. They are liquid and easy to move around. This is different from a rental that is not liquid and can involve up to 10 percent in transaction costs per day. Long-term, REITs have outperformed private real estate by as much as 4 percent per year due to advantages of scalability, cost efficiencies, higher cash flow growth and better management practices.

## **Tax Benefits**

Passive income from commercial multifamily real estate also offers significant tax benefits where you can defer taxes for years and in some cases, even eliminate all your taxes.

If you both own and occupy a multi-family dwelling, you can benefit from some additional tax advantages. Homeowners can get a tax exemption from capital gains taxes on the first \$250,000 from selling their primary residence. This goes up to \$500,000 for married sellers. In addition, you get tax advantages for any repairs you need to do. Holding a property more than one year as opposed to flipping real estate, you can enjoy ongoing consistent income and avoid taxes altogether when you occupy the property or end up paying a lower capitals gain rate if you own it but do not occupy it.

## **How Do You Make Money on Apartment Investments?**

Beginning in 2010 and lasting all the way through early 2018, the fallout from the housing crash and economic recession resulted in an imbalance in homeownership. This in turn, gave rise to an increase in apartment rental rates. While many economic factors may vary, people always need a place to live. This makes apartment building investment a smart choice because apartments are always in demand and even during the recession, did not drop significantly in price. Apartments are in fact, the most stable real estate purchase you can make!

The volatility of apartment buildings is a lot less than other forms of real estate purchase, making them ideal for smaller

and individual investors. Apartment buildings with more than four units are considered multi-family residential units. Apartment buildings often range from a minimum of seven to a maximum of 500 suites.

### **Net Operating Income or NOI**

The value of an apartment building is determined by its net operating income or NOI, which is the amount of income left after all expenses are paid. An apartment building that has more NOI is worth more.

For many buildings, the standard formula is the building is worth up to ten times its net operating income based on the cap rate of 10. We discuss what a cap rate is in greater detail later in the book, but for now, let's just focus on the overall NOI.

If a building has a net operating income of \$100,000, then it is worth \$1M. If you could increase the income by \$10,000 more each year, either through increasing individual tenant rents or by decreasing expenses, you can generate

\$100,000 in value (with a cap rate of 10). For our example, let us say that you bought a 10-unit building for \$540,000. You put 30 percent down of the down payment or \$160,000. The net operating income or NOI is \$54,000 per year and the cap rate is 10. The income per unit is \$1,000, and the expenses are 55 percent of the income. The building is well maintained and in great shape. The owner manages the property.

You however learn that the market rent in the area is \$200 higher per unit per month and you meet a property manager who manages three similar buildings who has expenses of only 45 percent of the income.

By simply improving the first building's financials through an increase of rental payment to \$1,200 a month and decreasing expenses from 55 to 45 percent of income, you can add as much as \$25,000 to your NOI every year for the next three years. This in turn means that your NOI total is \$79,000 and the property value is now at \$790,000! In

addition, you gained more monthly income (from \$2,600 to \$4,700) over those three years.

Your tenants also helped pay off up to \$21,500 of your mortgage balance too

<b>Cap Rate</b>	10%	10%
<b>Value</b>	\$540,000	\$792,000
<b>Appreciation</b>		\$252,000
<b>Reduced Principal</b>		\$21,456
<b>Combined Cash Flows</b>		\$10,980
<b>TOTAL PROFIT</b>		<b>\$284,436</b>

When you look at the numbers, your down payment was \$160,000, while your total profit is \$284,000 (if you were to sell the property after three years). You almost doubled your investment! You also got roughly \$3,500 per month in cash flow.

As you can see, investing in apartment buildings can be lucrative. You may not want to quit your job just yet but if you can buy a second or third building, you can easily get \$10,000 per month in income and almost a \$1M of profit in 3-5 years.

Owning an apartment building definitely involves work, but it is work that reaps you benefits for a long time. You could retire early, have extra cash for your family and your other goals and quit your job while enjoying a steady stream of income.

## **Best Cities for Investing**

Determining the best cities and locations to invest in apartment buildings is dependent upon several factors such as employment rates, population growth, occupancy rate, industry growths and current pricing. Some of the top markets today for investing in multifamily apartment properties include:

1. Los Angeles, CA
2. Seattle-Tacoma, WA
3. Boston, MA
4. Minneapolis-St. Paul, MN
5. Oakland, CA
6. Portland, OR

7. San Francisco, CA
8. San Jose, CA
9. San Diego, CA
10. New York City, NY

The famous real estate refrain – location, location, location – is famous for a reason! Location matters and raises the price of your rental property and the rent you can charge and attracts more viable tenants.

The best business model is one where you offer a product or service that is in high demand. A good location is a factor that will drive rental sales to your property and help you command higher rent with lower vacancy rates, long-standing tenants and good income.

You can explore potential areas for purchasing an apartment building by using [Google Maps](#) and also MSA ([Metropolitan Statistical Area](#)) data. You will also want to visit the area and see its walkability measured by [walkscore.com](#), access to public transportation, access to jobs, safety and amenities.

Is the number of jobs increasing in the area? What is the median salary? What type of jobs is available? Who are the major employers?

You will ideally want to find a location that has a good source of different jobs that pay well, a rising median salary and lower unemployment rate. You can learn more about the jobs in any area by exploring:

- BLS.gov – Federal agency that tracks job-related statistics and trends.
- Chamber of Commerce – The Chamber is an organization funded and run by local businesses.
- Comprehensive Plan – Most cities and counties create a comprehensive plan every 10 years and has a lot of data and trends about population, jobs, infrastructure and criteria like zoning and land planning.

- Comprehensive Annual Financial Report – This is a report created by a local government entity to outline the state of their finances.

## **Population Growth**

What is the population growth? People tend to move towards regions with better job prospects.

- U.S. Census Bureau – This agency studies population demographics.
- Google search using the term “[your location] population” — Google pulls census data to give you a population trend graph.

## **Price/Rent Ratio**

To calculate the price/rent ratio, take the median price divided by the median yearly rent in the area. The higher the price to rent ratio, the worse the market is for real estate investing. This ratio alone is not enough to judge a property

as other factors such as amenities, location, access to natural areas also drive demand.

- Zillow.com Local Market Report
- Local Price Reports – MLS (Multiple Listing Service)
- Local Rental Reports – Zillow.com also offers a lot of local rental data.

People choose areas to live often based on emotional factors as an area reminds them of something they love or appreciate or offers comfort in some way.

- Proximity to parks and green spaces where people can relax, stroll, and enjoy themselves
- Streets lined with mature, tall trees
- Sidewalk-lined boulevards
- Attractive commercial districts with interesting, local shops and restaurants
- Coffee shops, pubs, and microbreweries
- Beautiful views of water, mountains, and other scenery

## **Safety and Crime Rates**

How safe is the area at night, on the weekends and during the work day?

- City-data.com crime reports
- ADT Crime Map
- Trulia.com maps – use their mapping feature to search for crime by location

## **School Districts**

What kind of schools does the area have? This is likely to attract parents and families.

## **Public Transportation**

What type of public transit like buses, trolleys, trains, and subways is available? Google Transit uses Google Maps to share public transit routes around the world.

## **Neighborhood Covenants and HOA**

Some apartment complexes have rCCRs or recorded covenants, conditions and restrictions as to what can and cannot be done by residents. (CCRs) that indicate what can or can't be done by residents. Some neighborhoods do not allow rentals. It is best to check this before signing on the dotted line.

## **Local Laws, Finances, Taxes and Infrastructure**

Consider the local laws and taxes for your investment property. Are property taxes reasonable? What kind of municipal services are available — trash pick-up, leaf pickup, water/sewer access, police and fire service? Are there rental controls? Are there rental laws and license requirements? What eviction laws are in place?

## **Pros and Cons of Apartment Ownership and Investment**

There are several pros and cons associated with owning an apartment complex, and investors should make sure to familiarize themselves with each in order to fully appreciate the commitment they are about to make. Some may even describe being an apartment owner like having a career in itself, so investing in apartment buildings should be approached with vigilance.

### **Pros Of Investing In Apartment Buildings include:**

- Recurring rental income
- Diversifying income
- Lower per unit cost of maintenance

- Extra income
- Lower risk compared to single unit purchase
- Tax benefits
- Higher earning potential
- Dependable cash flow
- Appreciating asset

**Cons Of Investing In Apartment Buildings include:**

- Less tenant care
- Investing in an entire apartment building costs more than a single-family home
- Higher maintenance costs
- Higher tenant turnover rate
- Large down payment Intensive Management

# **Essential Factors to Consider When Buying an Apartment Building**

Before buying your apartment building, you will want to take a look at many variables. Also before you even decide instantly on a property type, consider the following factors so that you are doing thorough market and property research analysis like a pro.

## **Location**

Where is the property located? Location is paramount.

- Is the location suitable? If a location is declining, there may be a negative stigma to the apartment.
- Are there jobs in the area or nearby? Without any jobs, you will not have any tenants. Call the local

property management company and find out about the job market. Research it online. Ask your city's Chamber of Commerce.

## **Physical Structure**

What type of structure do you want to invest in. Each structure has its own benefits and challenges.

### **1. Quadplexes**

- Easy to acquire
- Plentiful in the market
- Excellent starting point for the new investor
- Requires on-site manager

### **2. Converted Motels**

- Motel conversion is a good way to buy smaller properties, which allow for easy conversion
- Unit sizes can be small
- Often located near major highways or high-traffic areas
- An opportunity to combine units
- Plentiful in today's marketplace

\_\_\_ Can be purchased below value or asking price because of adaptive reuse

### **3. Garden Style**

\_\_\_ Garden style apartments are usually one to four stories high with a courtyard.

\_\_\_ Solid starting place for beginning investors

\_\_\_ Usually have more units

\_\_\_ Plentiful in the marketplace

### **4. Manor House Style**

\_\_\_ Also called big house or Mansion style

\_\_\_ Modern version of the Garden style

\_\_\_ Found in more affluent areas

### **5. Multi-Building Attached or Detached Townhomes**

\_\_\_ Excellent opportunity for creative strategies

\_\_\_ Staged renovation

\_\_\_ Staged leasing

\_\_\_ Good conversion or subdivision prospect

## 6. Mid-Rise or High-Rise Buildings

- Typically more expensive because of more units
- Offer incredible economies of scale
- Usually high profile

### Property Classifications

What type of property is it by classification?

#### Lower-Income Properties

- Usually in downtown areas or first ring suburbs
- Often government-subsidized
- Usually suffering from physical and functional obsolescence
- High management intensity due to the property condition and fragile financial condition of the tenants
- Usually underserved population of tenants
- With sound management, often has strong growth potential
- Excellent potential for state, federal and local assistance for acquisition, renovation and ongoing management

### **Middle-Class and Blue-Collar Properties**

- \_\_\_ Scattered throughout the city
- \_\_\_ Client base is usually a mixture of white-collar, blue-collar and recently retired residents.
- \_\_\_ Moderate management intensity
- \_\_\_ High competition in the marketplace
- \_\_\_ Very competitive leasing environment

### **Luxury Properties**

- \_\_\_ Usually positioned in affluent areas or near amenity-based sites, such as golf courses, waterfront locations, scenic vistas, etc.
- \_\_\_ Client base usually composed of those that choose to live in an apartment for convenience
- \_\_\_ Usually high management intensity based upon the service level that tenants demand
- \_\_\_ Often strong competition, due to recent overbuilding in many metropolitan areas, as well as the current economic downturn
- \_\_\_ Little to negative anticipated rate growth

Apartments are classified on a scale from “A” to “D.” This helps investors decide what type of apartment building they would like to own.

Apartments move up in the class scale depending upon the quality, size, new factor and amenities offered. Older buildings cost less but also have more repairs and maintenance requirements. They may also have outdated appliances, fixtures, elevators and other concerns.

### **Class A Properties**

Class A apartment buildings typically consist of luxury rentals less than 10 years old, or older renovated buildings; garden, mid-rise, or high-rise buildings; amenities (e.g., pools, tennis courts, and clubhouses)

- The newest buildings
- Extremely functional and modern
- Feature modern amenities
- Often built using green building standards
- Well located

\_\_\_ Generally serve the luxury market, but not always

\_\_\_ Typically less than 10 years old

\_\_\_ Usually most expensive, on a per unit basis

### **Class B Properties**

Class B apartment buildings are up to 20 years old; generally well-maintained; may have amenities; and have facilities that are more dated than in Class A apartment buildings.

\_\_\_ Typically constructed within the last 15 to 30 years

\_\_\_ Condition varies based on how former owner maintained the property

\_\_\_ Usually serve middle income tenants

### **Class C Properties**

Class C apartment buildings are up to 30 years old with limited or no amenities and may have an apparent need for renovation and repair.

\_\_\_ Typically constructed within the last 30 to 50 years

\_\_\_ Generally composed of outmoded design styles

- \_\_\_ Functionally limited
- \_\_\_ Often serve lower-middle to low income tenants
- \_\_\_ If acquired properly, the highest potential for growth and increased property value

### **Class D Properties**

Class D apartment buildings are typically, over 30 years old; sometimes consist of low-income or subsidized housing; have few amenities; and have buildings that usually need renovations and repairs.

- \_\_\_ Typically constructed 30 to 100 years ago
- \_\_\_ Extreme functional obsolescence
- \_\_\_ Excessive deferred maintenance
- \_\_\_ Extreme management intensity
- \_\_\_ Very difficult tenant relations
- \_\_\_ Possible elements of drugs, prostitution and violence.
- \_\_\_ Personal safety concerns when visiting the property

By far, most real estate investors purchase class “B” and “C” properties because they cost less than “A” properties but do not need the repairs and management of “D” properties.

**Return on investment:**

What is your return on investment? How much profit will your building offer? This is dependent on many factors — property condition, rental income charged, occupancy rate, expenses and maintenance required. Larger buildings offer more income but also require more upfront investment and a property management company for day to day management.

**Construction Details:**

Be sure to become very familiar with your property’s construction. You will want to look at old roofing. Flat roofs often cause many problems and leaks. What kind of frame does your building have? Wood frames can have rot and paint issues and be prone to fires.

What kind of plumbing does your building have? If the building is more than 30 years old and the plumbing has

never been replaced, be prepared for frequent plumbing repairs. Old pipes can cause flooding and leaks. You can also have issues with lead and asbestos.

Asbestos can appear in the insulation, HVAC systems, and exterior siding. The building's exterior may also have lead-based paint.

How are the utilities set up? Often the landlord pays for the them in older buildings and then prorates tenants with higher rent.

Hire a professional to fully inspect any building you want to buy to avoid any hidden problems from surfacing later.

**Run the Preliminary numbers:**

In looking over the rental documents from the seller, check that the property's income exceeds the expenses consistently. Avoid using brochures but get hard facts with actual documents, ideally for anywhere from one to five years.

### **Rent Roll:**

Rent roll is the total rent charged for all units multiplied by twelve (for annual figures).

### **Occupancy Rate**

Occupancy rates tell you how much of the time a building is occupied.

### **Cost per Unit in an Apartment Complex**

Divide the building's purchase price by the number of units that it has.

### **Evaluate the Full Financials Prior to Buying an Apartment Complex**

In calculating your profit, you will look at the gross operating income or the total rent collected from the property; the expenses involved such as mortgages, interest, insurance, advertising, maintenance, repairs, utilities, municipal costs, property and other taxes, fees, management expenses, business expenses, and professional services; and your net operating income (NOI) which is your profit after subtracting the expenses from the gross operating income.

## **Management Strategy**

Finally, how you will manage your property. Will you do it yourself, hire an on-site manager or a management company? While it is an added cost, it will give you peace of mind, help you manage the property more smoothly and free up your time.

## **Financing Options**

How will you finance your new real estate apartment investment? You have essentially two options — cash and loans.

### **Cash**

You can pay for your investment in the apartment building whether it is whole, part or fractional directly through cash. Whether you are buying it alone or with a team of people or through an REIT, you can pay for your share in cash. Liquidity is always an advantage in sealing a deal quickly and can also offer you discounts as many sellers are eager to get cash down.

## **Loans**

There are three types of loans offered for apartment buildings. Once you figure out what loan is right for you, be sure to research the lender's offer before acceptance and compare it to others. Each lender and bank offers different terms. Apartment purchases are often financed via commercial loans once you buy a building over four units.

There are three common types of loans for apartment buildings:

- **Government-backed Apartment Loans:**

These loans offer high loan-to-value LTV ratios. They range from \$750,000 to \$6 million each and are offered by Fannie Mae, Freddie Mac and the FHA with typical rates at 4.5-6%. (Government loans such as Federal Housing Authority (FHA) and Veterans Administration (VA) loans are not available for commercial multifamily apartment investing.)

- **Bank Balance Sheet Apartment Loans:**

These loans start at \$500,000 with average rates at 5-6% and down payments at 20 percent or more.

- **Short-Term Apartment Financing Options:**

These loans help investors compete with cash buyers by offering mortgages on short notice with minimum loan amounts of \$100,000, LTVs up to 90% and rates are high at 7.5-12%.

## **Other Options for Financing**

### **Seller Financing**

You can also consider owner financing where the seller acts as a lender. Sellers are often willing to offer seller financing to get a bigger return on investment. You could also get a private loan through a private lender, investor, family member or friend where the private lender offers you the purchase money and you then make regular payments to them.

### **Using Retirement Funds**

You can also use your retirement funds to finance your apartment building purchase. You can open a self-directed retirement account to invest in a variety of assets, including real estate if you have savings in an IRA or a Solo 401(k) plan. You can rollover your existing plan or make new direct contributions. Take advantage of tax-deferred retirement funds and invest in real estate while staying IRS-compliant.

### **Recourse or Non-Recourse Loans**

When taking out a loan, consider if the loan is recourse or non-recourse. Recourse loans allow the lender to pursue financial remedies beyond foreclosure if you default on payments. Non-recourse loans allow them to only pursue the property and thus have lower risk. While non-recourse loans are more advantageous to get, they do often require a bigger upfront down payment and can carry a higher interest rate.

### **Protect Your Investment Purchase**

Also instead of buying the apartment building in your name, see if you can buy it in the name of a business entity — such as a limited liability company (LLC) or corporation.

## **Reserves on Hand**

The lender will also want to see that you have backup funding or reserves such as interest reserves that mean that you can meet periodic payments and cash reserves that mean that you can meet operating expenses, insurance, taxes, and repairs. Reserves typically are required for up to six months of payments.

Finally, keep in mind that lenders tend to prefer purchases of apartment buildings with high occupancy rates, excellent market potential and long term tenants. Keep this in mind when you evaluate and choose the right property to invest in along with other factors such as the cost, expense, vacancy rate, property condition, location and proximity to both transportation and employment opportunities.

## Top Frequently Asked Questions (FAQs)

**1. Does apartment investing have its own association?**

Yes, it does. The American Apartment Owners Association is one of the main organizations focused on apartment investment today.

**<https://www.american-apartment-owners-association.org>**. You can also use a local real estate investment association for help in locating properties such as **Real Estate Investors Association** (REIA).

**2. Where can I find apartment buildings for sale?**

Good question! You can find apartment buildings for sale in numerous ways. You can do online searches, find listings in local papers and also work with a real

estate agent to find all the apartment buildings within a defined area using their professional network and the MLS (multiple listing service) to help you check for new listings and to find any suitable properties for sale.

**3. How do you determine the value of an apartment complex?**

Typically, the value of an apartment building is determined by using one of these three methods: income, sales or replacement. The income method is the standard approach so we have explained it here. You figure out the apartment value by first figuring out the NOI or Net Operating Income. Tally up the monthly rent for all the units in the building and then subtract all operating expenses. This is your NOI. Divide the NOI by the **cap rate**.

The cap rate is the ratio of a rental property's net operating income to its purchase price, including any upfront repairs, but not including any financial costs. It is focused solely on the property value. By not

focusing on debt, the cap rate helps you consider only the property's true value. Low cap rates also translate to higher property values.

Divide the NOI by the cap rate. Your real estate agent can help you figure out the cap rate in your area. IF your NOI is \$30,000 and the cap rate is 0.12, then the value of your property is \$250,000.

**4. How do you finance your apartment building?**

You can pay for your apartment building in a variety of ways from direct cash investment of cash that you have to taking out a loan. Lenders can offer you a variety of loans ranging from government-backed loans to short-term financing, private loans and bank balance sheet loans. The rates and the maximum amount of loans will vary depending upon what type of loan you have. Lenders offer commercial property loans to individuals typically based on the individual applicant's real estate investment experience.

**5. Can I buy a property without putting any money down?**

Some sellers of apartment buildings will allow you to pay the down payment in monthly installments instead of up front all at once. Some lenders may not even require a down payment. You will have to check for the property in question that you wish to buy. You may also be able to take out a home equity line of credit or trade in something else you own such as a vehicle or other property towards the down payment.

**6. Are there tax benefits to buying an apartment building?**

Yes, there are. Some tax benefits include writing off mortgage interest, expenses and repairs, and also depreciating the building. When you buy a property, part of your purchase price is assigned to the land and part to the building. While the land retains its original value, the building depreciates over time. This depreciation can be written off in your taxes, boosting your cash flow.

**7. What are some common mistakes people make when investing in apartments?**

Some investors do not check the numbers promoted by their brokers or in real estate brochures. They do not check these numbers. They do not ask questions of the seller. Other mistakes involve underestimating the expenses involved in maintaining or repairing the property.

## How to Price Your Rental Unit Right

As mentioned before, rental units are in increasing demand that keeps growing. How do you figure out the right rent to charge? In some ways this is both art and science as you need to understand the market, know your property's value and in comparison to similar properties, any advantages it possesses, and doing research.

### **Traditional Formula**

The traditional formula is based on a percentage of the cost of the home. The formula is based on a range of approximately .8 – 1.1 percent. The higher the home price, the smaller the percentage.

The formula looks like this:

$\$65,000 \text{ condo} = \$65,000 \times 1.1\% = \$715/\text{month in rent}$

This is a starting point. This price would be affected by renting in the area, in your building and other factors.

### **Research and Study the Market Well**

While the formula is a starting point, you need to also employ both research and common sense. If the rental market is booming and rents are going up because the demand exceeds supply, then you will know how to adjust things.

Rentmetrics.com and Zillow can offer some metrics for market rent in the area. You can see listings online on sites like Craigslist. Walking through similar properties to yours like a prospective tenant would will help you figure out what rental units charge and what they offer for that price.

- What amenities are important to you?
- What safety concerns do you have?
- Consider parking, washer-dryers, central air conditioning, layout, bedroom size, closet size, bathroom elegance, appliances, modern features.
- Where is the property located?

- What is the most desirable section of the neighborhood, and how quickly do rents drop as you get further away?
- What kind of people do you want in the property? You can add or emphasize amenities that particularly appeal to young professionals, or to families, or to empty nesters while following all legal requirements and not discriminating.

If you price your property too high, your property will not rent. If you price it too low, you will lose out on income. Finding the right balance of what to charge will help you rent the apartment and secure long-term tenants, leading to greater occupancy rates and higher cash flow.

### **Test it Out**

You can also test out a rent fee and see how it goes for a week or longer. Are you getting enough responses and quality tenants applying? How does the price and apartment compare to the competition? If your apartments sell too fast, then you have probably priced it too low. If the phone never rings, you have priced it too high.

If you get a lot of cancellations after making appointments, then you will want to check out competitors and see what they are doing so you can improve your property, adjust the rent rates and more.

People end up choosing where they live based on a variety of factors that include a sense of comfort (emotional appeal) and cost (finances) to location, features and more. Be sure to keep your property in tip top shape to attract the best tenants you can. You can charge more when you offer more and keep the property well maintained and have management services that respond in a timely manner and are friendly, courteous and professional.

## **Managing Multi-Unit Buildings**

Managing multi-unit buildings involves a few important steps to ensure you succeed at your real estate investment. They are:

### **Tenant Screenings**

- Fair Housing Rules
- State Leasing Agreements
- Process of Tenant Set Up in New Home
- Eviction Notices

We will explore each section in more detail in this section. Also here are a few things investors would rather pay someone else to deal with:

- Showing Rental Units
- Taking and Processing Rental Applications
- Fielding Phone Calls from Angry Tenants
- Fixing Toilets in the Middle of the Night
- Knocking Down Doors to Collect Rent

### **Tenant Screenings**

The adage of “An ounce of prevention is worth a pound of cure” makes sense here. By far one of the most important steps you can take is to offer an effective tenant screening. Many problems can be avoided by effective tenant screening. Screening helps you make sure you get suitable tenants, verifying employment, income, credit and checking their criminal reports. It helps you remove unqualified renters until you find the best fit for your property.

Tenant screening is like vehicle maintenance. If done right, you will have fewer frustrations over the long term. You will want to have a set of screening criteria, and follow all Fair Housing rules and also have an answer key to judge any tenant applications easily. You will want to be prepared if you face a discrimination claim as well. You will want to have specific criteria that is verified by a suitable attorney so you do not end up in court if you deny an applicant.

### **Different Ways To Show A Rental Property**

While some applicants especially out of state moving to your area may apply on the phone or online, you will most likely show the rental property first to potential tenants. You can show rental properties in typically three ways:

- Individual Showings
- Individual showings scheduled in a block of time
- Hold an open house

## **Advertise Your Rental**

As mentioned before, you will want to advertise your rental to get the best candidates. You may want to appeal to an older demographic or over the age of 25, given that more people typically have more steady income after a certain age. This can still vary. Knowing your ideal pool of candidates without discriminating, can help you figure out how to best advertise.

Also advertise in as many places as you can as that will offer you more opportunities to find the best tenants.

## **Pre-screen Interested Renters**

You can also pre-screen potential renters, thus avoiding wasting your time with every single person who shows interest. You can remove the applicants who do not meet your criteria.

## **Collect Rental Applications**

All applicants will need to fill out a detailed, compliant rental application.

### **Run a Background check**

Running a background check helps you find out who the viable renters are based on traditional criteria such as credit, criminal history and more.

### **Verify Applicant Details**

It is important to verify some applicant details such as employment or prior rentals.

### **Select Your Tenants**

Once your tenants have filled out the application, been approved through your pre-screening and your background checks and details verified, you can provide them with an acceptance letter.

You will also want to turn down applicants that you did not choose by issuing an adverse action, a formal way of denying the applicant required by law.

## **Onboard your new tenant**

This is where you accept your new tenant, give them the keys and help them move in. Your units are being rented!

Now that you know the basic steps, let us take a closer look at tenant screening laws.

## **Tenant Screening Laws**

These are laws and regulations that govern the business dealings and interactions between landlords and tenants. This ranges from maintaining an inhabitable property to evicting a tenant. These laws protect both landlords and applicants.

## **Federal Fair Housing Laws (FHA)**

Landlords have to be compliant with the law and avoid discrimination even unintentionally. Most landlords follow rules set by the FHA established in 1968 under the

Fair Housing Act that ensures any applicant can get fair consideration. This law is enforced by the Department of Housing and Urban Development, or HUD.

The Fair Housing Act protects seven protected classes.

They are:

1. Race
2. Color
3. Religion
4. National Origin/Ethnic Background
5. Gender
6. Familial Status
7. Mental/Physical Disability

The Fair Housing Act helps protect applicants and prevent landlords from discriminating on these seven factors. Landlords cannot discriminate against an applicant in a protected class. This basically means that Fair Housing Act prohibits landlords from gathering and using certain information as a basis for selecting a tenant.

There are a few exceptions to this rule such as buildings with less than five units where the property owner occupies one

unit. Other exemptions include religious organizations, private clubs, senior housing and single-family homes where a broker is not involved in the sale or rental.

It is important to understand and be compliant with the federal fair housing laws, particularly with regards to tenant screening. One area of potential confusion lies with checking an applicant's criminal background. While the Fair Housing Act doesn't include criminal history as a protected class, HUD does acknowledge that some landlords demonstrate discriminatory practices based on an applicant's criminal background.

A landlord can deny an application based on a person's criminal history, in accordance with the federal law such as drug manufacturing and dealing, sex crimes and violent crimes. This allows the landlord to keep other tenants and their property safe and secure.

An arrest record is not enough reason to deny an applicant. Thus as a landlord you cannot include a statement such as all applicants with a criminal history will be denied.

You can always check with a qualified real estate attorney to know what is considered discriminatory behavior during tenant screening so you avoid any problems. Rules may vary by state or municipality as well.

Some examples of discrimination include:

- Holding some applicants to stricter standards than others, such as a higher credit score for single mothers.
- Asking questions that allude to an applicant's marital status or familial status, such as whether their kids are excited about the upcoming holidays.
- Querying what an applicant's first language is.
- Including discriminatory questions on the rental application.
- Asking an applicant's references about their background, such as what country they came from or if they are gay.
- Trying to guess the ethnicity of an applicant, such as whether they are Korean or Japanese or what Native American tribe they are from.
- Asking in what country an applicant was born.

- Mentioning that there is a church or synagogue nearby that the applicant might like to attend.
- Advertising for a specific type of applicant or against others, such as saying that the property is in a good Christian community or it's for single people only.
- Refusing a service dog because of your no pets policy.
- Discreetly asking an applicant if they are gay.
- Asking for a higher security deposit from applicants with kids.

Perhaps you have not asked any of these questions to the tenant, but you can strange wording or questions on your rental application form. Be sure to avoid questions such as person's disabilities, marital status or race.

You can ask about credit, bankruptcies, prior evictions, work status, references and information that will help you determine if the candidate will be a good tenant. It is advisable to have your rental application form, screening process and rental policy all reviewed by a qualified lawyer

who is well versed in your state's real estate requirements and federal law.

### **Create a Rental Policy for Fair Tenant Screening**

As mentioned above, you will want to have a rental policy that ensures you follow through and are compliant with the Federal Fair Housing Act. This protects you and ensures that your property is well managed by federal law standards.

This written document should explain what the acceptable criteria is for any landlord to approve an applicant for their rental property. Be aware that any background checks must also comply with the Fair Credit Reporting Act or FCRA that protects every consumer's information. You are only allowed to use this information for the required purpose and may not pull this information for any other interest. You will also need to follow the compliance steps dictated by the FCRA when you access consumer reports.

Keep all rental application forms secure as they contain vital personal information such as Social Security number, full

name, birthday and more. The completed rental application form allows you to run a background check. Only qualified personnel may have access to this information with a signature line that the applicant signs in order to grant you permission to go forward.

In the event that you do not approve an application, you would send an adverse action statement to the applicant. For the applicant to still be allowed to rent at your property, he or she may need to have a co-signer, give a bigger deposit or pay more. However, you must explain why this action was taken in a written document and be sure to comply with housing laws to prevent any issue of discrimination or being sued.

It is advisable to provide generic adverse action letter to avoid any problems later.

The notice must include:

- The name, address and telephone number of the Credit Reporting Agency (CRA) that supplied the consumer report, including a toll-free telephone number for CRAs that maintain files nationwide;

- A statement that the CRA that supplied the report did not make the decision to take the adverse action and cannot give the specific reasons for it;
- A notice of the individual's right to dispute the accuracy or completeness of any information the CRA furnished, and the consumer's right to a free report from the CRA upon request within 60 days.
- Disclosure of this information is important because some consumer reports contain errors.

Here is a sample adverse action letter below.

**SAMPLE ADVERSE ACTION LETTER**

Date

Dear \_\_\_\_\_

This letter is to inform you that an offer of employment will not be made at this time. This decision was based in whole or part, on the information provided us in a Consumer Report or Investigative Consumer Report.

The report was prepared pursuant to an authorization signed by you at the time of application. Subsequently you also received a copy of your consumer report and a summary of your rights under the Fair Credit Reporting Act. The consumer report was used only for employment purposes and prepared for us by a consumer-reporting agency. Their mailing address and phone number are listed below:

ABC CONSUMER REPORTING AGENCY  
123 Main Street  
Charlotte, NC 28202  
Phone: 123-456-7890  
Fax: 888-123-4567

ABC CONSUMER REPORTING AGENCY plays no part in the decision to take any action on your employment application and is unable to provide you with specific reason(s) for not extending an offer of employment.

You may, upon providing proper identification, request another free copy of the report and may dispute with the consumer reporting agency the completeness or accuracy of any information in the report within 60 days of receipt of this notice with ABC CONSUMER REPORTING AGENCY.

Sincerely,

COMPANY NAME

All landlords have to complete a credit access application to be considered legitimate for running tenants' credit checks. Sometimes you will also need to provide a business license or property management agreement. You may also work with a credit reporting agency.

After the report is requested, the FCRA requires that you shred and dispose of the information after the process. Electronic reports must be deleted and not stored on any backups.

Every state has fair housing laws that typically exceed the federal standards set by the Fair Housing Act. State laws also supersede FHA laws. Protected classes under federal law include race, religion, sex, color, national origin, familial status and mental/physical disability. State laws can add additional protections to specific groups.

Some state and municipal protections include:

- Age
- Sexual orientation
- Gender identity and expression
- Citizenship
- Veteran status
- Source of income
- Medical condition

Some counties and cities have additional laws against discrimination. Be sure to learn about the laws in your state. You can learn more about these laws at [www.hud.gov/states](http://www.hud.gov/states).

Each state also has its own fair housing rules so you can search online for your state's requirements by entering the name of your state, city, county, and municipality along with "fair housing" such as "Cobb County fair housing."

Below are a series of questions that you can ask potential tenants to vet them better.

**Questions To Ask Potential Tenants:**

1. Do you currently rent, and if so, where?
2. How long have you lived in your current home?
3. Why are you looking for a new place to live?
4. What date would you want to move in?
5. What kind of work do you do?
6. What is a rough estimate of your income?
7. How many people would be living with you?
8. How many people living with you smoke?
9. How many parking spaces would you require if you rent here?
10. How many pets do you have?

11. Do you think your current landlord will give you a favorable reference?
12. Does your current landlord know you are thinking of moving?
13. Have you ever had an eviction?
14. Are you familiar with our rental application process?
15. Are there any issues I should know about before I run a background screening for all the adults in the household?
16. Have you filed for bankruptcy recently?
17. Will you be fine to pay our lease application fee of (\$ amount) if you fill out the application?
18. Would you be able to pay the security deposit of (\$ amount) at the lease signing?
19. Are you willing to sign a 1-year lease agreement?
20. Do you have any questions for me about the process?

### **Rental Background Checks**

As mentioned before, you will want to secure a credit check on your potential tenants. You can learn about how

responsible the applicant is about paying bills, review specific details of the report and their credit score. For example, you may have a minimum credit score requirement of 600 to rent. You can use one of the three major credit bureaus:

- Transunion
- Equifax
- Experian

### **Where Do Credit Bureaus Get Their Data?**

Credit bureaus collect data about people using information provided from banks, student loans, mortgages, auto finance loans as well as public records, such as property or court records.

### **What Does A Rental Background Check Consist Of?**

A rental background checks consists of:

- Personal Details – provided by the applicant
- Address

## APARTMENT REAL ESTATE INVESTING

- Income (pba)
- Full Credit Score
- Address History
- Employment History
- Tradelines
- Collections
- Consumer Statements
- Inquiries
- Public Records
- Eviction Records
- Criminal Records
- AKAs
- Fraud Indicators

## Sample Residential Rental Application Form

Location Requested: \_\_\_\_\_  
How did you hear about us? \_\_\_\_\_

<p><b>Primary Applicant Name:</b> _____</p> <p>Social Security #: _____ Driver's License #: _____</p> <p>Date of Birth: _____ Contact Number: _____</p> <p>Make and Model of Vehicle: _____</p> <p>License Plate #: _____</p> <p><b>Income Information - Current Employer Name &amp; Address:</b> _____</p> <p>Job Title: _____</p> <p>How Long? _____ Monthly Gross Income: _____</p> <p>Supervisor Name &amp; Phone: _____</p> <p>Name of your banking institution: _____</p> <p><input type="checkbox"/> Checking</p> <p><input type="checkbox"/> Savings</p> <p><b>Secondary Applicant Name:</b> _____</p> <p>Social Security #: _____ Driver's License #: _____</p> <p>Date of Birth: _____ Contact Number: _____</p> <p>Make and Model of Vehicle: _____</p> <p>License Plate #: _____</p> <p><b>Income Information - Current Employer Name &amp; Address:</b> _____</p> <p>Job Title: _____</p> <p>How Long? _____ Monthly Gross Income: _____</p> <p>Supervisor Name &amp; Phone: _____</p> <p>Name of your banking institution: _____</p> <p><input type="checkbox"/> Checking</p> <p><input type="checkbox"/> Savings</p>
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APARTMENT REAL ESTATE INVESTING

**Please list Name, Age and Relationship of any others that will occupy the property.** Anyone over age 18 must complete the application

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**Residential History**

Current Address: \_\_\_\_\_ City: \_\_\_\_\_ State: \_\_\_\_\_

How long at present address? \_\_\_\_\_

Why are you moving? \_\_\_\_\_

Landlord Name and Phone: \_\_\_\_\_

---

**Questions:**

Have you ever had an eviction filed on you?  No  Yes

Explain \_\_\_\_\_

Have you broken a lease or been asked to move out?  No  Yes

Explain \_\_\_\_\_

Have you ever been convicted of any crime?  No  Yes

Explain \_\_\_\_\_

Have you declared Bankruptcy?  No  Yes

Year \_\_\_\_\_

**Personal and/or additional Credit References: (Include address, phone and relationship)**

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

I, the undersigned applicant, certify that the answers I have given in this application are true and correct. I authorize and consent to the release of any information the landlord may need to obtain a credit report or any other report necessary to verify the accuracy of my application or to determine my eligibility. I understand that if any part of my application has been falsified, it shall be grounds for denial of residency, or future eviction if discovered after moving into a property. I understand that a home will continue to be offered for lease until I have paid a deposit to hold the home for my move in. I understand that my deposit is NOT refundable if I cancel my application or it is discovered that I falsified my application to hide information that could have caused my application to be denied.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

If you share confidential information with your tenant, be sure to provide an NDA.

**LANDLORD-TENANT NON-DISCLOSURE AGREEMENT  
(CONFIDENTIALITY)**

1. The Parties. This Commercial Real Estate Non-Disclosure Agreement, hereinafter known as the “Agreement”, made this \_\_\_\_ day of \_\_\_\_\_, 20\_\_ between:

Potential Tenant: \_\_\_\_\_, hereinafter known as the “Potential Tenant”. Landlord: \_\_\_\_\_, herein-after known as the “Landlord”.

Agent (if any): \_\_\_\_\_, hereinafter known as the “Agent”.

Collectively, the above-named persons or entities shall be known as the “Parties”.

2. The Property. In connection with the Potential Tenant’s consideration of a possible lease of the Landlord’s real estate located at \_\_\_\_\_, City of \_\_\_\_\_, State of \_\_\_\_\_, hereinafter known as the “Property”, the Parties agree to the following terms and conditions:

3. Genuine Interest. The Potential Tenant is genuinely interested in leasing the Property from the Landlord.

4. Permitted Use. The Potential Tenant will use the confidential information solely for purposes of evaluating the Property.

5. Confidential Information. The Potential Tenant acknowledges that all information and materials furnished from the Landlord or Agent concerning the Property is confidential and may not be used for any purpose other than the Potential Tenant's evaluation for a possible lease. Access to any information furnished by the Agent or Landlord will be limited to attorneys, accountants, financial representatives, and business advisors directly involved with the Property.

6. Nondisclosure. Landlord, Potential Tenant and Agent all agree not to disclose to any other person or business entity the fact that any discussion or negotiations are taking place with respect to the Property, including any business located therein, or the actual or potential terms, conditions or facts involved in any such discussions or negotiations.

7. Discretion. Potential Tenant agrees not to contact the Property or Business employees, suppliers, or customers except through the Agent or Landlord. Potential Tenant further agrees not to circumvent or interfere with the Agent's listing agreement with the Landlord in any way.

8. Binding Effect. This Agreement shall be governed and construed in accordance with the laws of the State of \_\_\_\_\_ and shall survive the closing of any Agreement between Potential Tenant and Landlord for a period of \_\_\_\_\_ from the date of said closing or if the information becomes publicly available, whichever occurs first. The word "Closing" shall include notification of non-interest on the part of Potential Tenant as

well any successful transaction between Potential Tenant and Landlord.

9. Cost of Enforcement. In the event either party commences a judicial action to enforce the provision of this Agreement, the prevailing party in such action shall be entitled to recover, in addition to such other amounts as may be permitted by law, all costs and expenses incurred by it in the prosecution of defense of such action, including reasonable attorneys' fees.

10. Warranty. If the Agent is providing the confidential information, the Agent does not guarantee, warrant, either expressed or implied, any information and/or figures supplied by the Landlord. Potential Tenant should rely on their own verification of this information as a part of their due diligence.

11. Reproduction Prohibited. No copies shall be made or retained of any written information supplied to Potential Tenant by the Landlord. At the conclusion of any discussion, negotiation or upon demand by the Landlord, all information, including notes, photographs, financial statements, or any other details released to the Potential Tenant, shall be returned to the Landlord or Agent. Any information shall not be disclosed to any employee or consultant unless they agree to execute and be bound by this agreement.

Potential Tenant's Signature \_\_\_\_\_

Date \_\_\_\_\_

Print Name \_\_\_\_\_

## **Screening, Leasing, and Collecting Rent**

Today while marketing properties has become easier through the Internet and social media, finding good tenants still requires a proven process to ensure that you attract qualified candidates.

Every potential tenant must fill out a comprehensive screening questionnaire that includes a credit report, criminal background check, verification of employment, and prior renting experiences (validation from prior landlord).

Every agreement must be in writing with any tenant and must include the following details:

- Names of every tenant
- Limits on occupancy
- Rental term (annual, month-to-month, auto-renew, etc.)
- Rental rate
- Deposits and fees

- Repair and maintenance expectations for both tenant and landlord
- Rights of entry for landlord and/or management
- Restrictions on illegal activity
- Pet prohibitions/restrictions

### **Fair Housing Rules**

As mentioned before, Fair Housing rules are very important and must be followed to avoid getting in trouble with the law.

### **State Leasing Agreements**

Make sure to also have state-specific lease agreements to protect your assets, yourself and your own goals. Write down every communication with renters. Keep records of every communication.

Also set clear expectations regarding rent payment. For example, rent can be due between the 1st and 3rd, and by the 4th, it is considered late and a fee assessed. You may enforce eviction if the rent is not paid by the 15th. You will

need to follow all state statutes about this. While this can appear harsh to your tenants, it is necessary to ensure timely payment and keep everyone on the same page. It also ensures that you have set up a policy that you can enforce.

Depending upon your lease, you may also need to add an addendum such as the following:

## LEASE ADDENDUM

This lease addendum adds the following paragraphs to the Lease between the Tenant and Landlord referred to above.

- A. **Purpose of the Addendum.** The lease for the above-referenced unit is being amended to include the provisions of this addendum because the Tenant has been approved to receive rental assistance under the [program administrator's] HOME Rental Assistance Program. Under the Rental Assistance Program, the [program administrator] will make monthly payments to the Landlord on behalf of the Tenant.

The Lease has been signed by the parties on the condition that the [program administrator] and Landlord will promptly execute a HOME Rental Assistance Contract. This Lease shall not become effective unless the Contract has been executed by both the Landlord and the [program administrator], effective the first day of the term of the Lease.

- B. **Conflict with Other Provisions of the Lease.** In case of any conflict between the provisions of this Addendum and other sections of the Lease, the provisions of this Addendum shall prevail.
- C. **Terms of the Lease.** The term shall begin on \_\_\_\_\_ and shall continue until: (1) the Lease is

terminated by the Landlord in accordance with applicable state and local Tenant/Landlord laws; (2) the Lease is terminated by the Tenant in accordance with the Lease or by mutual agreement during the term of the Lease; or (3) termination of the HOME Rental Assistance Program Contract by the [program administrator].

**D. Rental Assistance Payment.** Each month the [program administrator] will make a rental assistance payment to the Landlord on behalf of the Tenant. This payment shall be credited by the Landlord toward the monthly rent payable by the Tenant. The balance of the monthly rent shall be paid by the Tenant.

**E. Security Deposit**

(1) The (Tenant/[program administrator]) has deposited \$\_\_\_\_\_ with the Landlord as a Security Deposit. The Landlord will hold this security deposit during the period the Tenant occupies the dwelling unit under the Lease. The Landlord shall comply with state and local laws regarding interest payments on security deposits.

(2) After the Tenant has moved from the dwelling unit, the Landlord may, subject to state and local laws, use the security deposit, including any interest on the deposit, as

APARTMENT REAL ESTATE INVESTING

reimbursement for rent or any other amounts payable by the tenant under the Lease. The Landlord will give the Tenant a written list of all items charged against the security deposit and the amount of each item. After deducting the amount used as reimbursement to the Landlord, the Landlord shall promptly refund the full amount of the balance to the (Tenant/[program administrator]).

**F. Utilities and Appliances.** The utilities and appliances listed in Column 1 are provided by the Landlord and included in the rent. The utilities and appliances listed in Column 2 below are not included in the rent and are paid separately by the Tenant.

<b>UTILITY/APPLIANCE</b>	<b>Included in Rent</b>	<b>Tenant Paid</b>
Garbage Collection		
Water/Sewer		
Heating Fuel (specify)		
Lights, electric		
Cooking Fuel (specify)		
Other (specify)		
Refrigerator		
Stove/Range		

- G. **Household Members.** Household members authorized to live in this unit are listed below. The Tenant may not permit other persons to join the Household without notifying the [program administrator] and obtaining the Landlord's permission. Household members:
- H. **Housing Quality Standards.** The Landlord shall maintain the dwelling unit, common areas, equipment, facilities and appliances in decent, safe, and sanitary condition (as determined by Section 8 Housing Quality Standards).
- I. **Termination of Tenancy.** The Landlord may evict the Tenant following applicable state and local laws. The landlord must provide the Tenant with at least 30 days' written notice of the termination. The Landlord must notify the [program administrator] in writing when eviction proceedings are begun. This may be done by providing the [program administrator] with a copy of the required notice to the Tenant.
- J. **Prohibited Lease Provision.** Any provision of the Lease which falls within the classifications below shall not apply and not be enforced by the Landlord.

(1) *Confession of Judgment.* Consent by the Tenant to be sued, to admit guilt, or to a judgment in favor of the landlord in a lawsuit brought in connection with the Lease.

(2) *Treatment of Property.* Agreement by the Tenant that the Landlord may take or hold the Tenant's property, or may sell such property without notice to the Tenant and a court decision on the rights of the parties.

(3) *Excusing the Landlord from Responsibility.* Agreement by the Tenant not to hold the Landlord or Landlord's agent legally responsible for any action or failure to act, whether intentional or negligent.

(4) *Waiver of Legal Notice.* Agreement by the Tenant that the Landlord may institute a lawsuit without notice to the Tenant.

(5) *Waiver of Court Proceedings for Eviction.* Agreement by the Tenant that the Landlord may evict the Tenant Family (i) without instituting a civil court proceedings in which the Family has the opportunity to present a defense, or (ii) before a decision by the court on the rights of the parties.

(6) *Waiver of Jury Trial.* Authorization to the Landlord to waive the Tenant's right to a trial by jury.

(7) *Waiver of Right to Appeal Court Decision.* Authorization to the Landlord to waive the Tenant's right to appeal a court decision or

waive the Tenant's right to sue to prevent a judgment from being put into effect.

*(8) Tenant Chargeable with Cost of Legal Actions Regardless of Outcome of the Lawsuit.* Agreement by the Tenant to pay lawyer's fees or other legal costs whenever the Landlord decides to sue, whether or not the Tenant wins.

**K. Nondiscrimination.** The Landlord shall not discriminate against the Tenant in the provision of services, or in any other manner, on the grounds of age, race, color, creed, religion, sex, handicap, national origin, or familial status.

TENANT SIGNATURES	LANDLORD SIGNATURES
By: (Type or Print Name of Tenant Representative)	LANDLORD NAME:
(Signature/Date)	By: (Type or Print Name of Landlord Representative)
By: (Type or Print Name of Tenant Representative)	(Signature/Date)
(Signature/Date)	

Here are two sample Tenant Lease Agreements below:

## Sample Tenant Lease Agreement 1

### RENTAL AGREEMENT

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THIS AGREEMENT made this \_\_\_\_\_ Day of \_\_\_\_\_, \_\_\_\_\_, by and between \_\_\_\_\_., herein called "Landlord," and \_\_\_\_\_ and \_\_\_\_\_, herein called "Tenant." Landlord hereby agrees to rent to Tenant the dwelling located \_\_\_\_\_ at \_\_\_\_\_

---

\_\_\_\_\_ under the following terms and conditions.

#### 1. FIXED-TERM AGREEMENT (LEASE):

Tenants agree to lease this dwelling for a fixed term of \_\_\_\_\_, beginning \_\_\_\_\_ and ending \_\_\_\_\_. Upon expiration, this Agreement shall become a month-to-month agreement AUTOMATICALLY, UNLESS either Tenants or Owners notify the other party in writing at least 30 days prior to expiration that they do not wish this Agreement to continue on any basis.

#### 2. RENT:

Tenant agrees to pay Landlord as base rent the sum of \$\_\_\_\_\_ per month, due and payable monthly in advance on the 1st day of each month during the term of

this agreement. The first month's rent is required to be submitted on or before move-in.

**3. FORM OF PAYMENT:**

Tenants agree to pay their rent in the form of a personal check, a cashier's check, or a money order made out to the Landlord.

**4. RENT PAYMENT PROCEDURE:**

Tenants agree to pay their rent by mail addressed to the Land-lord (replace this with landlord's mailing address) \_\_\_\_\_, or in person at the same address, or in such other way as the Landlord will advise the Tenant in writing.

**5. RENT DUE DATE:**

Tenant hereby acknowledges that late payment will cause Land-lord to incur costs not contemplated by this Rental Agreement. We allow for a 3 day grace period. In the event rent is not received prior to the 4th of the month, Tenant agrees to pay a \$25 late fee, plus an additional \$5 per day for every day thereafter until the rent is paid. Neither ill health, loss of job, financial emergency, or other excuses will be accepted for late payment.

**6. BAD-CHECK SERVICING CHARGE:**

In the event Tenant's check is dishonored and returned unpaid for any reason to Landlord, Tenant agrees to pay a returned check charge of \$25 AND accept whatever

consequences there might be in making a late payment. If for any reason a check is returned or dishonored, all future rent payments will be cash or money order.

**7. SECURITY DEPOSIT:**

Tenants hereby agree to pay a security deposit of \$\_\_\_\_\_ to be refunded upon vacating, returning the keys to the Landlord and termination of this contract according to other terms herein agreed. This deposit will be held to cover any possible damage to the property. No interest will be paid on this money and in no case will it be applied to back or future rent. It will be held intact by Landlord until at least thirty (30) working days after Tenants have vacated the property. At that time Landlord will inspect the premises thoroughly and assess any damages and/or needed repairs. This deposit money minus any necessary charges for missing/dead light bulbs, repairs, cleaning, etc., will then be returned to Tenant with a written explanation of deductions, within 60 days after they have vacated the property.

**8. CLEANING FEE**

Tenant hereby agrees to accept property in its present state of cleanliness. They agree to return the property in the same condition or pay a \$200.00 minimum cleaning fee if the Landlord has to have the property professionally cleaned.

**9. REMOVAL OF LANDLORD'S PROPERTY:**

If anyone removes any property belonging to Landlord without the express written consent of the Landlord, this will constitute abandonment and surrender of the premises by Tenant and termination by them of this Rental Agreement. Landlord may also take further legal action.

**10. CHANGES IN TERMS OF TENANCY:**

*(This paragraph applies only when this Agreement is or has become a month-to-month agreement).* Owners shall advise Tenants of any changes in terms of tenancy with advance notice of at least thirty (30) days. Changes may include notices of termination, rent adjustments, or other reasonable changes in the terms of this Agreement.

**11. TENANT COOPERATION:**

Tenant agrees to cooperate with the Landlord is showing property to prospective tenants, prior to termination of occupancy.

**12. TENANT INSURANCE:**

Landlord will not be liable for any loss of Tenant's property. Tenant hereby acknowledges this and agrees to make no such claims for any losses or damages against Landlord, his agents, or employees. Tenants agree to purchase insurance – at their own expense – sufficient to protect themselves and their property from fire, theft, burglary, breakage, electrical connections.

They acknowledge that if they fail to procure such insurance, it is their responsibility and they alone shall bear the consequences.

**13. ABANDONMENT:**

If Tenants leave the premises unoccupied for 15 days without paying rent in advance for that month, or while owing any back rent from previous months, which has remained unpaid, the Landlord and/or his representatives have the right to take immediate possession of the property and to bar the Resident from returning. Landlord will also have the right to remove any property that the Residents have left behind and store it at the Tenant's expense.

**14. OCCUPANTS:**

The number of occupants is limited to \_\_\_ primary tenants and \_\_\_ children. Only the Tenants may live in this building. Any additional residents residing in said dwelling for more than 2 weeks continuously must be added to this lease or receive written permission from the Landlord, subject to the same restrictions as the tenants, i.e. they must fill out an application. Nurses or maids required to care for the Tenants during an illness are an exception from this provision.

**15. LOCK POLICY:**

No additional locks will be installed on any door without the written permission of Landlord. Landlord will be given duplicate keys for all locks so installed at tenants' expense, before they are installed.

**16. LOCKOUTS:**

Should tenants lock themselves out of their dwelling and be unable to gain access through their own resources, they may call upon professional locksmith or the Owners to let them in. In either case, they are responsible for payment of the charges and/or damages involved. Owners charge a fee of \$15 for providing this service between the hours of 8 a.m. and 6 p.m., Monday through Friday, excepting holidays, and a fee of \$25 for all other times. This fee is due and payable when the service is provided.

**17. CONDITION OF PREMISES:**

The Tenants hereby acknowledge that the said property is in good condition. If there is anything about the condition of the property that is not good, they agree to report it to the Landlord within 3 days of taking possession of the property. They agree that failure to file any written notice of defects will be legally binding proof that the property is in good condition at the time of occupancy.

**18. INVENTORY AND INSPECTION RECORD:**

An inventory and inspection Record has been provided for the Tenants' use. Only after this has been filled out (within the 3-day time limit) will the Landlord take any action to complete necessary repairs. Landlord warrants that all major systems will be functional and in good repair at the time of possession. Light switches, wall plugs, doors, windows, faucets, drains, locks, toilets,

sinks, etc. will either be in working order or will be repaired once the Tenants have completed the Inspection and Inventory Record. Tenants are encouraged to report any necessary repairs, no matter how slight, in writing, but they are advised that Landlord does not normally repair or replace nonfunctional items such as paint, carpets, etc., every time a property changes possession. Those items are scheduled for repair/replacement at regular intervals regardless of tenant turnover.

**19. BALCONIES AND PORCHES:**

If your unit has a balcony, deck, or porch do not allow more than two people on the structure at one time.

**20. TENANT RESPONSIBILITY:**

Good housekeeping is expected of everyone. Tenant agrees to keep quarters clean and in a sanitary condition. The Tenants agree not to permit any deterioration or destruction to occur while they are occupying the property.

**21. ALTERATIONS:**

Tenant shall make no alterations, decorations, additions, or improvements in or to the premises without Landlords' prior written consent, and then only by contractors or mechanics, or other approved by Landlord. All alterations, additions, or improvements upon the premises, made by either party, shall become the property of the Landlord and shall remain upon, and be

surrendered with said premises, as a part thereof, at the end of the term hereof.

They acknowledge that they will be responsible for and pay any damage done by rain, wind, hail, tornadoes, etc., if this damage is caused by leaving windows open, allowing stoppage and/or overflow or water and/or sewage pipes, broken windows or doors, torn screens, broken door and window locks, etc. or any damage caused while Tenant has occupancy.

**22. VEHICLES & GARAGE USE:**

Tenants agree to keep a maximum of 1 vehicle on premises or in the garage. These vehicles must be both operable and currently licensed. Tenants agree to park their vehicles in assigned spaces and to keep those spaces clean of oil drippings. Tenants agree not to park boats, recreational trailers, utility trailers, and the like on the premises without first obtaining Landlords' written permission.

**23. UTILITIES:**

Resident will be responsible for payment of all utilities, telephone, gas, or other bills incurred during their residency. They specifically authorize Landlord to deduct amounts of unpaid bills from their Security Deposits in the event they remain unpaid after termination of this agreement. The Landlord/Owner agrees to only pay water, garbage, and sewer bills.

**SERVICES.** Landlord shall be responsible for the following utilities and services in connection with the premises

- Water and sewer
- Garbage and trash disposal

Tenant shall be responsible for the following utilities and services in connection with the Premises:

- Electricity
- Gas
- Heating
- Telephone
- All other utilities and services not listed under the Landlords responsibility

Tenant acknowledges that Landlord has fully explained to the Tenant the utility rates, charges and services for which Tenant will be required to pay (if any), other than those to be paid directly to the utility company furnishing the service.

**24. NOTIFICATION OF SERIOUS BUILDING PROBLEMS:**

Tenant agrees to notify Landlord immediately if roof leaks, water spots appear on ceiling, or at the first sign of termite activity. Tenants also agree to notify the Owners immediately upon first discovering any signs of serious building problems such as foundation cracks, a

tilting porch, a crack in plaster, buckling drywall or siding, a spongy floor, a leaky water heater, etc. If the tenant does not notify landlord in a prompt matter the tenant may be held financially responsible.

**25. REASONABLE TIME FOR REPAIRS:**

Upon being notified by Tenants that there is some building defect in which is hazardous to health, life, or safety, Owners shall undertake repairs as soon as possible. Should there be a delay of more than seventy-two (72) hours in making repairs, due to difficulty in scheduling the work or obtaining parts or for any other reason beyond the Owners' control, Owners agree to keep Tenants informed about the progress of work.

**26. DRAIN STOPPAGES:**

As of the date of this Agreement, Owners warrant that the dwelling's sewage drains are in good working order and that they will accept the normal household waste for which they were designed. They will not accept things such as diapers, sanitary napkins, tampons, children's toys, wads of toilet paper, balls of hair, grease, oil, table scraps, clothing, rags, sand, dirt, rocks, or newspapers. Tenants agree to pay for clearing the drains of any and all stoppages except those which the plumber who is called to clear the stoppage will attest in writing were caused by defective plumbing, tree roots, or acts of God. Please use a drain filter to save unnecessary time & money with repairs.

**27. BACKYARD & GARDENS:**

The Tenants agree to never use any form of pesticides (including rat poison, roach sprays, etc), or fertilizers unless written permission is granted from the Landlord.

**28. NON-LIABILITY:**

The Tenants hereby state that work or repairs that need to be done will be handled by competent professionals, unless Tenants are qualified and capable of doing the work themselves and doing it properly, in a safe manner that meets all federal, state, and local regulations and have written approval from the landlord. Tenants further state that they will be legally responsible for any mishap they either do themselves or hire others to do. Landlord will be held free from harm and liability along with his agents and representatives. In the event that needed repairs are beyond the Tenants' capacity, they are urged to arrange for professional help.

**29. DISCLOSURE OF LANDLORD/AGENT**

The management company is \_\_\_\_\_.  
This company may be represented at various times by it's employees or agents, who will carry identification.  
Management \_\_\_\_\_ Co. \_\_\_\_\_  
\_\_\_\_\_ is authorized to act for and on behalf of the Owner for the purpose of receiving and receipting notices and demands and for the service of process and all other acts which Landlord could or would do if personally present. The address for Management Co. is \_\_\_\_\_

\_\_\_\_\_ .

**30. ACCESS TO PREMISES:**

The Owner reserves the right to enter the residence at reasonable times to inspect, make necessary repairs, supply services, or show it to prospective residents, purchasers, workmen, or contractors. Whenever practicable, a two-day notice of the Owner's intent to enter shall be given to the Resident.

**31. SUBLETTING & ASSIGNMENT:**

Tenants shall not sublet the entire premises or any part of the premises, nor shall they assign this Agreement to anyone else without first obtaining Landlords' written permission. Prospective sublessees or assignees must submit an application to the Landlord and must agree to credit, background, reference, and employment verification as well as the obligation to pay a non-refundable \$25 application fee. Permission to sublease will be determined by the sole discretion of the Landlord.

**32. PETS:**

Pets are allowed on the premises only by obtaining the Landlords' written permission first. When possession of the property is given to the Tenant, only those pets listed on the Rental Application will be allowed unless subsequent written permission has been granted. "Pets" does not include animals trained to serve the handicapped, such as seeing-eye dogs, hearing dogs, or service dogs. These animals may be housed on the premises so long as they are in the direct service of those they were trained to serve and so long as Landlord is notified in advance in writing of the circumstances. In any case, when permission is granted, owners are required to pay an additional \$25 per month pet-rent

charge for one or more. Additionally, a pet-application sheet must be submitted before move-in.

If problems with pets occur there are several ways it may be handled depending on the events. If the pet is anyway dangerous it will not be allowed on the premises. In the event of the owner being negligent in regards to clean-up or allowing access to areas that the pet could damage the tenant will be fined or money will be taken from the deposit. If the pet is a nuisance in anyway the landlord may make suggestions to how the pet is cared for or may require the tenant to attend a training course to be approved by the landlord.

Pets are never to be allowed in the yard unsupervised. Cleaning up after the pet is necessary immediately following defecation. Constant barking will not be permitted.

### **33. TERMINATION UPON SALE OF PREMISES.**

Notwithstanding any other provision of this Lease, Landlord may terminate this lease upon 45 days written notice to Tenant that the Premises have been sold.

### **34. WAIVER:**

All rights given to Landlord by this agreement shall be cumulative in addition to any laws which exist or might come into being. Any exercise of any rights by Landlord or failure to exercise rights shall not act as waiver of those or any other rights. No statement or promise by Landlord, its agents, or employees, as to tenancy, repairs, amount of rent to be paid, or other terms and conditions shall be binding unless it is put in writing and made a specific part of this agreement.

**35. TERMS:**

In this agreement the singular number where used will include the plural, the masculine gender will include the feminine, the term Owner will include Landlord, Lessor; and the term Resident will include Tenant, Lessee.

**36. FULL DISCLOSURE:**

The Tenants signing this Rental Contract hereby state that all questions about this Rental Agreement have been answered, that they fully understand all the provisions of the agreement and the obligations and responsibilities of each party, as spelled out herein. They further state that they agree to fulfill their obligations in every respect or suffer the full legal and financial consequences of their actions or lack of action in violation of this agreement. Signature by the Tenant on this Rental Agreement is acknowledgement and he/she has received a signed copy of the Rental Agreement.

Accepted this \_\_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_ .

\_\_\_\_\_  
Tenant

\_\_\_\_\_  
Date

\_\_\_\_\_  
Tenant

\_\_\_\_\_  
Date

\_\_\_\_\_  
Landlord-Manager

\_\_\_\_\_  
Date

## Sample Tenant Lease Agreement 2

### RENTAL AGREEMENT

Address \_\_\_\_\_

Address \_\_\_\_\_

THIS AGREEMENT made this \_\_\_\_ day of \_\_\_\_\_,  
by \_\_\_\_\_ and \_\_\_\_\_ between  
\_\_\_\_\_, herein  
called "Landlord," and \_\_\_\_\_,  
\_\_\_\_\_, \_\_\_\_\_,  
\_\_\_\_\_, \_\_\_\_\_, herein  
called "Tenant." Landlord hereby agrees to rent to Tenant  
the real property located in the City of \_\_\_\_\_,  
State of \_\_\_\_\_,  
described as follows: \_\_\_\_\_,  
Commencing on the 1st day of \_\_\_\_\_ and monthly  
thereafter until the \_\_th day of \_\_\_\_\_, at which time this  
agreement is terminated. Landlord rents the demised  
premises to Tenant on the following terms and conditions:

#### 1. Rent

Tenant agrees to pay Landlord as base rent the sum of  
\$\_\_\_\_\_ per month, due and payable monthly in  
advance on the first day of each month during the term of

this agreement. Rent must be received by 5:00 P.M. If the rent has not been received by 9:00 A.M. on the second of the month, then a seven (7) day notice will be posted.

## **2. Payment of Rent**

Monthly rent payments may be paid by check until the first check is dishonored and returned unpaid. Time is of the essence and no excuses will be accepted. Rent shall be made payable to \_\_\_\_\_ and hand delivered (or sent by mail at Tenant's risk) to Landlord at \_\_\_\_\_ . Any rents lost in the mail will be treated as if unpaid until received by Landlord. All tenants will contribute equally in the payment of rent and only one single payment will be accepted. If any tenant withdraws from the lease, for any reason, the remaining tenants will be responsible for making up the difference in rent.

## **3. Additions to Rent for Payment of Certain Utilities**

Tenant will add an additional \$75 to rent each month to pay for water and sewer service. At the end of this agreement, landlord will compare the actual billed amounts with the sum of these monthly payments. If the Tenant overpaid, Landlord will reimburse Tenant for the amount overpaid. If a shortage exists, Tenant shall pay for the shortage amount. All other utilities will be paid for directly by Tenant.

#### **4. Appliances**

The house is rented with the following appliances: Refrigerator and Stove. Other appliances may be included in the rental property that are the sole responsibility of the tenant to upkeep. The landlord will not be responsible for the upkeep of these appliances and does not warrant the condition of these appliances. The above rental payment specifically EXCLUDES any appliances other than the refrigerator and stove. Such appliances as are in the property are there solely at the convenience of the Landlord, who assumes no responsibility for their operation. Landlord agrees to remove appliances at the request of Tenant. Any personal property remaining on the Premises may be used by the Tenant, however the Tenant assumes sole responsibility to keep said personal property in working and/or operating condition, and agrees to return said personal property to the Landlord at the termination of this Lease Agreement in the same or better condition, reasonable wear excepted.

#### **5. Rental Collection Charge**

Tenant hereby acknowledges that late payment will cause Landlord to incur costs not contemplated by this Rental Agreement, the exact amount of which will be extremely difficult to ascertain. In the event rent is not received prior to 5:00 P.M. on the 1st of the month, regardless of cause including dishonored checks, Tenant further agrees to pay a late charge to Landlord equal to twenty-five dollars (\$25) each week the rent is late. Neither ill health, loss of job,

financial emergency or other excuse will be accepted for late payment.

**6. Bad-Check Servicing Charge**

In the event Tenant's check is dishonored and returned of any reason to Landlord, Tenant agrees to pay as additional rent the sum equal to thirty-five dollars (\$35) for each occurrence. This amount shall be in addition to all late fees, if check is not paid prior to the first of the month. If for any reason a check is returned or dishonored, all future rent payments will be cash or money order.

**7. Use**

The Tenant agrees to use the premises only as a residence for self, and those persons identified below.

\_\_\_\_\_,'  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_,  
\_\_\_\_\_.

By no means may Tenant allow any additional persons to occupy premise beyond limit proposed by the law. Tenant agrees to assume all responsibility for actions taken by any person entering the property. Landlord will hold Tenant solely responsible for all damages to property or for violations against this rental agreement.

### **8. Pets**

No pet shall be brought onto the Premises (even temporarily) without the express written permission of the Landlord. If a pet has been in the Premises at any time during the Tenant's occupancy (with or without the Landlord's consent), a charge may be made for de-fleaing, deodorizing, and/or shampooing, and/or damages occasioned by the pet. Any animals on the property not registered under this Rental Agreement will be presumed to be strays and will be disposed of according to law, at the option of the Landlord.

### **9. Non-assignment of Rental Agreement**

Resident agrees not to assign this agreement, nor to Sub-Let any part of the property, nor to allow any other person to live therein without first requesting permission from the Owner and paying the appropriate surcharge. Further, that covenants contained in this Rental Agreement, once breached, cannot afterward be performed; and that unlawful detainer proceedings may be commenced.

## **10. Legal Obligations**

Tenant hereby acknowledges that they have a legal obligation to pay their rent on time each and every month regardless of any other debts or responsibilities they may have. They agree that they will be fully liable for any back rent owed. They also acknowledge that defaulting on this Rental Agreement could result in a judgment being filed against them and a lien being filed against their current and future assets and/or earnings.

## **11. Attorney's Cost**

If court action is sought by either party to enforce the provisions of the Rental agreement, attorney's fees and costs may be awarded to the prevailing party in the court action.

## **12. Repair policy**

The Tenant shall use customary diligence in care of the Premises. The Tenant is encouraged to treat this as their home, in that all minor repairs are expected to be performed by or at the direction of the Tenant, at the sole responsibility of the Tenant. Any and all repairs made at the direction of the Tenant shall be done by a competent professional, or by the Tenant providing that the Tenant is capable and qualified to make said repairs. All repairs shall be done in compliance with all applicable codes and regulations. Any repair that is estimated to cost more than fifty dollars (\$50) must receive permission of the Landlord prior to being made. Under no circumstances will Landlord be responsible for any

improvements or repairs costing more than \$50 unless the Tenant is given written authorization to make repairs or improvements in advance. The Tenant acknowledges responsibility for any damages caused by their negligence and that of their guests or invitees.

### **13. Occupancy**

Tenant to Maintain dwelling unit as follows:

1. Comply with all obligations primarily imposed upon tenant by applicable provisions of building codes materially affecting health and safety.
2. Keep that part of the premises that he occupies and uses as clean and safe as the condition of the premises permit.
3. Dispose from his dwelling unit all rubbish, garbage, and other waste in a clean and safe manner.
4. Keep all plumbing fixtures in a dwelling unit or used by the tenant as clean as its condition permits.
5. Use in a reasonable manner all electrical, plumbing, sanitary, heating, ventilating, air-conditioning, and other facilities and appliances including elevators in the premises.
6. Not deliberately or negligently destroy, deface, damage, impair, or remove any part of the premises or knowingly permit any person to do so.

7. Conduct himself and require other persons on the premises with his consent to conduct themselves in a manner that will not disturb his neighbor's peaceful enjoyment of the premises.

Resident warrants that he/she will meet above conditions in every respect, and acknowledges that failure to perform the obligations herein stipulated will be considered grounds for termination of this agreement and loss of any or all deposits.

#### **14. Security Deposit**

The Tenant has deposited with, and the Landlord acknowledges receipt of, \$ xxx as a Security Deposit. This Security Deposit is to guarantee the return of the Premises to the Landlord in the same or better condition as when accepted by the Tenant, reasonable wear excepted, and to satisfy any obligations of the Tenant unfulfilled at the termination of this Lease Agreement, as specified herein. Satisfactory compliance with this section includes removing all trash and belongings of the Tenant. If any provision of this Lease Agreement is violated, the Security Deposit is forfeited. The Security Deposit is to indemnify the Landlord against damage and/or loss of value as a result of the Tenant's action, mistake, or inaction during the term of occupancy. The Security Deposit may not be applied by the Tenant as and for payment of any rent due the Landlord. Should the Tenant be responsible for damage and/or loss of value to the Premises greater than the value of the Security Deposit, the Tenant hereby agrees to reimburse the Landlord for such loss immediately upon the presentation of

a bill for said damage and/or loss. The Landlord shall return the balance of said Security Deposit, if any, to the Tenant at the Tenant's forwarding address, upon vacating, return of keys to the Landlord and termination of this contract according to other terms herein agreed. The deposit will be returned within thirty (30) days after the Tenant vacates the Premises, along with an itemized statement as to the deductions, if any, from said Security Deposit. The Security Deposit must be paid in full prior to Tenants moving into building.

### **15. Cleaning Fee**

Tenant hereby agrees to accept the property in its present state of cleanliness. They agree to return the property in the same condition or better, or pay a minimum \$250 cleaning fee to cover Landlord costs for having the property professionally cleaned. If the Landlord notifies Tenant to clean up the property at any time, and the Tenant neglects to do so, the Landlord will charge the Tenant a minimum \$250 cleaning fee.

### **16. Plumbing and Electricity**

Tenant agrees not to put or pour any debris, grease, paper towels, Q-tips, tampons, newspaper, food, or any other matter in the sink drain or toilets. Tenant agrees to pay the ENTIRE AMOUNT on bills for all sewer cleaning services resulting from clogged pipes/sewer back-up.

Tenant must not overload electrical circuits. Only two electrical operated items may be plugged in any electrical receptacle.

### **17. Tenant Cooperation**

Tenant agrees to cooperate with Owner/agent in showing property to prospective tenant, prior to termination of occupancy.

### **18. Removal of Landlord's Property**

If anyone removes any property belonging to Landlord without the express written consent of Landlord, this will constitute abandonment and surrender of the premises by Tenant and termination by them of this Rental Agreement. Landlord may also take further legal action.

### **19. Tenant Insurance**

No rights of storage are given by this Lease Agreement. The Tenant agrees to hold the Landlord harmless from any liability by reason of personal injury to any person and for property damage occurring on or about or connected with the Premises or resulting from the Tenant use thereof. The Tenant hereby acknowledges this and agrees to make no such claims for any losses or damages against the Landlord. The Tenant agrees to purchase Renter's Insurance at their own expense, sufficient to cover themselves and their property from damage or injury caused by fire, theft, burglary, and breakage, and electrical connections and hereby relieves the Landlord of all risks that may be insured thereunder. They acknowledge that if they fail to procure such insurance, it is their responsibility and they alone shall bear the consequences.

## **20. Abandonment**

If Tenant leaves the premises unoccupied for 15 days without paying rent in advance for that month, or while owing any back rent from previous months, which has remained unpaid, the Landlord and/or his representatives have the right to take immediate possession of the property and to bar the Resident from returning. Landlord will also have the right to remove any property that the Residents have left behind and store it at Tenant's expense.

## **21. Lock Policy**

No additional locks will be installed on any door without the written permission of Landlord. Landlord will be given duplicate keys for all locks so installed at the Tenant's expense, before they are installed.

## **22. Condition of Premises**

The Tenant acknowledges that the said property is in good condition. If there is anything about the condition of the property that is not good, they agree to report it to Landlord within 3 days of taking possession of the property. They agree that failure to file any written notice of defects will be legally binding proof that the property is in good condition at the time of occupancy.

## **23. Inventory and Inspection Record**

An Inventory and Inspection Record has been provided for the Tenant's use. Only after this has been filled out (within the three-day time limit) will the Owner take any action to

complete the necessary repairs. Landlord warrants that all major systems will be functional and in good repair at time of possession. Light switches, wall plugs, doors, windows, faucets, drains, locks, toilets, sinks, heater, etc., will either be in working order or will be repaired once Tenant have completed the Inspection and Inventory Record. Tenant is encouraged to report any necessary repairs, no matter how slight, in writing, but they are hereby advised the Landlord does not normally repair or replace nonfunctional items such as paint, carpets, etc., every time a property changes possession. Those items are scheduled for repair/replacement at regular intervals regardless of tenant turnover.

#### **24. Tenant Responsibility**

Good housekeeping is expected of everyone. Tenant agrees to keep quarters clean and in sanitary condition. The Tenant agrees not to permit any deterioration or destruction to occur while they are occupying the property. They agree to maintain the walls, woodwork, floors, furnishings, fixtures and appliances (if any), windows, screens, doors, fences, plumbing, air-conditioning and heating, electrical and mechanical systems as well as the general structure and appearance of the property. Tenant agrees to follow all Landlord instructions, especially where posted.

#### **25. Alterations**

Tenant shall make no alterations, decorations, additions or improvements in or to the premises without the Landlord's

prior written consent, and then only by contractors or mechanics approved by Landlord. All alterations, additions, or improvements upon the premises, made by either party, shall become the property of Landlord and shall remain upon, and be surrendered with said premises, as a part thereof, at the end of the term hereof.

The Tenant specifically agree that no tacks, nails, screws, etc., will be driven into the walls, nor will they be marred or torn by glue or tape. They also acknowledge that they will be responsible for and pay any damage done by rain, wind, hail, tornadoes, hurricanes, etc., if this damage is caused by leaving windows open, allowing stoppage and/or overflow or water and/or sewage pipes, broken windows or doors, torn screens, broken door and window locks, etc. or any damage caused while Tenant has occupancy.

## **26. Maintenance of Lawns**

The Tenant acknowledges that they are responsible for maintaining the lawns and landscaping and will be held liable for any damage caused by lack of water, abuse, or neglect.

## **27. Vehicle Policy**

The Tenant agrees never to park or store a motor home, camper, trailer, boat, or any sort of recreational vehicle on the premises and to park only automobiles only on the paved areas provided. Junk cars, cars on blocks, non-functional vehicles, or unlicensed automobiles are not permitted on property. Removal will be at the expense of the Tenant. Tenant agrees that any vehicle parked on unpaved areas may be towed and stored at Tenant expense. Tenant

agrees to pay for any fines resulting from a summons issued to Landlord resulting from improper parking. Tenant will be charged a three-hundred-fifty dollar \$350 court charge along with the cost of all other fines, if the Landlord is required to go to court.

The Tenant must follow rules and laws of the city Parking Department concerning parking. Tenant must obtain all necessary parking permits and information for himself and guests. Landlord is not responsible for tenant's parking needs. Off street parking is not provided by landlord, unless otherwise noted in this agreement.

### **28. Utilities**

Tenant will be responsible for payment of all utilities, garbage, water and sewer charges, telephone, gas or other bills incurred during their residency. Tenant specifically authorizes Landlord to deduct amounts of unpaid bills from their Security Deposits in the event they remain unpaid after termination of this agreement. (See section 3 for details on payment of certain utilities).

### **29. Roof and Termite Alert**

Tenant agrees to notify Landlord immediately if roof leaks, water spots appear on ceiling, or at the first sign of termite activity.

### **30. Non-Liability**

The Tenant hereby states that any work or repairs that need to be done will be handled by competent professionals, unless Tenant is qualified and capable of doing the work themselves and doing it properly, in a safe manner that meets all federal, state, and local regulations. Tenant further

state that they will be legally responsible for any mishap they either do themselves or hire others to do. Landlord will be held free from harm and liability along with his agents and representatives. In the event that needed repairs are beyond the Tenant capacity, they are urged to arrange for professional help.

**31. Disclosure of Landlord Agent**

The Owner, \_\_\_\_\_ may be represented at various times by his employees or agents, who will carry identification. Owner's address is:

\_\_\_\_\_.

**32. Validity of Lease Provisions**

Any provision set forth in this Rental Agreement which is contrary to the state Residential Landlord and Tenant laws shall be treated by Landlord and Tenant as void and as if it were not set forth herein, but all other provision of the Rental Agreement shall remain in full force and effect.

**33. Phone**

The tenant agrees to get a phone installed in the premises as soon as possible. Landlord will be given the phone number within two working days of installation and will be notified within two working days of any future changes in the phone number.

**34. Access To Premises**

The Owner reserves the right to enter the residence at reasonable times to inspect, make necessary repairs, supply

services or show it to prospective residents, purchasers, mortgages, workmen, or contractors. Whenever practicable, a 24 hour notice of the Owner's intent to enter shall be given to the Resident. The Owner may also display "for rent" and "for sale" signs on the building of which the rented residence is a part.

### **35. Pest-Control Policy**

Resident is responsible for any ongoing pest control service, if the Resident desires such a service. Owner is not responsible for any damage done to the Resident's person, or property by such pests, or to the person or property of Resident's family or any other persons on the premises.

### **37. City, County, or State Violations**

Tenant is responsible for paying all violation fees issued against the house by the city, county or state for non-compliance to city, county or state laws. If the landlord is required to appear in court, tenant shall pay an additional \$350 fee to compensate landlord for his time.

Note: The City, Department of Inspections completes random neighborhood inspections each season. They FREQUENTLY issue violations for such items as "leaving garbage at curb on non-collection day" or "did not shovel snow within 24 hours of snow storm".

### **38. Waiver**

All rights given to Landlord by this agreement shall be cumulative in addition to any laws that exist or might come

into being. Any exercise of any rights by Landlord or failure to exercise any rights shall not act as a waiver of those or any other rights. No statement or promise by Landlord, its agents or employees, as to tenancy, repairs, amount of rent to be paid, or other terms and conditions shall be binding unless it is put in writing and made a specific part of this agreement.

### **39. Legal Binding**

Tenant hereby states that they have the legal rights to sign for any and all other residents and to commit them to abide by this contract.

### **40. Terms**

In this agreement the singular number where used will include the plural, the masculine gender will include the feminine, the term Owner will include Landlord, Lessor; and the term Resident will include Tenant, Lessee.

### **41. Full Disclosure**

The Tenant signing this Rental Contract hereby state that all questions about this Rental Agreement have been answered, that they fully understand all the provisions of the agreement and the obligations and responsibilities of each party, as spelled out herein. They further state that they agree to fulfill their obligations in every respect or suffer the full legal and financial consequences of their actions or lack of action in violation of this agreement. Signature by the Tenant on this Rental Agreement is acknowledgment and he/she has received a signed copy of the Rental Agreement.

MORGAN JOHNSON

Accepted this \_\_\_\_ day of \_\_\_\_\_.

\_\_\_\_\_, Landlord

\_\_\_\_\_, Tenant

\_\_\_\_\_, Tenant

\_\_\_\_\_, Tenant

\_\_\_\_\_, Tenant

\_\_\_\_\_, Tenant

## **Process of Tenant Set Up in New Home**

Now that you have found suitable applicants, it is time to set them up in their new homes.

The first step is to inform applicants that they have been approved. You can call them and follow up by email with details about the steps for moving in. You will request a security deposit within three business days. Check with state laws about how much you can charge for security deposits. You may also have had an application fee, that can range from \$75 to \$200 typically.

Next you have also charged fees for running a credit and background check for anyone aged 18 or older inhabiting the premises. Most applicants pay these fees upfront and after their applications are approved, you will charge the first month's rent and security deposit. You may have additional deposits for pets as well.

Your new tenant will sign your apartment lease. It helps to have the applicant sign at the end of every page to prevent

any complaints that they “did not read it.” The security deposit and first month’s rent should be received in certified funds. You can allow online and in person payment by check or debit/credit card as you see fit, but it is best to start it out right with certified funds for the initial set up.

You can explain in your email any specifics about getting utilities, renters insurance and any other property details as well.

While your property management team will cover trash pickup and water, the other utilities should be paid by the tenant such as heating or air conditioning through electricity typically.

Also prior to your tenant moving in, you will want to conduct a move-in inspection with the tenant. Take photos prior to the tenant moving in ideally. You will also want the tenant to sign a document that confirms the condition of the rental when he or she moves in. This is helpful when the tenant moves out and to confirm the property’s condition. Your

security deposit is meant to cover any damages to the property during the tenant's stay so those photos and that signed document is necessary to enforce it. If there is any additional damage, the tenant has up to seven days to report it.

Finally, after the tenant has signed the lease, provided the first month's rent and deposit with certified funds, the tenant can move in. The tenant has also set up utilities and you can then provide the tenant with keys, fob and other necessary items such as parking decals.

### **Eviction Notices**

Eviction notices help create a structure and expectation. You will want to serve eviction notices when the rent is late, every single time without any exceptions.

An on-site manager can handle all of this for you from showing apartments, to interacting with residents, maintaining areas, collecting rents and taking care of tenant needs appropriately. They can file all paperwork and

manage every mundane task, freeing up your time to focus on other activities such as buying your next investment property!

A well chosen property manager on site is professional, courteous, trustworthy, reliable, organized and knows how to handle complaints and stress. This person represents you or your company so hire carefully and well!

When you hire a management company, they are in charge of the pay salary and benefits for the on-site management team. If you hire an individual, be sure to run a credit and background check on the individual at hand. You will want to offer additional benefits to salary such as:

- Opportunity to live in the building at a lowered fee
- Bonuses for getting in more leases or renewals
- Bonuses based on occupancy and/or net operating income (NOI) benchmarks

Property management services can range from 4 to 8 percent of your total gross rents when you hire a

management company, which is a lot more than hiring an on-site manager. Who to hire depends upon your needs and the size of the property.

You will also want to have property management software to keep track of everything from tenant records to property maintenance, as well as management fees, security deposits and rental payments.

Be sure to budget for building maintenance and future improvements. Every building will need some improvement inevitably. In addition, there may be problems with broken pipes, appliances and the like. Schedule remodeling ahead of time as much as possible to avoid disruption to your tenants.

Lastly, be responsive to your tenants, offering a 24-hour turnaround time for any concern. This is of course easier when you have an on-site manager or management team to respond to your tenants, so they feel cared for and are comfortable staying for the long term at your rental and consider it their homes.

## **10 Steps to Apartment Investing:**

Now that we have explored the benefits of apartment investment, examined funding sources, locations, management of units and more, it is time to break down the essential steps to apartment investing. There are ten steps to apartment investing:

- Locate the right property
- Analyze the property value, strengths and drawbacks
- Make an Offer and Negotiate
- Do Your Due Diligence
- Seal the Deal
- Advertise Your Listing
- Screen Your Potential Tenants

- Rent the Units
- Manage the Property or Hire a Management Team
- Reap in the Profits

Let's take a closer look at each one.

### **1. Locate the right property**

What type of property do you want to invest in? There are several types of apartment buildings available today that you can invest in — high rises, mid rises, garden-style and walk-ups for example. What is the right apartment building for you to invest in?

Consider the region you are investing in. What are the current real estate trends in your area? Is the building that you are considering, valuable and popular? When you work with a seasoned, local real estate agent, you can gain from that individual's expertise in the region and knowledge of real estate. Your agent can offer you tailored recommendations.

Do you want to invest in a brand new apartment complex, one that is a few years old or one that requires some repair and maintenance upfront? You may save quite a bit at first by buying an older apartment complex, but it may also require more time and effort to modernize. Nonetheless, there are undervalued properties that can be a great deal and worth your investment.

Before signing on the dotted line for any property, even one that you think is perfect at the onset, be sure to visit multiple properties. Consider it part of your due diligence and doing your homework for the area. Avoid buying the first property that you see. Examine the local demand for the buildings in question as well.

## **2. Analyze the property value, strengths and drawbacks**

When you have honed in on a few properties to consider, perform an inspection to get a better idea of the condition of the properties at hand and to discover any underlying issues that may not have been discussed upfront. Also determine as best as you can your ability to attract good tenants and

renters to your property. How many renters to owners live in the region? What is the employment rate? Are there big employers nearby?

Generally speaking, cities with more renters than owners usually need more apartments. You can research this online prior to committing to any purchase.

Where is the property located? Does it have enough parking? Is the area good for walking? Is the building well maintained? What are its strengths? What are its drawbacks?

You may also want the help of an experienced, local real estate agent with you as the individual can recommend suitable properties based on your preferences, help you figure out details you want to know, negotiate your deal and more. The agent will also know what features are most popular and in demand in the region and help you achieve your investment goals.

Understand also what the financial process is as previously described in the section on how to finance your purchase. Typically, you will want to make at least a 20 percent down payment. You will also have to cover additional costs such as insurance, mortgage payments, maintenance and management expenses. You will also need to market and advertise your property to attract tenants.

Managing your property can be expensive. It can be helpful to first figure out the costs of common renovations such as painting, replacing light fixtures and more to help you prepare for the full costs involved. You do not want to be in a position where you are struggling to meet these costs despite having invested in an expensive property but ends up losing you money.

Hence calculating all the known costs involved and adding in a significant buffer for unexpected costs (flooding, etc.) and then choosing a property that is within your budget comfortably and will still offer you a good return on investment (ROI) is key.

### **3. Make an Offer and Negotiate**

To make a suitable offer on a property, you will need to know the current market value for similar properties in the area and what potential you have for making a profit. You can conduct a rental market analysis to compare recently sold properties, properties currently for sale and expired listings.

You will ideally want to meet with the seller in person. You can tailor your offer and present it to the seller in an appealing way. You can negotiate on details.

#### **Example of a Letter of Offer of Intent (LOI)**

The Letter of Intent (LOI) is the document that most commonly begins the negotiation on a commercial transaction. It shares your intentions as a buyer to the seller. The format is simple but the details can vary depending upon the transaction. Also specific further details and legal aspects are covered in the Purchase and Sales agreement (described later with a sample contract).

A Letter of Intent should contain the following:

- Property address and legal description (when available) This can also include details such as parcel numbers and the name of the entity.
- Purchase price
- Earnest money deposit
- Down payment (terms, if any, regarding the down payment)
- Terms of the overall offer (including any seller participation, loan assumptions, rebates, anticipated closing date, etc.)
- Due diligence elements, terms and timeframes
- Contract creation provisions
- Be certain to state that this is a non-binding proposal

Cover all the main details of the deal openly in your LOI as it creates trust, transparency and helps address any issues at the onset.

## Example Letter of Intent

Letter of Intent

Buyer: \_\_\_\_\_

Seller: \_\_\_\_\_

The “Buyer” proposes to purchase from the Seller the following real estate property:

Property Address: \_\_\_\_\_

Legal Description: \_\_\_\_\_ Purchase  
Price: \$1,000,000 Down Payment: \$10,000 Deposit: \$1,000

**Financing:** (one example) Buyer to secure a new first mortgage of \$500,000, giving the Seller \$500,000 at closing. The Seller to carry back a second mortgage for the balance of the equity (\$490,000) with interest only payments of \$2,000 per month starting 60 days after closing. The entire principle balance of the Seller’s second mortgage shall be due in full within 60 months of closing.

**This Letter of Intent is subject to the following terms and conditions:**

1. Approval of books and records, physical inspection reports, loan documents, rental agreements and service

contracts, or any other information requested by Buyer within \_\_\_\_\_ working days from the receipt of this information by Buyer from the Seller.

2. Buyer to have final approval of any rental agreements, service contracts or leases negotiated during escrow period.

3. Seller warrants that, at the close of escrow, all heating, cooling and electrical, appliances and mechanical apparatuses are to be in working order; and the roof (s) is (are) to be in good repair and free of any leaks.

Buyer's rights hereunder may be assigned to the partnership, corporation or other party, and any such transfer shall have all the benefits and rights that the Buyer has under this agreement.

Seller to deliver marketable title and warranty deed at closing, and that to the best of Seller's knowledge, no part of the property is in violation of any existing code, health or safety regulations and is not involved in any governmental or judicial proceedings.

Buyer has the right to extend the date of closing of escrow by releasing to the Seller through escrow a cut equal to one-quarter of one percent of the purchase price for each 30 day extension requested, to be applicable to the purchase price, with Buyer to maintain at all times the current deposit account for this Letter of Intent, in escrow.

Seller is not aware of any structural defect or adverse geological or environmental conditions affecting the property and its value.

Evidence of Title is to be in the form of an owners ALTA (American Land Title Association) policy.

9. Any unresolved disputes arising out of this Letter of Intent will be submitted to binding arbitration through either the American Arbitration Association or the Judicial Arbitration and Mediation Service.

10. Upon acceptance of this Letter of Intent, both parties agree to effect the creation of a mutually agreeable Purchase and Sales Agreement within 10 (ten) business days.

**ESCROW PERIOD:** \_\_\_\_\_ days or sooner by mutual consent. Escrow shall open without any contingencies.

**ACCEPTANCE PERIOD:** This Letter of Intent is valid for 10(ten) working days after date of this offer. Unless acceptance is signed by Seller and delivered to Buyer, either in person or by first class mail to address below within this period, this offer shall be deemed revoked. Buyer acknowledges receipt of a copy hereof.

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Seller Name	Date
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Buyer Name	Date
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## **Sample Contract Contingencies**

In addition to this, you may also have additional contract contingencies.

## **Sample Contract Contingencies & Clauses Earnest**

### **Money:**

The Earnest Money shall be applied against the Purchase Price or shall be immediately refunded to Buyer in the event that any of the conditions stated in this Agreement are not satisfied.

\$250,000.00 Promissory Note to be paid one year from Closing at 0 percent interest rate.

Twenty-Five Thousand and 00/100 Dollars (\$25,000.00) earnest money deposit, which shall be deposited with the Escrow Agent.

### **Earnest Money – After Contingency Period:**

Fifty Thousand and 00/100 Dollars (\$50,000.00) additional earnest money deposit, which shall be deposited with the Escrow Agent within five (5) days after the satisfaction or waiver of Buyer's activities during the Inspection Period and the Financing Period.

The balance of the Purchase Price, plus or minus the additional adjustments hereinafter set forth, shall be deposited into escrow on or before the Closing Date.

All of the foregoing assets and properties to be acquired by Buyer hereunder are collectively referred to in this Agreement as the "Property."

**Assignment of Lease:**

Assigning of all Seller's rights, title and interest as lessor, under Tenant Leases to Buyer.

**Liabilities Assumed:**

Except as otherwise expressly provided in this Agreement or as hereafter, buyer shall not, by the execution or performance of this Agreement and/or any instrument or agreement pursuant hereto, assume, become responsible for or incur any liability or obligation, of any nature, of Seller.

**Zoning:**

Buyer's ability to obtain appropriate zoning.

Seller will cooperate and assist buyer, at no cost to seller, in obtaining all necessary zoning, permits, and approvals required to satisfy the conditions precedent to Closing.

**Representations and Warranties: Survive Closing**

The Seller makes the following representation and warranties, which shall survive the Closing.

**Proper Authority**

The Seller and Seller's partner shall have authority to enter into this Agreement. The Seller is the owner of the Property, in fee simple, subject only to the Permitted.

**No Other Leases**

There are no leases, options, purchase agreements, tenancies, land contracts or other agreements affecting the

Property or any part thereof, except for those set forth on Exhibit \_\_\_, attached hereto and incorporated herein.

Seller represents and warrants that there are no leases or contracts affecting the Property which are not cancelable at Closing.

**No Defaults**

Seller represents: (i) there are no known defaults of any of the terms and conditions of the leases upon the Property; (ii) all tenants are current in their rent obligations under their leases; and (iii) Seller has not received notice of any default or claim of default of Seller as landlord by any tenant under said leases.

**No New Leases without Consent**

Furthermore, Seller shall not sign any leases or agreements without prior consent of Buyer.

**No Condemnation**

No condemnation, appropriation or eminent domain proceedings affecting the Property exist or, to the best of Seller's knowledge, are contemplated.

**No Environmental use**

The Property has not been used as a sanitary landfill, dump, industrial waste disposal area or any other similar usage during their time of ownership. Seller has no knowledge of any underground storage tanks, asbestos, toxic or hazardous wastes located, or having been located, on the Property, except as disclosed.

### **Buyer Held Harmless**

Seller shall indemnify, defend and hold Buyer harmless from and against any and all losses, claims, causes of action, damages, liabilities, expenses and costs, either before or after the Closing Date, from (i) any inaccurate or incomplete representation or any breach of any warranty or covenant of Seller under this Agreement or under any document furnished hereunder; any failure of Seller to duly perform and observe any term, provision, covenant, agreement or condition under this Agreement on its part to be performed or observed.

### **Valid Entity**

Seller is, and will be on the Closing Date, a limited liability company duly organized and validly existing under the laws of the State of \_\_\_\_\_, and will be duly qualified to do business in the State of \_\_\_\_\_; and Seller has, and will have on the Closing Date, all necessary power and authority to enter into this Agreement and to perform its obligations under this Agreement.

### **Correct Financials**

The financial statements and other economic information for the Property provided to Buyer are true and correct and accurately represent all of the income received from, and expenditures incurred for, the Property during the periods covered by such statements.

The Property and the operation thereof by Seller conform with all applicable laws, ordinances, regulations and

directives of governmental or quasi-governmental authorities, including, without limitation, those relating to zoning.

All necessary permits, licenses and approvals, with respect to the use and occupancy of the Property, have been issued by the appropriate governmental agencies and are in full force and effect.

### **Violations**

No notice or citation for the violation of any zoning, building or other law, ordinance, regulation or directive of any governmental or quasi-governmental authority have been received by Seller, which has not been corrected; and Seller has no knowledge of any fact or condition which may result in the issuance of any such notice or citation.

### **No Litigation**

There is no litigation, proceeding or action pending or threatened against or relating to the Property or to Seller which could adversely affect the Property or the operation thereof or Buyer, or which questions the validity of this Agreement or any action taken, or to be taken, by Seller or Buyer pursuant hereto.

### **Boundary Disputes**

Seller has had no boundary or water drainage disputes with the owners of any surrounding property.

### **No Encroachments**

The building(s) and all other improvements of the Property are entirely within the boundaries of the Land and do not encroach upon any other property.

### **True and Correct Rent Roll**

Exhibit “\_\_” accurately lists the name of each tenant occupying any portion of the Real Property or any party having a right to occupy any portion of the Real Property, whether pursuant to a written lease or otherwise, the location of such tenant's space, the commencement and termination dates of said tenancy, options to renew, the monthly rental with respect to such tenancy, rental delinquencies, defaults, security deposits, if any, the amount, if any, of all other charges paid or payable to the landlord by such tenant, all concessions, allowances or other liabilities to each tenant, and any and all work that Seller is obligated to perform to improve such tenant's space.

### **Accurate Leases**

Complete, true and correct copies of all written leases disclosed on Exhibit “\_\_”, including all modifications or amendments thereof or thereto and any guarantees for which no written agreements exist; neither Seller nor any tenant under any Tenant Lease is in default under any Tenant Lease.

### **Condition of Property**

The Property (including, without limitation, all gas and electric systems, lighting, heating and air conditioning equipment and systems, roof, elevators, radiators, ventilating equipment, incinerators, furnaces, hot water heaters, water, sewage and plumbing systems, fire protection and security systems) is in good operating order and repair.

### **Architectural Drawings**

Seller is in possession of true and correct copies of both the original "as built" plans and specifications, and any subsequent "as built" plans and specifications, for all building(s) located on and constituting a part of the Real Property (the "As Built Plans").

### **Storage Tanks**

There are no tanks, gas wells or other wells, whether capped or uncapped, on or about the Real Property. If any such tanks or wells are discovered, whether before or after the Closing Date, then at Buyer's option, upon notice to Seller, Seller shall, at Seller's sole cost and expense, cause the same to be removed (in the case of tanks) and capped (in the case of wells) and shall repair all damage to the Property resulting there from.

### **Municipal Improvements**

Seller has no knowledge of contemplated improvements to or adjoining the Real Property by public authority; the cost of which is to be assessed as special taxes against the Real Property.

### **EPA**

No toxic or hazardous waste, substance or material of any kind or nature (including, without limitation, lead-based paint, asbestos, asbestos containing material or mold) has been stored at, disposed of, or is located in, at, on or about the Property; and (ii) no permit is required from the \_\_\_\_\_ Environmental Protection Agency, the Federal Environmental Protection Agency or any other governmental authority, for the use or maintenance of any improvement or facility in, on or about the Real Property.

### **No Flood Plain**

No portion of the Real Property is located within a special flood plain.

### **Structural Defects**

There are no structural defects or defects in building components in or to the Real Property.

### **Service Agreements**

Exhibit “\_\_” accurately lists all Service Contracts.

### **Special Assessments**

There are no planned or commenced public improvements by governmental authorities which may result in special assessments.

You may also want to provide tenants with a document about fire and safety hazards along these lines:

**Dear Resident(s),**

Every 15 seconds, a fire department responds to a fire somewhere in the United States. The major causes of home fire deaths are unattended cooking, smoking, portable heaters, candles, arson, and children playing with matches or lighters. By paying careful attention to these issues, each of us can share the responsibility of keeping our homes safe from fire.

**Smoke Detectors and Fire Alarms**

\_\_\_\_\_ provides smoke detectors in every apartment home. Smoke detectors should be placed on the ceiling near bedrooms so they can be heard in the event of fire. Smoke detectors should also be inspected regularly to ensure proper functionality. While \_\_\_\_\_ inspects smoke detectors prior to move in, residents should test smoke detectors periodically and replace batteries as needed. Be sure to notify the office staff if they are not functioning properly or if you need assistance testing smoke detectors or replacing batteries.

**Fire Extinguishers**

If a fire does occur, having a fire extinguisher ready can be a life and property saving item. Extinguishers can be purchased from many hardware and grocery stores, often for less than \$20. Dependent upon local ordinance, a fire

extinguisher may already be provided by \_\_\_\_\_. Residents should inspect their extinguishers often to make sure that they are properly charged and able to be used.

All fire extinguishers are used in the same way. Users must pull the safety pin, aim the extinguisher at the base of the fire and squeeze the handle to discharge the fire extinguisher, sweeping the spray across the base of the fire.

### **Types of Fires**

Cooking fires are among the leading causes of residential fire incidents, and the leading cause of cooking fires is unattended cooking. You should never leave the kitchen when cooking. In case of a cooking fire like a grease fire, using baking soda will smother the fire but use the fire extinguisher when it is needed. Water should not be used to extinguish a grease fire because water will splatter the grease and increase the size of the fire.

Electrical fires are also common, and incidents can be easily reduced by not overloading power outlets. Keeping the area around plugs free of dust and spider webs will help ensure less flammable material around the outlet.

You should also never connect multiple power strips together or use many electrical devices on one power outlet. If a fire does occur, do not use water. A fire extinguisher should be used; however, if the fire becomes too large, dial 9-1-1 to contact the fire department.

## **Patios & Balconies**

Grills, hibachis, chimeneas and/or smokers are prohibited on patios or balconies. These items should be used no less than 20 feet from any building or per your city ordinance.

## **Smoking – *Only if smoking is permitted on property***

Cigarettes/cigars should never be left unattended inside your apartment or on patios/balconies. Leaving and forgetting a cigarette resting on a combustible material such as wood, grass shrubs, or plastic could result in a fire. Be sure that there are no smoldering cigarettes when emptying an ashtray into a wastebasket filled with paper or other combustibles.

## **Escape Routes**

One of the most important things to do is to prepare an escape plan. Apartments are fairly small when compared to large office buildings, schools, or houses, but it is still imperative that you memorize the floorplan of your home. When you move into your apartment, take time to become familiar with the exit paths. One exit would be the main door, but some apartments also have fire exits next to windows or balconies.

You should also become familiar with the whole building, taking note of emergency stairwells or fire escapes. Many apartment communities conduct emergency fire drills or fire safety meetings which can also be helpful, especially if you have small children.

#### **4. Do Your Due Diligence**

After you sent in your offer and met with the buyer, you can begin your due diligence process and figure out what inspections that you may require. Be sure to still maintain control of the deal through your due diligence of finances and operating histories, as well as physical inspections. Open an escrow with your title company as well.

If you decide to move forward with a purchase, you will need to add a few more things such as any review of existing leases (and existing tenants), a profit and loss statement and property inspections.

Be sure to figure out why the owner is selling. For example, the seller may have circumstances that are causing the sale such as retirement, personal financial problems or other motivations. Be sure to understand why. You do not want to be in a position of unearthing something later that the owner hid from you.

## **Three Inspections to Make During Due Diligence**

Below are three important inspections to make during due diligence.

- Document inspection
- Physical inspection
- Financial inspection

### **1. Document Inspection**

Be sure to review all relevant documents for the property such as the deed to the property, insurance policy, tenant leases, recent real estate tax bills. This process normally takes a day or two.

Find out why the seller may be lacking these documents.

Does the seller have written leases?

You may also want to get a land survey if the seller does not have the necessary document. This provides you with information such as the location of fences, driveways and

utility poles. Finally visit your local municipality to confirm that the property is zoned for its current use, that it is registered as a rental property and that there are no violations filed on the property.

## **2. Physical Inspection**

Physical inspection of your new rental property is paramount as you may discover things that the seller did not disclose. You will want to do a detailed walk through of the entire building. Take notes as needed. There are typically two principal areas to address — safety and upgrades.

Safety includes smoke detectors, fire alarms, electrical breakers and functioning appliances. Some states have specific requirements for this such as Certificate of Occupancy inspection on every sale.

Additional safety concerns include:

- **Roof inspection:** Full assessment of the roof condition with pictures and a brief written report and an estimate to repair any damage.

- **Structural inspection:** Assessment of the building foundation or the framing by an engineer for a nominal fee.
- **Boiler inspection:** Assessment by a heating contractor of the heating system to determine its viability.
- **Fire inspection:** Assessment of hardwired smoke detectors and fire extinguishers by a contractor.
- **Environmental inspection:** Assessment of environmental hazards on the property from heating oil tanks, asbestos insulation, or lead based paint.

Have a licensed building inspector perform a thorough inspection of the property, going through each unit carefully. If you find anything faulty in these inspections, you will ask the seller to fix it. It can also be negotiated off the final price if you are willing to pay for the changes. While due diligence can seem boring, it is necessary. Some additional aspects to consider include:

- Walk through each unit to determine the condition and deferred maintenance.

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- Get a roof inspection.
- Have HVAC technician check out the boiler system.
- Have electrician check out the panels
- Estimate value of the parking lot.
- Check out the sewer line and make sure it does not have any breaks.
- Get a structural engineering report to check for foundation or framing problems.
- Get multiple quotes on insurance and flood insurance.
- Have a property inspector inspect the full property.

This may seem like a lot but it can cost \$1,000 or less for all of this to be done.

Upgrades include improving and modernizing the rental units by improving the kitchen cabinets, bathroom fixtures, tiling, lighting, appliances and more.

### 3. Financial Inspection

Finally, the last inspection you need to conduct is a financial one. Secure an appraisal for your apartment building following one of these methods below.

**Market Value Approach:** Here you compare your property to similar properties to determine selling prices.

**Replacement Cost Approach:** Here you determine the amount it would cost per square foot to build a similar building.

**Income Approach:** Here you use the net operating income and local capitalization rates to determine the value of the investment. This is the potential income of the property.

**Value = Net operating income / Cap rate**

For example, if the net operating income of the building is \$60,000 and the cap rate in your area is 10%, then: Value = \$60,000 / 10% = \$600,000

## **Rent Affects the Apartment Building's Value**

As you increase rental income, you increase the property's value. Part of your financial document review is to look over existing leases with tenants to see how much they pay in rent, what their security deposit is and what they are responsible for such as renter's insurance, what utilities, what maintenance costs and other details. Also get copies of all lease agreements, policies and procedures currently in effect.

Ask for utility bills for the last 12 months to get an accurate understanding of how much it costs. Ask for a copy of the last year's real estate tax bill. Also get a copy of the insurance policy and costs.

Ask for maintenance costs and to see real expenses. This can take some time to procure from the owner but be persistent. Check in about capital expenses such as one-time maintenance costs like replacing the boiler or roof or large upgrade costs.

A general rule of thumb for maintenance for multifamily units is \$500 per unit a year. Also look at the costs of your management company's services. It can typically range between 8 to 10 percent of your monthly gross rents.

Analyze each lease and asked for proof of deposits for the last month to verify the rent had come in. Verify the taxes and utility expenses.

With these numbers in hand and your documents and physical inspection, you will have a much better idea of the condition of the property, its investment potential and if your profit projections are accurate. If there were areas unaddressed that need fixing, now is the time to do it and go back to your seller and ask for any discounts or price adjustments.

## **5. Seal the Deal - Sign the Contract, Close the Deal and Secure Deposits**

Now you are ready to seal the deal! Make sure your lawyers have prepared your Purchase and Sale agreements

(contracts). Know the details that you want to renegotiate and be ready to finance your purchase. Once you have these aspects covered, you are ready to sign the contract and close on the purchase.

Sign the contract. A sample contract is included below. When you close on the purchase of your new apartment complex, you will want to think about the:

1. Selection of escrow agent or title company experienced with apartments
2. Closing on a financially advantageous day of the month
3. Having security deposits properly transferred to you

### **Selection of an Escrow Agent or Title Company Experienced With Apartments**

Choose an escrow agent or title company to close the transaction. Be sure to choose a company that has a lot of experience with similar apartment investments.

## **Close on the Apartment Complex on a Financially Advantageous Day of the Month**

Typically, the best time to close on a new apartment deal is by the end of the month or start of the new month as you will get rental income right away and saves on interest payments.

## **Ensure Apartment Complex Security Deposits Are Properly Transferred to You**

Make sure that you have access to all security deposits for existing tenants when you close on the property. Ideally keep them in a separate escrow account. This money serves as a deposit for your tenants and it is technically their money unless they have to pay for damages to the apartment. The best scenario is to keep separate escrow accounts for each tenant.

**Sample Contract**

Here is an example of a Purchase and Sale contract from the Chicago Association of Realtors apartments and investments.

1-6. Contract. This Apartment/Investments Purchase and Sale Contract (“Contract”) is made by and between \_\_\_\_\_ (“Buyer”) and \_\_\_\_\_ (“Seller”)

(collectively, “Parties”), with respect to the purchase and sale of the real estate and improvements located at:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ (“Property”).

(address) (city) (state) (zip)

Property P.I.N. #: \_\_\_\_\_.

Lot size: \_\_\_\_\_.

Approximate square feet of Property: \_\_\_\_\_.

7-9 Fixtures and Personal Property. At Closing in addition to the Property, Seller shall transfer to Buyer by a Bill of Sale, all heating, cooling, electrical and plumbing systems,

together with the following checked and enumerated items  
("Fixtures and Personal Property"):

10. \_\_\_ Refrigerator\_\_\_
11. \_\_\_ Oven/Range\_\_\_
12. \_\_\_ Microwave\_\_\_
13. \_\_\_ Dishwasher\_\_\_
14. \_\_\_ Garbage disposal\_\_\_
15. \_\_\_ Trash compactor\_\_\_
16. \_\_\_ Washer\_\_\_
17. \_\_\_ Dryer\_\_\_
18. \_\_\_ Water Softener\_\_\_
19. \_\_\_ Sump Pump\_\_\_
20. \_\_\_ Smoke and carbon monoxide
21. \_\_\_ Central air conditioner\_\_\_
22. \_\_\_ Window air conditioner\_\_\_
23. \_\_\_ Electronic air filter\_\_\_
24. \_\_\_ Central humidifier\_\_\_
25. \_\_\_ Fireplace screen and equipment\_\_\_

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26. \_\_\_ Fireplace gas log\_\_\_
27. \_\_\_ Built-in or attached shelves or cabinets\_\_\_
28. \_\_\_ Ceiling fan\_\_\_
29. \_\_\_ Radiator covers\_\_\_
30. \_\_\_ All planted vegetation\_
31. \_\_\_ Outdoor play set/swings \_\_\_
32. \_\_\_ Outdoor shed detectors\_\_\_
33. \_\_\_ Intercom system\_\_\_
34. \_\_\_ Security system\_\_\_ (rented or owned)
35. \_\_\_ Firewood\_\_\_
36. \_\_\_ Attached gas grill\_\_\_
37. \_\_\_ Existing storms\_\_\_
38. \_\_\_ Satellite Dish\_\_\_
39. \_\_\_ Attached TV(s)\_\_\_
40. \_\_\_ TV Antenna\_\_\_
41. \_\_\_ LCD/plasma/multimediaequipment\_\_\_
42. \_\_\_ Tackeddowncarpeting\_\_\_
43. \_\_\_ Home

44. \_\_\_ Stereo speakers/surround sound \_\_\_

45. \_\_\_ Other Equipment \_\_\_

46. warranty (as attached) \_\_\_

47. \_\_\_ Lighting fixtures \_\_\_

48. \_\_\_ Electronic garage door(s) with \_\_\_ remote unit(s) \_\_\_  
and screens \_\_\_

49. \_\_\_ Window treatments \_\_\_

50. Seller also transfers the following:

\_\_\_\_\_. The following  
items are excluded:

\_\_\_\_\_.

51. Purchase Price. The purchase price for the Property (including the Fixtures and Personal Property) is \$ \_\_\_\_\_ (“Purchase Price”).

52. Earnest Money. Upon Buyer's execution of this Contract, Buyer shall deposit with

\_\_\_\_\_

53. (“Escrowee”), initial earnest money in the amount of \$ \_\_\_\_\_, in the form of \_\_\_\_\_ (“Initial Earnest Money”). The Initial Earnest Money shall be returned and

this Contract shall be of no force or effect if this Contract is not accepted by Seller on or

54. before \_\_\_\_\_, 20\_\_\_\_. The Initial Earnest Money shall be increased to (strike one) 10% of the Purchase Price OR \_\_\_\_\_% [percent]

55. of the Purchase Price ("Final Earnest Money") within \_\_\_\_\_ business days after the expiration of the Attorney Approval Period (as established in

56. Paragraph 14 of this Contract) (the Initial and Final Earnest Money are together referred to as the "Earnest Money"). The Parties acknowledge

57. and agree that (i) the Parties shall execute all necessary documents with respect to the Earnest Money in form and content mutually agreed upon

58. between the parties and (ii) except as otherwise agreed, Buyer shall pay all expenses incurred in opening an escrow account for the Earnest Money.

59. Mortgage Contingency. This Contract is contingent upon Buyer securing by \_\_\_\_\_, 20\_\_\_\_ ("First Commitment Date") a firm

60. written mortgage commitment for a fixed rate or an adjustable rate mortgage permitted to be made by a U.S. or Illinois savings and loan association,

61. bank, or other authorized financial institution, in the amount of (strike one) \$\_\_\_\_\_ OR \_\_\_\_% [percent] of the Purchase Price, the

62. interest rate (or initial interest rate if an adjustable rate mortgage) not to exceed \_\_\_\_% per year, amortized over \_\_\_\_ years, payable monthly, loan

63. fee not to exceed \_\_\_\_%, plus appraisal and credit report fee, if any ("Required Commitment"). If the mortgage secured by the Required

64. Commitment has a balloon payment, it shall be due no sooner than \_\_\_\_ years. Buyer shall pay for private mortgage insurance as required by the

65. lending institution. If a FHA or VA mortgage is to be obtained, Rider 8, Rider 9, or the HUD Rider shall be attached to this Contract. (1)

66. If Buyer is unable to obtain the Required Commitment by the First Commitment Date, Buyer shall so notify Seller in writing on or before that Date.

67. Thereafter, Seller may, within 30 business days after the First Commitment Date ("Second Commitment Date"), secure the Required Commitment

68. for Buyer upon the same terms, and may extend the Closing Date by 30 business days. The Required Commitment may be given by Seller or a third

69. party. Buyer shall furnish all requested credit information, sign customary documents relating to the application and securing of the Required

70. Commitment, and pay one application fee as directed by Seller. Should Seller choose not to secure the Required Commitment for Buyer, this Contract

71. shall be null and void as of the First Commitment Date, and the Earnest Money shall be returned to Buyer. (2) If Buyer notifies Seller on or before

72. the First Commitment Date that Buyer has been unable to obtain the Required Commitment, and neither Buyer nor Seller secures the Required

73. Commitment on or before the Second Commitment Date, this Contract shall be null and void and the Earnest Money shall be returned to Buyer. (3)

74. If Buyer does not provide any notice to Seller by the First Commitment Date, Buyer shall be deemed to have waived this contingency and this

75. Contract shall remain in full force and effect.

76.. Possession. Seller agrees to surrender possession of the Property, subject to existing leases, on or before the Closing Date (as defined in

77. Paragraph 7 below). If possession is not delivered on or prior to the Closing Date, then, Seller shall pay to Buyer at Closing \$\_\_\_\_\_ per

78. day (“Use/Occupancy Payments”) for Seller's use and occupancy of the Property for each day after the Closing Date through and including the date

79. Seller plans to deliver possession to Buyer (“Possession Date”). If Seller delivers possession of the Property to Buyer prior to the Possession Date,

80. Buyer shall refund the portion of Use/Occupancy Payments which extend beyond the date possession is actually surrendered. Additionally, Seller

81. shall deposit with Escrowee a sum equal to 2% of the Purchase Price (“Possession Escrow”) to guarantee possession on or before the Possession

82. Date, which sum shall be held from the net proceeds at Closing on Escrowee's form of receipt. If Seller does not surrender the Property on the

83. Possession Date, Seller shall pay to Buyer, in addition to all Use/Occupancy Payments, the sum of 10% of the original amount of the Possession

84. Escrow per day up to and including the day possession is surrendered to Buyer plus any unpaid Use/Occupancy Payments up to and including the

85. date possession is surrendered, these amounts to be paid out of the Possession Escrow and the balance, if any, to be returned to Seller. Acceptance of

86. payments by Buyer shall not limit Buyer's other legal remedies. Seller and Buyer hereby acknowledge that Escrowee shall not distribute the

87. Possession Escrow without the joint written direction of Seller and Buyer. If either Party objects to disposition of the Possession Escrow, then

88. Escrowee may deposit the Possession Escrow with the Clerk of the Circuit Court by the filing of an action in the nature of an Interpleader. Escrowee

89. shall be reimbursed from the Possession Escrow for all costs, including reasonable attorneys' fees, related to the filing of the Interpleader, and the

90. Parties shall indemnify and hold Escrowee harmless from any and all claims and demands, including the payment of reasonable attorneys' fees,

91. costs, and expenses.

92. Closing. Buyer shall deliver the balance of the Purchase Price (less the amount of the Final Earnest money, plus or minus prorations and

93. escrow fees, if any) to Seller and Seller shall execute and deliver the Deed (as defined below) to Buyer at "Closing". Closing shall occur on or prior to

94. Buyer Initials: \_\_\_\_\_

Buyer Initials: \_\_\_\_\_

95. Seller Initials: \_\_\_\_\_

Seller Initials: \_\_\_\_\_

96. \_\_\_\_\_, 20\_\_\_\_ at a time and location mutually agreed upon by the Parties (“Closing Date”). Seller must provide Buyer with good and

97. merchantable title prior to Closing.

98. Deed. At Closing, Seller shall execute and deliver to Buyer, or cause to be executed and delivered to Buyer, a recordable warranty deed

99. (“Deed”) (or other appropriate deed if title is in trust or in an estate), or Articles of Agreement, if applicable, subject only to the following, if any:

100. covenants, conditions, and restrictions of record; public and utility easements; acts done by or suffered through Buyer; existing leases and tenancies,

101. if any; all special governmental taxes or assessments confirmed and unconfirmed; and general real estate taxes not yet due and payable at the time of

102 Closing.

103. Real Estate Taxes. Seller represents that the 20\_\_\_\_ general real estate taxes were \$\_\_\_\_\_.  
General real estate taxes for the

104. Property are subject to the following exemptions (check box if applicable): \_\_\_ Homeowner's. \_\_\_ Senior Citizen's. \_\_\_ Senior Freeze. General real

105. estate taxes shall be prorated based on (i) \_\_\_\_\_% of the most recent ascertainable full year tax bill, or (ii) mutually agreed by the Parties in

106. writing prior to the expiration of the Attorney Approval Period.

107. Leases. Seller shall deliver to Buyer a complete copy of all existing leases affecting the Property and a rent roll within 3 business days of the

108. Acceptance Date. Seller represents and warrants that (a) existing leases, if any, will be assigned to Buyer at Closing in an assignment and

109. assumption agreement mutually agreeable to the Parties and (b) the present monthly gross rental income is \$ \_\_\_\_\_.

110. Seller shall notify Buyer, prior to Closing, of any (i) new leases; (ii) modifications or amendments to the existing leases; and (iii) changes in the

111. monthly gross rental income.

112. Disclosures. Buyer has received the following (check yes or no): (a) Illinois Residential Real Property Disclosure Report: \_\_\_ Yes/\_\_\_ No; (b)

113. Heat Disclosure: \_\_\_ Yes/\_\_\_ No; (c) Lead Paint Disclosure and Pamphlet: \_\_\_ Yes/\_\_\_ No; and (d) Radon Disclosure and Pamphlet: \_\_\_ Yes/\_\_\_ No.

114. Zoning Certification. If the Property is located in the City of Chicago and contains four dwelling units or less, Seller shall provide zoning

115. certification to Buyer at least 5 days prior to the Closing Date.

116. Dual Agency. The Parties confirm that they have previously \_\_\_\_\_ consented \_\_\_\_\_ to \_\_\_\_\_ (“Licensee”) to act as Dual

117. Agent in providing brokerage services on behalf of the Parties and specifically consent to Licensee acting as Dual Agent on the transaction covered by

118. this Contract.

119. Buyer Initials: \_\_\_\_\_ Buyer Initials: \_\_\_\_\_  
Seller Initials: \_\_\_\_\_ Seller Initials: \_\_\_\_\_

120. Attorney Modification. Within \_\_\_ business days after the Acceptance Date (“Attorney Approval Period”), the Parties' respective attorneys

121. may propose written modifications to this Contract (“Proposed Modifications”) on matters other than the Purchase Price, broker's compensation

122. and dates. Any Proposed Modifications that are set forth in writing and accepted by the other party shall become terms of this Contract as if

123. originally set forth in this Contract. If, within the Attorney Approval Period, the Parties cannot reach agreement regarding the Proposed

124. Modifications, then, at any time after the Attorney Approval Period, either Party may terminate this Contract by written notice to the other Party. In

125. that event, this Contract shall be null and void and the Earnest Money shall be returned to Buyer. IN THE ABSENCE OF DELIVERY OF

126. PROPOSED MODIFICATIONS PRIOR TO THE EXPIRATION OF THE ATTORNEY APPROVAL PERIOD, THIS PROVISION SHALL BE

127. DEEMED WAIVED BY ALL PARTIES, AND THIS CONTRACT SHALL BE IN FULL FORCE AND EFFECT.

128. Inspection. Within \_\_\_\_ business days after the Acceptance Date ("Inspection Period"), Buyer may conduct, at Buyer's sole cost and expense

129. (unless otherwise provided by law) home, radon, environmental, lead-based paint and/or lead-based paint hazards (unless separately waived), wood

130. infestation, and/or mold inspections of the Property (“Inspections”) by one or more properly licensed or certified inspection personnel (each, an

131. “Inspector”). The Inspections shall include only major components of the Property, including, without limitation, central heating, central cooling,

132. plumbing, well, and electric systems, roofs, walls, windows, ceilings, floors, appliances, and foundations. A major component shall be deemed to be in

133. operating condition if it performs the function for which it is intended, regardless of age, and does not constitute a health or safety threat. Buyer

134. shall indemnify Seller from and against any loss or damage to the Property or personal injury caused by the Inspections, Buyer, or Buyer's Inspector.

135. Prior to expiration of the Inspection Period, Buyer shall notify Seller or Seller's attorney in writing (“Buyer's Inspection Notice”) of any defects

136. disclosed by the Inspections that are unacceptable to Buyer, together with a copy of the pertinent pages of the relevant Inspections report. Buyer

137. agrees that minor repairs and maintenance costing less than \$250 shall not constitute defects covered by this Paragraph. If the Parties have not

138. reached written agreement resolving the inspection issues within the Inspection Period, then either Party may terminate this Contract by written

139. notice to the other Party. In the event of such notice, this Contract shall be null and void and the Earnest Money shall be returned to Buyer. IN THE

140. ABSENCE OF WRITTEN NOTICE PRIOR TO EXPIRATION OF THE INSPECTION PERIOD, THIS PROVISION SHALL BE DEEMED WAIVED

141. BY ALL PARTIES, AND THIS CONTRACT SHALL BE IN FULL FORCE AND EFFECT.

142. General Provisions, Riders and Addendums. THIS CONTRACT WILL BECOME A LEGALLY BINDING CONTRACT WHEN

143. SIGNED BY BUYER AND SELLER AND DELIVERED TO BUYER OR BUYER'S DESIGNATED AGENT. THIS CONTRACT INCLUDES

144. THE GENERAL PROVISIONS ON THE LAST PAGE OF THIS CONTRACT AND RIDERS \_\_\_\_\_ (list Rider

145. numbers here) AND ADDENDUM \_\_\_\_\_ (list Addendum numbers here) ATTACHED TO AND MADE A PART OF

146. THIS CONTRACT.

[SIGNATURE PAGE FOLLOWS]

## **5. Closing on the Property**

When you want to close out a property, be sure to have all your agreements reviewed by a qualified, Commercial Real Estate attorney — someone who does closings frequently. Your lawyer will cover all the details. Here are some details you must be aware of and must be included. Make sure that any new loan terms matches your commitment letter such as the following:

- Interest rate
- Whether the loan rate is fixed or adjustable
- Adjustment periods
- Prepayment penalties
- Term in years
- If and when a note balloons
- Yield spread for any adjusting term
- Points charged on the loan
- Any automatic renewals
- Any floors or ceilings on the interest rates

Always use a competent legal professional.

## **6. Advertise Your Listing**

In addition to buying your property and setting up a management company, you will want to advertise your property to suitable tenants. You can hire an advertising company for this but you can also do many things yourself such as running an ad in the local paper, advertising in popular sites such as apartments.com, Google ads and more.

## **7. Screen Your Potential Tenants**

By far one of the most important aspects to having regular reliable income from your rentals is having good tenants. In the prior section, we discussed at length the importance of how to screen your potential tenants.

## **8. Rent the Units**

After you have brought in tenants and screened them and found suitable tenants, it is time to rent the units. Be sure to get a deposit in addition to the first month's rent and have

the tenant sign up for utilities so they can move in smoothly. You will want to have a signed contract and discuss any details with your tenant clearly. You or your management team can do this.

## **9. Manage the Property or Hire a Management Team**

If the property is very small, you may want to manage it yourself or hire an individual property manager. This will take a lot more commitment also.

If you buy a multifamily unit, then you can hire the services of a management company. The bigger the property, the more you will need more help. Having a property management service company to assist can help in day to day operations, tenant issues, collecting rent, hiring employees, maintaining the property, fixing repairs and being on hand for any issue or emergency.

Any management team you hire must have an office in the same area as your property. This cannot be done remotely. They need to have formal written procedures for

management. They also need to have managed similar properties without having a direct conflict in interest by owning properties similar to your own in the same area.

By having a property management team, you can benefit in many ways such as:

- Ensuring maximum rental rates are being achieved
- Ensuring vacancy loss is minimized
- Cost savings through the Management company's economies of scale purchasing power
- Not having to hire an accountant to do your books
- Ensuring any liability exposure is minimized
- Ensuring any filings are done on time avoiding penalties
- Ensuring any invoices such as utilities are paid on time avoiding any interest charges

### **Factors to Consider**

- Does the Management Company have experience in the type of building you own?

- Does the Management Company have experience in the geographic location of your building(s)?
- Does the Management Company have a strong accounting department?
- How much is the proposed management fee and what additional charges might there be?
- What sort of education qualifications does the Property Manager have (is he/she licensed, if required, or have a professional designation such as a CPM etc.)?
- How many years' experience does the Property Manager have? What to ask
- How much and what type insurance does the Management Company carry? Do they have liability and Errors and Omissions insurance, are their Property Manager's bonded?
- Ask to see a sample monthly reporting package that you will receive. Is it detailed enough for your purposes?
- How are emergencies handled, in particular after hour calls?

Also you will want to get at least three references that you can follow up with. You would also want to discuss how the

Management Company plans to run your property. You will want to have a general discussion on staffing, advertising and suggested improvements to the property. Then you will want to have a more detailed Management Plan should the company be awarded the contract.

Avoid getting emotionally attached to the building, tenants or company. Aim for professionalism throughout. This can lead to many mistakes. You want to get along well but always follow the necessary guidelines and policies.

In addition, you want to consider preventative maintenance in year one — not when it is too late. General maintenance includes changing the air conditioning filters, as well as those in the furnace, cleaning the gutters to prevent back-ups and water damage, and checking the condition of your roof is examined once a year.

By far the most common insurance claim for buildings is water damage, which happens from the roof, gutters or leaky drain pipe, that can end up damaging multiple walls and floors if left unchecked.

Get your building appraised annually when you need to renew your insurance as it helps you figure out any replacement costs and any improvement or loss in the building value. It is best to have professional support for annual maintenance from fire alarms to mechanical maintenance such as heating and hot water, electrical and building plumbing.

### **10. Reap in the Profits**

With all these steps done, you are now ready to reap in the profits! Yay! You have done the hard work. It is time for you to enjoy the profits. Enjoy.

## **Exit Strategy: Fix and Flip, Hold and Resell or Reinvest**

A real estate exit strategy helps you remove the investor from the deal. It is essentially a plan of what you will do with the property. Some exist strategies are planned by real estate investors as part of a business model. Some people plan an exit strategy once things fall apart. This is not ideal. It is much smarter to have an exit strategy in place before you purchase any investment property.

Choosing a real estate exit strategy offers both a plan of action and minimize risks, thus helping you avoid problems. It is important to have a specific exit strategy. As a rule of thumb, it is important to enter a real estate investing deal with a clear understanding of how you will profit from the real estate property when exiting from the investing deal.

Sometimes you may want to exit a real estate investment because you find out that you do not like being involved in real estate investing, consider it a burden or not worth your time. Whatever your reason for exiting, you need to have a plan — an exit strategy — before you buy an investment property.

Sometimes also investors need to pull out of an investment deal because they have emergencies such as a family tragedy, sickness or other event that causes them to need more liquid cash right away. Then the investor wants a real estate exit strategy to sell the property faster and cash out.

Property investors who buy and sell a lot of properties also benefit a lot from exit strategies. It also helps any investor coming on board to know how to manage a new property and to recognize what is acceptable as a return.

Another reason that investors may want to pull out of a deal is the multifamily asset underperforms and they want to pull out their cash.

## **Property Liquidation**

Property liquidation involves how much you actually gain from the property itself. This can help you figure out a selling price that brings in the highest return for you.

Here are some excellent exit strategies to consider:

### **1. Fix and flip**

This real estate exit strategy helps you sell the property at a profit at the biggest margin as you sell it at full market value. You have purchased a home that needs repair and is below market value and then renovated it and sold it for more than your original investment.

You can also reduce costs by installing energy-efficient bulbs and low flow toilets. This will also help increase the property value as your monthly expenses go down, improving your total profit.

## **2. Hold and Sell**

This exit strategy helps you build up equity in a real estate property similar to fix-and-flip, but instead of selling the renovated property, you hold it for a period of time and rent it out to receive monthly cash flow. After you have built up equity and appreciation, then you can sell it for a profit.

Sometimes you want to hold on to a property to ride out fluctuations in the market until it stabilizes. Apartment prices may also go up because of job growth and less inventory but greater demand. Millennials are buying multi-family units in Texas and Washington, leading to greater scarcity of available apartments and driving demand

## **3. Wholesaling**

A wholesale deal happens when a real estate investor or wholesaler, acts as the middleman between a property seller and a property buyer. The real estate wholesaler sells a property for a profit, first buying the property under a purchase contract and then selling it or assigning it to the buyer for a small profit.

## **Additional Exit Strategies When Buying An Apartment Building**

### **Repositioning**

Another way to increase your asset value with an exist strategy is repositioning. In this case, for commercial assets, you offer building modifications that improve the quality of life for tenants and will increase rents for these assets. A repositioning strategy involves lesser capital expenses than a complete renovation.

Ratio utility billing (RUBS) allows you to transfer part of the monthly utilities bills to your tenants, thus lowering your expenses overall and increasing your net operating income.

### **Condo Conversion**

This is a way to exit the deal by converting the units to condominiums that are then sold to investors or homeowners.

## **Sell To A REIT (real estate investment trust)**

Sell to a REIT for a profit.

## **1031 Exchange**

Instead of selling your real asset and paying capital gains tax, you can exchange it tax free for another similar investment.

## **Sell To Another Real Estate Investor**

You can sell to another investor.

## **Seller Financing**

You can exit a real estate property by working with the seller as the finances where you exchange a promissory note with an interest rate and a repayment schedule. The seller benefits from this as the seller receives monthly payments that cover the mortgage loan.

## **Rent to Own**

Here you can rent the property to a tenant who can then buy it after a set period of time similar to car leases.

## **Choosing the Best Exit Strategy For You**

How do you choose the right exit strategy for you?

Real estate investment exit strategies must be right for you. There is no single solution as you can see. In deciding upon the right exit strategy for you, you will want to consider the following factors:

- Short and long-term goals
- Experience level
- Time to close
- Purchase price
- Property value
- Condition of the property
- Market conditions
- Supply and demand

- Financing options
- Profit potential

## **Factors That Can Ruin an Exit Strategy**

Not every exit strategy goes well. It is essential to understand factors that might undermine your success such as:

- Depreciation
- Tenant issues that result in low vacancy or lost rent
- Unexpected maintenance costs
- Poor property management that lowers cash flow and property value
- A lack of sufficient demand
- Failed escrow
- Lender backs out

Before you make a real estate investing deal and purchase investment properties, you must understand how to get out of the deal with a proper exit strategy, how you can sell it to

make a profit and understand fully the value of investing. A proper exit strategy is a mechanism that allows the real estate investor to cash out of the investment property with minimal difficulty.

## **Conclusion:**

### **Is Apartment Investing Right for Me?**

Investing in apartment buildings is clearly both financially lucrative and advantageous for income over the long term. While the process may seem a little daunting at first, it is possible and very profitable once you have put in the effort. There is hard work involved and owning a real estate property does require due diligence and regular maintenance. Then you are well positioned to reap the benefits that come with investing in apartment buildings!

On a last note, when you invest in apartment buildings, there are three essentials to also consider — location, value-add and underwriting. Location is often the driving factor for real estate selection. What makes a location appealing varies by

the type of property in consideration, such as residential, retail, office, industrial or apartment. Apartment locations that are considered “good” offer typically ease of access to both transportation and employment.

Value-add means finding ways to add value to the property. This increases the overall Net Operating Income or NOI. You can do this by making physical improvements to a property such as improved flooring, new cabinets, new fixtures and more. It can also be increased through less obvious ways such as lowered expenses and by increasing efficiency.

Finally, underwriting involves a careful analysis of all the finances involved with an investment, including income, expenses and a pro forma statement of expected changes, financing options and figuring out your expected return on investment (ROI) conservatively. It helps to set a minimum threshold for underwriting, say ten percent for example. Only invest if your numbers meet this threshold.

Apartments offer a reliable commercial real estate investment that appreciates over the long term and

consistently offers an ROI. Investing in a multi-unit apartment building makes more sense than in just a small building of under twelve units. The cost of heating and water is more reasonable for a multi-unit building than it is for a smaller dwelling of twelve units or less.

Investing in larger scale, higher priced apartment buildings also have additional benefits. They often have low vacancy rates and receive higher rent payments. For the owner though, the cost goes down per individual apartment the more apartments there are.

Ultimately, remember the choice of apartment building(s) lies with you. The money you will make on this investment depends upon your smart decision making and buying smart.

**Thank you for reading!**

We hope you enjoyed this book and wish you the best of luck on your real estate ventures.

Please leave this book an honest review on Amazon.

MORGAN JOHNSON

## Glossary

Here are commonly used terms and definitions for real estate investment as defined by the mortgage and real estate industry, which may have different connotations and meanings within other contexts.

**Abstract of title** A summary of the public records relating to the title to a particular piece of land. An attorney or title insurance company reviews an abstract of title to determine whether there are any title defects that must be cleared before a buyer can purchase clear, marketable, and insurable title.

**Acceleration clause** Condition in a mortgage that may require the balance of the loan to become due immediately in the event regular mortgage payments are not made or other conditions of the mortgage are not met.

**Accounts payable** Money a business owes to its suppliers.

**Accounts receivable** Money owed to a business by its customers.

**Accrued interest** Interest earned but not yet paid.

**Adjustable rate mortgage (ARM) loans** Loans with interest rates that are adjusted periodically based on changes in a preselected index. As a result, the interest rate on your loan and the monthly payment will rise and fall with increases and decreases in overall interest rates. These mortgage loans must specify how their interest rate changes, usually in terms of a relation to a national index such as (but not always) Treasury bill rates. If interest rates rise, your monthly payments will rise. An interest rate cap limits the amount by which the interest rate can change; look for this feature when you consider an ARM loan.

**Amortization** A payment plan that enables the borrower to reduce a debt gradually through monthly payments of principal, thereby liquidating or extinguishing the obligation through a series of installments.

**Amortization schedule** A table showing precisely how a loan will be repaid. It gives the required payment on each payment date and a break-down of the payment, showing how much is interest and how much is re-payment of principal.

**Amortized loan** A loan that is repaid in equal payments over its life.

**Annual compounding** The arithmetic process of determining the final value of a cash flow or series of cash flows when interest is added once a year.

**Annual percentage rate (APR)** The cost of credit expressed as a yearly rate. The annual percentage rate is often not the same as the interest rate. It is a percentage that results from an equation considering the amount financed, the finance charges, and the term of the loan. The cost of a loan or other financing as an annual rate. The APR includes the interest rate, points, broker fees and certain other credit charges a borrower is required to pay.

**Annuity** A stream of equal payments that lasts for a specific period of time. An amount paid yearly or at other regular intervals, often at a guaranteed minimum amount. Also, a type of insurance policy in which the policy holder makes payments for a fixed period or until a stated age, and then receives annuity payments from the insurance company.

**Annuity in advance** An annuity that has an immediate payment, such as the day the annuity begins.

**Application** An initial statement of personal and financial information required to apply for a loan.

**Application fee** Fee charged by a lender to cover the initial costs of processing a loan application. The fee may include the cost of obtaining a property appraisal, a credit report, and a lock-in fee or other closing costs incurred during the process, or the fee may be in addition to these charges. The fee that a mortgage lender or broker charges to apply for a mortgage to cover processing costs.

**Appraisal** A professional analysis used to estimate the value of the property. This includes examples of sales of similar properties. An expert judgment or estimate of the quality or value of real estate as of a given date. The process through which conclusions of property value are obtained. It is also refers to the formalized report that sets forth the estimate and conclusion of value.

**Assessed value** An official valuation of property most often used for tax purposes.

**Asset** Anything a business or firm owns, such as land, buildings, or equipment.

**Appraiser:** A professional who conducts an analysis of the property, including examples of sales of similar properties in order to develop an estimate of the value of the property. The analysis is called an “appraisal.”

**Appreciation:** An increase in the market value of a home due to changing market conditions and/or home improvements.

**Arbitration:** A process where disputes are settled by referring them to a fair and neutral third party (arbitrator). The disputing parties agree in advance to agree with the decision of the arbitrator. There is a hearing where both parties have an opportunity to be heard, after which the arbitrator makes a decision.

**Asbestos:** A toxic material that was once used in housing insulation and fireproofing. Because some forms of asbestos have been linked to certain lung diseases, it is no longer used in new homes. However, some older homes may still have asbestos in these materials.

**Assessed Value:** Typically the value placed on property for the purpose of taxation.

**Assessor:** A public official who establishes the value of a property for taxation purposes.

**Asset:** Anything of monetary value that is owned by a person or company. Assets include real property, personal property, stocks, mutual funds, etc.

**Assignment of Mortgage:** A document evidencing the transfer of ownership of a mortgage from one person to another.

**Assumable Mortgage:** A mortgage loan that can be taken over (assumed) by the buyer when a home is sold. An assumption of a mortgage is a transaction in which the buyer of real property takes over the seller's existing mortgage; the seller remains liable unless released by the lender from the obligation. If the mortgage contains a due-on-sale clause, the loan may not be assumed without the lender's consent.

**Assumption:** A homebuyer's agreement to take on the primary responsibility for paying an existing mortgage from a home seller.

**Assumption Fee:** A fee a lender charges a buyer who will assume the seller's existing mortgage.

**Automated Underwriting:** An auto- mated process performed by a technology application that streamlines the processing of loan applications and provides a

**Balance statement** A statement of the firm's financial position at a specific point in time.

**Balloon mortgage** Balloon mortgage loans are short-term fixed-rate loans with fixed monthly payments for a set number of years followed by one large final balloon payment for all of the remainder of the principal. Typically, the balloon payment may be due at the end of 5, 7, or 10 years. Borrowers with balloon loans may have the right to refinance the loan when the balloon payment is due, but the right to refinance is not guaranteed.

**Bill of sale** A written document or instrument that provides evidence of the transfer of right, title, and interest in personal property from one person to another.

**Balance Sheet:** A financial statement that shows assets, liabilities, and net worth as of a specific date.

**Balloon Mortgage:** A mortgage with monthly payments often based on a 30-year amortization schedule, with the unpaid balance due in a lump sum payment at the end of a

specific period of time (usually 5 or 7 years). The mortgage may contain an option to “reset” the interest rate to the current market rate and to extend the due date if certain conditions are met.

**Balloon Payment:** A final lump sum payment that is due, often at the maturity date of a balloon mortgage.

**Bankruptcy:** Legally declared unable to pay your debts. Bankruptcy can severely impact your credit and your ability to borrow money.

**Before-tax Income:** Income before taxes are deducted. Also known as “gross income.”

**Biweekly Payment Mortgage:** A mortgage with payments due every two weeks (instead of monthly).

**Bona fide:** In good faith, without fraud.

**Bridge Loan:** A short-term loan secured by the borrower’s current home (which is usually for sale) that allows the proceeds to be used for building or closing on a new house

before the current home is sold. Also known as a “swing loan.”

**Broker:** An individual or firm that acts as an agent between providers and users of products or services, such as a mortgage broker or real estate broker. See also “Mortgage Broker.”

**Building Code:** Local regulations that set forth the standards and requirements for the construction, maintenance and occupancy of buildings. The codes are designed to provide for the safety, health and welfare of the public.

**Buydown:** An arrangement whereby the property developer or another third party provides an interest subsidy to reduce the borrower’s monthly payments typically in the early years of the loan.

**Buydown Account:** An account in which funds are held so that they can be applied as part of the monthly mortgage payment as each payment comes due during the period that an interest rate buydown plan is in effect.

**Bond** Any obligation under seal. A real estate bond is a written obligation, usually issued on security of a mortgage or deed of trust.

**Breach** The breaking of a law or failure of a duty, either by omission or commission; the failure to perform, without legal excuse, any promise that forms a part or the whole of a contract.

**Break-even analysis** The analysis of the level of sales required for a business to exactly break even, resulting in zero profit.

**Brokers** Those who engage on behalf of others in negotiations for contracts relative to property in which they have no custodial concern.

**Broker, real estate** Any person, partnership, association, or corporation who, for compensation or valuable consideration, sells or offers for sale, buys or offers to buy, or negotiates the purchase or sale or exchange of real estate, or rents or offers to rent, any real estate or the improvements thereon for others.

**Capital** Accumulated wealth; a portion of wealth set aside for the production of additional wealth; specifically, the funds belonging to the partners or shareholders of a business, invested with the express purpose and intent of remaining in the business to generate profits.

**Capital asset pricing model (CAPM)** A model based on the proposition that any stock's required rate of return is equal to the risk-free rate of return plus a risk premium that reflects only the risk remaining after diversification.

**Capital budgeting** The process of planning expenditures on assets whose cash flows are expected to extend beyond one year.

**Capital expenditures** Investments of cash or other property, or the creation of a liability in exchange for property to remain permanently in the business—usually pertaining to land, buildings, machinery, and equipment.

**Capitalization** The act or process of converting or obtaining the present value of future incomes into current equivalent

capital value; also the amount so determined; commonly refers to the capital structure of a corporation or other such legal entity.

**Capital structure** The blend of both debt and equity capital maintained by an entity.

**Carrying costs** Costs that increase with increases in the level of assets such as interest, taxes, and insurance.

**Cash flow** Cash generated by a business and paid to creditors and share-holders. It can be classified as (1) cash flow from operations, (2) cash flow from changes in fixed assets, and (3) cash flow from changes in net working capital.

**Certificate of title** A certificate issued by a title company or a written opinion rendered by an attorney that the seller has good marketable and insurable title to the property that he or she is offering for sale. A certificate of title offers no protection against any hidden defects in the title that an examination of the records could not reveal. The issuer of a

certificate of title is liable only for damages due to negligence. The protection offered a home-owner under a certificate of title is not as great as that offered in a title insurance policy.

**Cap:** For an adjustable-rate mortgage (ARM), a limitation on the amount the interest rate or mortgage payments may increase or decrease. See also “Lifetime Payment Cap,” “Lifetime Rate Cap,” “Periodic Payment Cap,” and “Periodic Rate Cap.”

**Capacity:** Your ability to make your mortgage payments on time. This depends on your income and income stability (job history and security), your assets and savings, and the amount of your income each month that is left over after you’ve paid for your housing costs, debts and other obligations.

**Cash-out Refinance:** A refinance transaction in which the borrower receives additional funds over and above the amount needed to repay the existing mortgage, closing costs, points, and any subordinate liens.

**Certificate of Deposit:** A document issued by a bank or other financial institution that is evidence of a deposit, with the issuer's promise to return the deposit plus earnings at a specified interest rate within a specified time period.

**Certificate of Eligibility:** A document issued by the U.S. Department of Veterans Affairs (VA) certifying a veteran's eligibility for a VA-guaranteed mortgage loan.

**Chain of Title:** The history of all of the documents that have transferred title to a parcel of real property, starting with the earliest existing document and ending with the most recent.

**Change Orders:** A change in the original construction plans ordered by the property owner or general contractor.

**Clear Title:** Ownership that is free of liens, defects, or other legal encumbrances.

**Closing:** The process of completing a financial transaction. For mortgage loans, the process of signing mortgage documents, disbursing funds, and, if applicable, transferring

ownership of the property. In some jurisdictions, closing is referred to as “escrow,” a process by which a buyer and seller deliver legal documents to a third party who completes the transaction in accordance with their instructions. See also “Settlement.”

**Closing Agent:** The person or entity that coordinates the various closing activities, including the preparation and recordation of closing documents and the disbursement of funds. (May be referred to as an escrow agent or settlement agent in some jurisdictions.) Typically, the closing is conducted by title companies, escrow companies or attorneys.

**Closing Costs:** The upfront fees charged in connection with a mortgage loan transaction. Money paid by a buyer (and/or seller or other third party, if applicable) to effect the closing of a mortgage loan, generally including, but not limited to a loan origination fee, title examination and insurance, survey, attorney’s fee, and prepaid items, such as escrow deposits for taxes and insurance.

**Condominium** Individual ownership of a dwelling unit and an individual interest in the common areas and facilities that serve the multiunit project.

**Consideration** Something of value, usually money, that is the inducement of a contract. Any right, interest, property, or benefit accruing to one party; any forbearance, detriment, loss or responsibility given, suffered or undertaken, may constitute a consideration that will sustain a contract.

**Conventional mortgage** A mortgage loan not insured by HUD or guaranteed by the Veterans Administration. It is subject to conditions established by the lending institution and state statutes. The mortgage rates may vary with different institutions and between states. (States have various interest limits.)

**Corporation** A form of business organization that is created as a separate legal entity consisting of one or more actual individuals or other entities.

**Current assets** Those assets in the form of cash or that are expected to be converted to cash within the next 12-month period, such as accounts receivable.

**Current liabilities** Those financial obligations that are expected to require cash payments within the next 12-month period to satisfy them, such as accounts payable.

**Current ratio** A ratio used to measure the short-term solvency of a business, calculated as total current assets divided by total current liabilities.

**Credit report** A report detailing the credit history of a prospective borrower that's used to help determine borrower creditworthiness.

**Closing Date:** The date on which the sale of a property is to be finalized and a loan transaction completed. Often, a real estate sales professional co-ordinates the setting of this date with the buyer, the seller, the closing agent, and the lender.

**Co-borrower:** Any borrower other than the first borrower whose name appears on the application and mortgage note,

even when that person owns the property jointly with the first borrower and shares liability for the note.

**Collateral:** An asset that is pledged as security for a loan. The borrower risks losing the asset if the loan is not repaid according to the terms of the loan agreement. In the case of a mortgage, the collateral would be the house and real property.

**Commission:** The fee charged for services performed, usually based on a percentage of the price of the items sold (such as the fee a real estate agent earns on the sale of a house).

**Commitment Letter:** A binding offer from your lender that includes the amount of the mortgage, the interest rate, and repayment terms.

**Common Areas:** Those portions of a building, land, or improvements and amenities owned by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative

corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

**Comparables:** An abbreviation for “comparable properties,” which are used as a comparison in determining the current value of a property that is being appraised.

**Concession:** Something given up or agreed to in negotiating the sale of a house. For example, the sellers may agree to help pay for closing costs.

**Condominium:** A unit in a multiunit building. The owner of a condominium unit owns the unit itself and has the right, along with other owners, to use the common areas but does not own the common elements such as the exterior walls, floors and ceilings or the structural systems outside of the unit; these are owned by the condominium association.

There are usually condominium association fees for building maintenance, property upkeep, taxes and insurance on the common areas and reserves for improvements.

**Construction Loan:** A loan for financing the cost of construction or improvements to a property; the lender disburses payments to the builder at periodic intervals during construction.

**Contingency:** A condition that must be met before a contract is legally binding. For example, home purchasers often include a home inspection contingency; the sales contract is not binding unless and until the purchaser has the home inspected.

**Conventional Mortgage:** A mortgage loan that is not insured or guaranteed by the federal government or one of its agencies, such as the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), or the Rural Housing Service (RHS). Contrast with “Government Mortgage.”

**Conversion Option:** A provision of some adjustable-rate mortgage (ARM) loans that allows the borrower to change the ARM to a fixed-rate mortgage at specified times after loan origination.

**Convertible ARM:** An adjustable-rate mortgage (ARM) that allows the borrower to convert the loan to a fixed-rate mortgage under specified conditions.

**Cooperative (Co-op) Project:** A project in which a corporation holds title to a residential property and sells shares to individual buyers, who then receive a proprietary lease as their title.

**Cost of Funds Index (COFI):** An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) loans. It is based on the weighted monthly average cost of deposits, advances, and other borrowings of members of the Federal Home Loan Bank of San Francisco.

**Counter-offer:** An offer made in response to a previous offer. For example, after the buyer presents their first offer,

the seller may make a counter-offer with a slightly higher sale price.

**Credit:** The ability of a person to borrow money, or buy goods by paying over time. Credit is extended based on a lender's opinion of the person's financial situation and reliability, among other factors.

**Credit Bureau:** A company that gathers information on consumers who use credit. These companies sell that information to lenders and other businesses in the form of a credit report.

**Credit History:** Information in the files of a credit bureau, primarily comprised of a list of individual consumer debts and a record of whether or not these debts were paid back on time or "as agreed." Your credit history is called a credit report when provided by a credit bureau to a lender or other business.

**Credit Life Insurance:** A type of insurance that pays off a specific amount of debt or a specified credit account if the borrower dies while the policy is in force.

**Credit Report:** Information provided by a credit bureau that allows a lender or other business to examine your use of credit. It provides information on money that you've borrowed from credit institutions and your payment history.

**Credit Score:** A numerical value that ranks a borrower's credit risk at a given point in time based on a statistical evaluation of information in the individual's credit history that has been proven to be predictive of loan performance.

**Creditor:** A person who extends credit to whom you owe money.

**Creditworthy:** Your ability to qualify for credit and repay debts.

**Debt** An obligation to repay a specified amount at a specified time.

**Debt-to-Income Ratio:** The percentage of gross monthly income that goes toward paying for your monthly housing expense, alimony, child support, car payments and other

installment debts, and payments on revolving or open-ended accounts, such as credit cards.

**Debt service** The portion of funds required to repay a financial obligation, such as a mortgage, which includes interest and principal payments.

**Deed** A formal written instrument by which title to real property is transferred from one owner to another. The deed should contain an accurate description of the property being conveyed, should be signed and witnessed according to the laws of the state where the property is located, and should be delivered to the purchaser on the day of closing. There are two parties to a deed—the grantor and the grantee.

**Deed-in-Lieu of Foreclosure:** The transfer of title from a borrower to the lender to satisfy the mortgage debt and avoid foreclosure. Also called a “voluntary conveyance.”

**Deed of trust** Like a mortgage, a security instrument whereby real property is given as security for a debt; however, in a deed of trust there are three parties to the

instrument—the borrower, the trustee, and the lender (or beneficiary). In such a transaction, the borrower transfers the legal title for the property to the trustee, who holds the property in trust as security for the payment of the debt to the lender or beneficiary. If the borrower pays the debt as agreed, the deed of trust becomes void. If, however, the borrower defaults in the payment of the debt, the trustee may sell the property at a public sale under the terms of the deed of trust. In most jurisdictions where the deed of trust is in force, the borrower is subject to having his or her property sold without benefit of legal proceedings. A few states have begun in recent years to treat the deed of trust like a mortgage.

**Default:** Failure to fulfill a legal obligation. A default includes failure to pay on a financial obligation, but also may be a failure to perform some action or service that is non-monetary. For example, when leasing a car, the lessee is usually required to properly maintain the car.

**Delinquency:** Failure to make a payment when it is due.

The condition of a loan when a scheduled payment has not been received by the due date, but generally used to refer to a loan for which payment is 30 or more days past due.

**Depreciation** Decline in value of a house due to wear and tear, adverse changes in the neighborhood, or any other reason. The term is most often applied for tax purposes. A decline in the value of a house due to changing market conditions or lack of upkeep on a home.

**Discount points** An up-front fee paid to the lender at the time that you get your loan. Each point equals 1 percent of your total loan amount. Points and interest rates are inherently connected: In general, the more points you pay, the lower the interest rate. However, the more points you pay, the more cash you need up front, because points are paid in cash at closing.

**Down payment** The amount of money to be paid by the purchaser to the seller on the signing of the agreement of

sale. The agreement of sale will refer to the down payment amount and will acknowledge receipt of the down payment. Down payment is the difference between the sales price and maximum mortgage amount. The down payment may not be refundable if the purchaser fails to buy the property without good cause. If purchasers want the down payment to be refundable, they should insert a clause in the agreement of sale specifying the conditions under which the deposit will be refunded (if the agreement does not already contain such clause). If the seller cannot deliver good title, the agreement of sale usually requires the seller to return the down payment and to pay interest and expenses incurred by the purchaser.

**Discount Point:** A fee paid by the borrower at closing to reduce the interest rate. A point equals one percent of the loan amount.

**Down Payment:** A portion of the price of a home, usually between 3-20%, not borrowed and paid up-front in cash. Some loans are offered with zero down payment.

**Due-on-Sale Clause:** A provision in a mortgage that allows the lender to demand repayment in full of the outstanding balance if the property securing the mortgage is sold.

**Earnest Money Deposit:** The deposit to show that you're committed to buying the home. The deposit usually will not be refunded to you after the seller accepts your offer, unless one of the sales contract contingencies is not fulfilled.

**Earnest money** The deposit money given to sellers or their agents by potential buyers on signing the agreement of sale to show that they are serious about buying a house or any other type of real property. If the sale goes through, the earnest money is applied against the down payment. If the sale does not go through, the earnest money will be forfeited or lost unless the binder or offer to purchase expressly provides that it is refundable.

**Easement:** A right to the use of, or access to, land owned by another.

**Employer-Assisted Housing:** A program in which companies assist their employees in purchasing homes by providing assistance with the down payment, closing costs, or monthly payments.

**Encroachment:** The intrusion onto another's property without right or permission.

**Encumbrance:** Any claim on a property, such as a lien, mortgage or easement.

**Equal Credit Opportunity Act (ECOA):** A federal law that requires lenders to make credit equally available without regard to the applicant's race, color, religion, national origin, age, sex, or marital status; the fact that all or part of the applicant's income is derived from a public assistance program; or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act. It also requires various notices to consumers.

**Equity:** The value in your home above the total amount of the liens against your home. If you owe \$100,000 on your house but it is worth \$130,000, you have \$30,000 of equity.

**Escrow:** An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate. Funds paid by one party to another (the escrow agent) to hold until the occurrence of a specified event, after which the funds are released to a designated individual. In FHA mortgage transactions an escrow account usually refers to the funds a mortgagor pays the lender at the time of the periodic mortgage payments. The money is held in a trust fund provided by the lender for the buyer. Such funds should be adequate to cover yearly anticipated expenditures for mortgage insurance premiums, taxes, hazard insurance premiums, and special assessments.

**Escrow Account:** An account that a mortgage servicer establishes on behalf of a borrower to pay taxes, insurance

premiums, or other charges when they are due. Sometimes referred to as an “impound” or “reserve” account

**Escrow Analysis:** The accounting that a mortgage servicer performs to determine the appropriate balances for the escrow account, compute the borrower’s monthly escrow payments, and determine whether any shortages, surpluses or deficiencies exist in the account.

**Equity** The value of a homeowner’s unencumbered interest in real estate. Equity is computed by subtracting from the property’s fair market value the total of the unpaid mortgage balance and any outstanding liens or other debts against the property. A homeowner’s equity increases as he or she pays off the mortgage or as the property appreciates in value. When the mortgage and all other debts against the property are paid in full the home-owner has 100 percent equity in that property.

**Eviction:** The legal act of removing someone from real property.

**Exclusive Right-to-Sell Listing:** The traditional kind of listing agreement under which the property owner appoints a real estate broker (known as the listing broker) as exclusive agent to sell the property on the owner's stated terms, and agrees to pay the listing broker a commission when the property is sold, regardless of whether the buyer is found by the broker, the owner or another broker. This is the kind of listing agreement that is commonly used by a listing broker to provide the traditional full range of real estate brokerage services. If a second real estate broker (known as a selling broker) finds the buyer for the property, then some commission will be paid to the selling broker.

**Exclusive Agency Listing:** A listing agreement under which a real estate broker (known as the listing broker) acts as an exclusive agent to sell the property for the property owner, but may be paid a reduced or no commission when the property is sold if, for example, the property owner rather than the listing broker finds the buyer. This kind of listing agreement can be used to provide the owner a limited range

of real estate brokerage services rather than the traditional full range. As with other kinds of listing agreements, if a second real estate broker (known as a selling broker) finds the buyer for the property, then some commission will be paid to the selling broker.

**Execute** To perform what is required to give validity to a legal document. To execute a document, for example, means to sign it so that it becomes fully enforceable by law.

**Expected return** The average of possible returns weighted by their corresponding probability.

**Executor:** A person named in a will and approved by a probate court to administer the disposition of an estate in accordance with the instructions of the will.

**Fair Credit Reporting Act (FCRA):** A consumer protection law that imposes obligations on (1) credit bureaus (and similar agencies) that maintain consumer credit histories, (2) lenders and other businesses that buy reports from credit bureaus, and (3) parties who furnish consumer information

to credit bureaus. Among other provisions, the FCRA limits the sale of credit reports by credit bureaus by requiring the purchaser to have a legitimate business need for the data, allows consumers to learn the information on them in credit bureau files (including one annual free credit report), and specifies procedure for challenging errors in that data.

**Fiduciary** A person to whom property is entrusted; a trustee who holds, controls, or manages for another. A real estate agent is said to have a fiduciary responsibility and relationship with a client.

**Fair Market Value:** The price at which property would be transferred between a willing buyer and willing seller, each of whom has a reasonable knowledge of all pertinent facts and is not under any compulsion to buy or sell.

**Fannie Mae:** A New York stock exchange company. It is a public company that operates under a federal charter and is the nation's largest source of financing for home mortgages. Fannie Mae does not lend money directly to consumers, but

instead works to ensure that mortgage funds are available and affordable, by purchasing mortgage loans from institutions that lend directly to consumers.

**Fannie Mae-Seller/Servicer:** A lender that Fannie Mae has approved to sell loans to it and to service loans on Fannie Mae's behalf.

**Fannie Mae/Freddie Mac Loan Limit:** The current 2006 Fannie Mae/Freddie Mac loan limit for a single-family home is \$417,000 and is higher in Alaska, Guam, Hawaii, and the U.S. Virgin Islands. The Fannie Mae loan limit is \$533,850 for a two-unit home; \$645,300 for a three-unit home; and \$801,950 for a four-unit home. Also referred to as the "conventional loan limit."

**Federal Housing Administration (FHA):** An agency within the U.S. Department of Housing and Urban Development (HUD) that insures mortgages and loans made by private lenders.

**FHA-Insured Loan:** A loan that is insured by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD).

**First Mortgage:** A mortgage that is the primary lien against a property.

**First-Time Home Buyer:** A person with no ownership interest in a principal residence during the three-year period preceding the purchase of the security property.

**Fixed-rate loans** Fixed-rate loans have interest rates that do not change over the life of the loan. As a result, monthly payments for principal and interest are also fixed for the life of the loan. Fixed-rate loans typically have 15 or 30-year terms. With a fixed-rate loan, you will have predictable monthly mortgage payments for as long as you have the loan.

**Foreclosure** A legal term applied to any of the various methods of enforcing payment of the debt secured by a mortgage or deed of trust by taking and selling the

mortgaged property and depriving the mortgagor of possession.

**Good faith estimate** Written estimate of the settlement costs the borrower will likely have to pay at closing. Under the Real Estate Settlement Procedures Act (RESPA), the lender is required to provide this disclosure to the borrower within three days of receiving a loan application.

**Fixed-Period Adjustable-Rate Mortgage:** An adjustable-rate mortgage (ARM) that offers a fixed rate for an initial period, typically three to ten years, and then adjusts every six months, annually, or at another specified period, for the remainder of the term. Also known as a “hybrid loan.”

**Fixed-Rate Mortgage:** A mortgage with an interest rate that does not change during the entire term of the loan.

**Flood Certification Fee:** A fee charged by independent mapping firms to identify properties located in areas designated as flood zones.

**Flood Insurance:** Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood hazard zones.

**Foreclosure:** A legal action that ends all ownership rights in a home when the homebuyer fails to make the mortgage payments or is otherwise in default under the terms of the mortgage.

**Forfeiture:** The loss of money, property, rights, or privileges due to a breach of a legal obligation.

**Fully Amortized Mortgage:** A mortgage in which the monthly payments are designed to retire the obligation at the end of the mortgage term.

**General Contractor:** A person who oversees a home improvement or construction project and handles various aspects such as scheduling workers and ordering supplies.

**Gift Letter:** A letter that a family member writes verifying that s/he has given you a certain amount of money as a gift

and that you don't have to repay it. You can use this money towards a portion of your down payment with some mortgages.

**Good-Faith Estimate:** A form required by the Real Estate Settlement Procedures Act (RESPA) that discloses an estimate of the amount or range of charges, for specific settlement services the borrower is likely to incur in connection with the mortgage transaction.

**Grace period** Period of time during which a loan payment may be made after its due date without incurring a late penalty. The grace period is specified as part of the terms of the loan in the note.

**Gross income** Total income before taxes or expenses are deducted.

**Government Mortgage:** A mortgage loan that is insured or guaranteed by a federal government entity such as the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), or the Rural Housing Service (RHS).

**Government National Mortgage Association (Ginnie Mae):** A government-owned corporation within the U.S. Department of Housing and Urban Development (HUD) that guarantees securities backed by mortgages that are insured or guaranteed by other government agencies. Popularly known as “Ginnie Mae.”

**Gross Monthly Income:** The income you earn in a month before taxes and other deductions. It also may include rental income, self-employed income, income from alimony, child support, public assistance payments, and retirement benefits.

**Ground Rent:** Payment for the use of land when title to a property is held as a leasehold estate (that is, the borrower does not actually own the property, but has a long-term lease on it).

**Growing-Equity Mortgage (GEM):** A fixed-rate mortgage in which the monthly payments increase according to an agreed-upon schedule, with the extra funds applied to reduce the loan balance and loan term.

**Hazard Insurance:** Insurance coverage that compensates for physical damage to a property from fire, wind, vandalism, or other covered hazards or natural disasters.

**Home Equity Conversion Mortgage (HECM):** A special type of mortgage developed and insured by the Federal Housing Administration (FHA) that enables older home owners to convert the equity they have in their homes into cash, using a variety of payment options to address their specific financial needs. Sometimes called a “reverse mortgage.”

**Home Equity Line of Credit (HELOC):** A type of revolving loan, that enables a home owner to obtain multiple advances of the loan proceeds at his or her own discretion, up to an amount that represents a specified percentage of the borrower’s equity in the property.

**Home Inspection:** A professional inspection of a home to determine the condition of the property. The inspection should include an evaluation of the plumbing, heating and

cooling systems, roof, wiring, foundation and pest infestation.

**Homeowner's Insurance:** A policy that protects you and the lender from fire or flood, which damages the structure of the house; a liability, such as an injury to a visitor to your home; or damage to your personal property, such as your furniture, clothes or appliances

**Homeowner's Warranty (HOW):** Insurance offered by a seller that covers certain home repairs and fixtures for a specified period of time.

**Homeowners' Association:** An organization of homeowners residing within a particular area whose principal purpose is to ensure the provision and maintenance of community facilities and services for the common benefit of the residents.

**Housing Expense Ratio:** The percentage of your gross monthly income that goes toward paying for your housing expenses.

**HUD-1 Settlement Statement:** A final listing of the closing costs of the mortgage transaction. It provides the sales price and down payment, as well as the total settlement costs required from the buyer and seller.

**Hybrid Loan:** An adjustable-rate mortgage (ARM) that offers a fixed rate for an initial period, typically three to ten years, and then adjusts every six months, annually, or at another specified period, for the remainder of the term.

**HUD** U.S. Department of Housing and Urban Development. Office of Housing and Federal Housing Administration within HUD insures home mortgage loans made by lenders and sets minimum standards for such homes.

**Income statement** The financial report that summarizes a business's performance over a specific period of time.

**Interest** A charge paid for borrowing money, which is calculated as the remaining loan balance.

**Interest rate** The annual rate of interest on the loan, expressed as a percentage of 100.

**Interest rate cap** Consumer safeguards that limit the amount the interest rate on an ARM loan can change in an adjustment interval and/or over the life of the loan. For example, if the per-period cap is 1 percent and the current rate is 5 percent, then the newly adjusted rate must fall between 4 and 6 percent regardless of actual changes in the index.

**Interest Accrual Rate:** The percentage rate at which interest accumulates or increases on a mortgage loan.

**Interest Rate Cap:** For an adjustable- rate mortgage (ARM), a limitation on the amount the interest rate can change per adjustment or over the lifetime of the loan, as stated in the note.

**Index:** A number used to compute the interest rate for an adjustable-rate mortgage (ARM). The index is generally a published number or percentage, such as the average interest rate or yield on U.S. Treasury bills. A margin is added to the index to determine the interest rate that will be

charged on the ARM. This interest rate is subject to any caps on the maximum or minimum interest rate that may be charged on the mortgage, stated in the note.

**Individual Retirement Account (IRA):** A tax-deferred plan that can help you build a retirement nest egg.

**Inflation:** An increase in prices.

**Initial Interest Rate:** The original interest rate for an adjustable-rate mortgage (ARM). Sometimes known as the “start rate.”

**Inquiry:** A request for a copy of your credit report by a lender or other business, often when you fill out a credit application and/or request more credit. Too many inquiries on a credit report can hurt your credit score; however, most credit scores are not affected by multiple inquiries from auto or mortgage lenders within a short period of time.

**Installment:** The regular periodic payment that a borrower agrees to make to a lender.

**Installment Debt:** A loan that is repaid in accordance with a schedule of payments for a specified term (such as an automobile loan).

**Interest Rate Ceiling:** For an adjustable-rate mortgage (ARM), the maximum interest rate, as specified in the mortgage note.

**Interest Rate Floor:** For an adjustable- rate mortgage (ARM), the minimum interest rate, as specified in the mortgage note.

**Investment Property:** A property purchased to generate rental income, tax benefits, or profitable resale rather than to serve as the borrower's primary residence. Contrast with "second home."

**Judgment Lien:** A lien on the property of a debtor resulting from the decree of a court.

**Jumbo Loan:** A loan that exceeds the mortgage amount eligible for purchase by Fannie Mae or Freddie Mac. Also called "non-conforming loan."

**Junior Mortgage:** A loan that is subordinate to the primary loan or first-lien mortgage loan, such as a second or third mortgage.

**Late Charge:** A penalty imposed by the lender when a borrower fails to make a scheduled payment on time.

**Lease-Purchase Option:** An option sometimes used by sellers to rent a property to a consumer, who has the option to buy the home within a specified period of time. Typically, part of each rental payment is put aside for the purpose of accumulating funds to pay the down payment and closing costs.

**Liabilities:** A person's debts and other financial obligations.

**Liability Insurance:** Insurance coverage that protects property owners against claims of negligence, personal injury or property damage to another party.

**LIBOR-Index:** An index used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans,

based on the average interest rate at which international banks lend to or borrow funds from the London Interbank Market.

**Lien:** A claim or charge on property for payment of a debt. With a mortgage, the lender has the right to take the title to your property if you don't make the mortgage payments.

**Lifetime Cap:** For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate or monthly payment can increase or decrease over the life of the loan.

**Liquid Asset:** A cash asset or an asset that is easily converted into cash.

**Lease** A species of contract, written or oral, between the owner of real estate, the landlord, and another person, the tenant, covering the conditions on which the tenant may possess, occupy, and use the real estate.

**Lessor** The owner who rents or leases property to a tenant or lessee; the landlord.

**Liabilities** The debts of a business or entity that are in the form of financial claims on its assets.

**Lien** A claim by one person on the property of another as security for money owed. Such claims may include obligations not met or satisfied, judgments, unpaid taxes, materials, or labor.

**Limited liability partnership (limited liability company)** A hybrid form of organization in which all partners enjoy limited liability for the business's debts. It combines the limited liability advantage of a corporation with the tax advantages of a partnership.

**Limited partnership** A hybrid form of organization consisting of general partners, who have unlimited liability for the partnership's debts, and limited partners, whose liability is limited to the amount of their investment.

**Line of credit** An informal arrangement in which a bank agrees to lend up to a specified maximum amount of funds during a designated period.

**Liquid asset** An asset that can be converted to cash quickly without having to reduce the asset's price very much.

**Loan application** An initial statement of personal and financial information required to apply for a loan.

**Loan application fee** Fee charged by a lender to cover the initial costs of processing a loan application. The fee may include the cost of obtaining a property appraisal, a credit report, and a lock-in fee or other closing costs incurred during the process, or the fee may be in addition to these charges.

**Loan-origination fee** Fee charged by a lender to cover administrative costs of processing a loan.

**Loan-to-value ratio (LTV)** The percentage of the loan amount to the appraised value (or the sales price, whichever is less) of the property.

**Loan Origination:** The process by which a loan is made, which may include taking a loan application, processing and underwriting the application, and closing the loan.

**Loan Origination Fees:** Fees paid to your mortgage lender or broker for processing the mortgage application. This fee is usually in the form of points. One point equals one percent of the mortgage amount.

**Loan-To-Value (LTV) Ratio:** The relationship between the loan amount and the value of the property (the lower of appraised value or sales price), expressed as a percentage of the property's value. For example, a \$100,000 home with an \$80,000 mortgage has an LTV of 80 percent.

**Lock-In Rate:** A written agreement guaranteeing a specific mortgage interest rate for a certain amount of time.

**Low-Down-Payment Feature:** A feature of some mortgages, usually fixed-rate mortgages, that helps you buy a home with a low down payment.

**Market value** The amount for which a property would sell if put on the open market and sold in the manner in which property is ordinarily sold in the community where the property is situated. The highest price estimated in terms of

money that a buyer would be warranted in paying and that a seller would be justified in accepting, provided both parties were fully informed, acted intelligently and voluntarily, and furthermore that all the rights and benefits inherent in or attributable to the property were included in the transfer.

**Mortgage** A lien or claim against real property given by the buyer to the lender as security for money borrowed. Under government-insured or loan guarantee provisions, the payments may include escrow amounts covering taxes, hazard insurance, water charges, and special assessments. Mortgages generally run from 10 to 30 years, during which the loan is to be paid off.

**Manufactured Housing:** Homes that are built entirely in a factory in accordance with a federal building code administered by the U.S. Department of Housing and Urban Development (HUD). Manufactured homes may be single or multi-section and are transported from the factory to a site and installed. Homes that are permanently affixed to a foundation often may be classified as real property under

applicable state law, and may be financed with a mortgage. Homes that are not permanently affixed to a foundation generally are classified as personal property, and are financed with a retail installment sales agreement.

**Margin:** A percentage added to the index for an adjustable-rate mortgage (ARM) to establish the interest rate on each adjustment date.

**Market Value:** The current value of your home based on what a purchaser would pay. An appraisal is sometimes used to determine market value.

**Maturity Date:** The date on which a mortgage loan is scheduled to be paid in full, as stated in the note.

**Merged Credit Report:** A credit report issued by a credit reporting company that combines information from two or three major credit bureaus.

**Modification:** Any change to the terms of a mortgage loan, including changes to the interest rate, loan balance, or loan term.

**Money Market Account:** A type of investment in which funds are invested in short-term securities.

**Mortgage:** A loan using your home as collateral. In some states the term mortgage is also used to describe the document you sign (to grant the lender a lien on your home). It also may be used to indicate the amount of money you borrow, with interest, to purchase your house. The amount of your mortgage often is the purchase price of the home minus your down payment.

**Mortgage Broker:** An individual or firm that brings borrowers and lenders together for the purpose of loan origination. A mortgage broker typically takes loan applications and may process loans. A mortgage broker also may close the loan.

**Mortgage Insurance (MI):** Insurance that protects lenders against losses caused by a borrower's default on a mortgage loan. MI typically is required if the borrower's down payment is less than 20 percent of the purchase price.

**Mortgage Insurance Premium (MIP):** The amount paid by a borrower for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (PMI) company.

**Mortgage Lender:** The lender providing funds for a mortgage. Lenders also manage the credit and financial information review, the property and the loan application process through closing.

**Mortgage Life Insurance:** A type of insurance that will pay off a mortgage if the borrower dies while the loan is outstanding; a form of credit life insurance.

**Mortgage Rate:** The interest rate you pay to borrow the money to buy your house.

**Mortgagee:** The institution or individual to whom a mortgage is given.

**Mortgagor:** The owner of real estate who pledges property as security for the re-payment of a debt; the borrower.

**Multifamily Mortgage:** A mortgage loan on a building with five or more dwelling units.

**Multifamily Properties:** Typically, buildings with five or more dwelling units.

**Multiple Listing Service (MLS):** A clearinghouse through which member real estate brokerage firms regularly and systematically exchange information on listings of real estate properties and share commissions with members who locate purchasers. The MLS for an area is usually operated by the local, private real estate association as a joint venture among its members designed to foster real estate brokerage services.

**Mutual Funds:** A fund that pools the money of its investors to buy a variety of securities.

**Net cash flow** The actual net cash, as opposed to accounting net income, that a firm generates during some specified period.

**Net working capital** Current assets minus current liabilities.

**Nominal (quoted, or stated) interest rate** The contracted, or quoted, or stated, interest rate.

**Negative Amortization:** An increase in the balance of a loan caused by adding unpaid interest to the loan balance; this occurs when the payment does not cover the interest due.

**Net Monthly Income:** Your take-home pay after taxes. It is the amount of money that you actually receive in your paycheck.

**Net Worth:** The value of a company or individual's assets, including cash, less total liabilities.

**Non-Liquid Asset:** An asset that cannot easily be converted into cash.

**Note:** A written promise to pay a specified amount under the agreed upon conditions. An instrument of credit given to attest a debt; a written promise to pay money which may or

may not accompany a mortgage or other security agreement.

**Note Rate:** The interest rate stated on a mortgage note, or other loan agreement.

**Offer** A proposal, oral or written, to buy a piece of property at a specified price with specified terms and conditions.

**Option** The exclusive right to purchase or lease a property at a stipulated price or rent within a specified period of time. A formal bid from the home buyer to the home seller to purchase a home.

**Open House:** When the seller's real estate agent opens the seller's house to the public. You don't need a real estate agent to attend an open house.

**Original Principal Balance:** The total amount of principal owed on a mortgage before any payments are made.

**Origination Fee:** A fee paid to a lender or broker to cover the administrative costs of processing a loan application.

The origination fee typically is stated in the form of points.

One point is one percent of the mortgage amount.

**Owner Financing:** A transaction in which the property seller provides all or part of the financing for the buyer's purchase of the property.

**Owner-Occupied Property:** A property that serves as the borrower's primary residence.

**Partial Payment:** A payment that is less than the scheduled monthly payment on a mortgage loan.

**Payment Change Date:** The date on which a new monthly payment amount takes effect, for example, on an adjustable-rate mortgage (ARM) loan.

**Payment Cap:** For an adjustable-rate mortgage (ARM) or other variable rate loan, a limit on the amount that payments can increase or decrease during any one adjustment period.

**Personal Property:** Any property that is not real property.

**PITI:** An acronym for the four primary components of a monthly mortgage payment: principle, interest, taxes, and insurance (PITI).

**PITI Reserves:** A cash amount that a borrower has available after making a down payment and paying closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

**Planned Unit Development (PUD):** A real estate project in which individuals hold title to a residential lot and home while the common facilities are owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.

**Point:** One percent of the amount of the mortgage loan. For example, if a loan is made for \$50,000, one point equals \$500.

**Portfolio** The combined holdings of more than one stock, bond, real estate asset, or other assets owned by an investor.

**Power of Attorney:** A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

**Pre-Approval:** A process by which a lender provides a prospective borrower with an indication of how much money he or she will be eligible to borrow when applying for a mortgage loan. This process typically includes a review of the applicant's credit history and may involve the review and verification of income and assets to close.

**Pre-Approval Letter:** A letter from a mortgage lender indicating that you qualify for a mortgage of a specific amount. It also shows a home seller that you're a serious buyer.

**Pre-Qualification:** A preliminary assessment by a lender of the amount it will lend to a potential home buyer. The process of determining how much money a prospective home buyer may be eligible to borrow before he or she applies for a loan.

**Pre-Qualification Letter:** A letter from a mortgage lender that states that you're pre-qualified to buy a home, but does not commit the lender to a particular mortgage amount.

**Predatory Lending:** Abusive lending practices that include making mortgage loans to people who do not have the income to repay them or repeatedly refinancing loans, charging high points and fees each time and "packing" credit insurance onto a loan.

**Prepayment:** Any amount paid to reduce the principal balance of a loan before the scheduled due date.

**Prepayment Penalty:** A fee that a borrower may be required to pay to the lender, in the early years of a mortgage loan, for repaying the loan in full or pre-paying a substantial amount to reduce the unpaid principle balance.

**Principal:** The amount of money borrowed or the amount of the loan that has not yet been repaid to the lender. This does not include the interest you will pay to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan minus the amount you've repaid.

**Private Mortgage Insurance:** Insurance for conventional mortgage loans that protects the lender from loss in the event of default by the borrower. See Mortgage Insurance

**Promissory Note:** A written promise to repay a specified amount over a specified period of time.

**Purchase and Sale Agreement:** A document that details the price and conditions for a transaction. In connection with the sale of a residential property, the agreement typically would include: information about the property to be sold, sale price, down payment, earnest money deposit, financing, closing date, occupancy date, length of time the offer is valid, and any special contingencies.

**Purchase Money Mortgage:** A mortgage loan that enables a borrower to acquire a property.

**Prime rate** A published interest rate charged by commercial banks to large, strong borrowers.

**Principal** The basic element of the loan, as distinguished from interest and mortgage insurance premium. In other words, principal is the amount on which interest is paid. The word also means one who appoints an agent to act for and in behalf of; the person bound by an agent's authorized contract.

**Property** The term used to describe the rights and interests a person has in lands, chattels, and other determinate things.

**Purchase agreement** An offer to purchase that has been accepted by the seller and has become a binding contract.

**Qualifying Guidelines:** Criteria used to determine eligibility for a loan.

**Qualifying Ratios:** Calculations that are used in determining the loan amount that a borrower qualifies for, typically a comparison of the borrower's total monthly income to monthly debt payments and other recurring monthly obligations.

**Quality Control:** A system of safeguards to ensure that loans are originated, under-written and serviced according to the lender's standards and, if applicable, the standards of the investor, governmental agency, or mortgage insurer.

**Radon:** A toxic gas found in the soil beneath a house that can contribute to cancer and other illnesses.

**Rate Cap:** The limit on the amount an interest rate on an adjustable-rate mortgage (ARM) can increase or decrease during an adjustment period.

**Rate Lock:** An agreement in which an interest rate is "locked in" or guaranteed for a specified period of time prior to closing. See also "Lock-in Rate."

**Ratified Sales Contract:** A contract that shows both you and the seller of the house have agreed to your offer. This offer may include sales contingencies, such as obtaining a mortgage of a certain type and rate, getting an acceptable inspection, making repairs, closing by a certain date, etc.

**Real Estate Professional:** An individual who provides services in buying and selling homes. The real estate professional is paid a percentage of the home sale price by the seller. Unless you've specifically contracted with a buyer's agent, the real estate professional represents the interest of the seller. Real estate professionals may be able to refer you to local lenders or mortgage brokers, but are generally not involved in the lending process.

**Real Estate Settlement Procedures Act (RESPA):** A federal law that requires lenders to provide home mortgage borrowers with information about transaction-related costs prior to settlement, as well as information during the life of the loan regarding servicing and escrow accounts. RESPA also prohibits kickbacks and unearned fees in the mortgage loan business.

**Real estate investment trust (REIT)** An entity that allows a very large number of investors to participate in the purchase of real estate, but as passive investors. The investors do not buy directly, but instead purchase shares in the REIT that owns the real estate investment. REITs are fairly common with the advent of mutual funds and can be purchased for as little as \$10 per share and sometimes less.

**Real property** Land and buildings and anything that may be permanently attached to them.

**Recording** The placing of a copy of a document in the proper books in the office of the register of deeds to make a public record of it.

**Redemption** The right of owner-mortgagors, or those claiming under them, after execution of a mortgage, to recover title to the mortgaged property by paying the mortgage debt, plus interest and any other costs or penalties imposed, prior to the occurrence of a valid foreclosure. The payment discharges the mortgage and places the title as it was at the time the mortgage was executed.

**Refinancing** The process of paying off one loan with the proceeds from another loan.

**Rescission of contract** The abrogating or annulling of a contract; the revocation or repealing of contract by mutual consent of the parties to the contract or for other causes as recognized by law.

**Real Property:** Land and anything permanently affixed thereto — including buildings, fences, trees, and minerals.

**Recorder:** The public official who keeps records of transactions that affect real property in the area. Sometimes known as a “Registrar of Deeds” or “County Clerk.”

**Recording:** The filing of a lien or other legal documents in the appropriate public record.

**Refinance:** Getting a new mortgage with all or some portion of the proceeds used to pay off the prior mortgage.

**Rehabilitation Mortgage:** A mortgage loan made to cover the costs of repairing, improving, and sometimes acquiring an existing property.

**Remaining Term:** The original number of payments due on the loan minus the number of payments that have been made.

**Repayment Plan:** An arrangement by which a borrower agrees to make additional payments to pay down past due amounts while still making regularly scheduled payments.

**Replacement Cost:** The cost to replace damaged personal property without a deduction for depreciation.

**Rescission:** The cancellation or annulment of a transaction or contract by operation of law or by mutual consent. Borrowers have a right to cancel certain mortgage refinance and home equity transactions within three business days after closing, or for up to three years in certain instances.

**Revolving Debt:** Credit that is extended by a creditor under a plan in which (1) the creditor contemplates repeated transactions; (2) the creditor may impose a finance charge from time to time on an outstanding unpaid balance; and (3) the amount of credit that may be extended to the consumer

during the term of the plan is generally made available to the extent that any outstanding balance is repaid.

**Right of First Refusal:** A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

**Rural Housing Service (RHS):** An agency within the U.S. Department of Agriculture (USDA), which operates a range of programs to help rural communities and individuals by providing loan and grants for housing and community facilities. The agency also works with private lenders to guarantee loans for the purchase or construction of single-family housing.

**Securities:** A financial form that shows the holder owns a share or shares of a company (stock) or has loaned money to a company or government organization (bond).

**Sale-Leaseback:** A transaction in which the buyer leases the property back to the seller for a specified period of time.

**Second Mortgage:** A mortgage that has a lien position subordinate to the first mortgage.

**Secondary Mortgage Market:** The market in which mortgage loan and mortgage-backed securities are bought and sold.

**Secured Loan:** A loan that is backed by property such as a house, car, jewelry, etc.

**Security:** The property that will be given or pledged as collateral for a loan.

**Securities:** Financial forms that shows the holder owns a share or shares of a company (stocks) or has loaned money to a company or government organization (bonds).

**Seller Take-Back:** An agreement in which the seller of a property provides financing to the buyer for the home purchase. See also "Owner Financing."

**Servicer:** A firm that performs servicing functions, including collecting mortgage payments, paying the borrower's taxes

and insurance and generally managing borrower escrow accounts.

**Servicing:** The tasks a lender performs to protect the mortgage investment, including the collection of mortgage payments, escrow administration, and delinquency management.

**Settlement:** The process of completing a loan transaction at which time the mortgage documents are signed and then recorded, funds are disbursed, and the property is transferred to the buyer (if applicable). Also called closing or escrow in different jurisdictions. See also “Closing”

**Settlement Statement:** A document that lists all closing costs on a consumer mortgage transaction.

**Single-Family Properties:** One- to four-unit properties including detached homes, townhouses, condominiums, and cooperatives, and manufactured homes attached to a permanent foundation and classified as real property under applicable state law.

**Soft Second Loan:** A second mortgage whose payment is forgiven or is deferred until resale of the property.

**Service members Civil Relief Act:** A federal law that restricts the enforcement of civilian debts against certain military personnel who may not be able to pay because of active military service. It also provides other protections to certain military personnel.

**Subordinate Financing:** Any mortgage or other lien with lower priority than the first mortgage.

**Survey:** A precise measurement of a property by a licensed surveyor, showing legal boundaries of a property and the dimensions and location of improvements.

**Sweat Equity:** A borrower's contribution to the down payment for the purchase of a property in the form of labor or services rather than cash.

**Tax** As applied to real estate, an enforced charge imposed on persons, property, or income to be used to support the

state. The governing body in turn uses the funds in the best interests of the general public.

**Time is of the essence** A phrase meaning that time is of crucial value and vital importance and that failure to fulfill time deadlines will be considered a failure to perform the contract.

**Title** As generally used, the rights of ownership and possession of particular property. In real estate usage, title may refer to the instruments or documents by which a right of ownership is established (title documents), or it may refer to the ownership interest one has in the real estate.

**Title insurance** Protects lenders or homeowners against loss of their interest in property due to legal defects in the title. Title insurance may be issued to a mortgagee's title policy. Insurance benefits will be paid only to the "named insured" in the title policy, so it is important that an owner purchase an "owner's title policy" if he or she desires the protection of title insurance.

**Title search or examination** A check of the title records, generally at the local courthouse, to make sure that the buyer is purchasing a house from the legal owner and that there are no liens, overdue special assessments, or other claims or outstanding restrictive covenants filed in the record that would adversely affect the marketability or value of title.

**Taxes and Insurance:** Funds collected as part of the borrower's monthly payment and held in escrow for the payment of the borrower's, or funds paid by the borrower for, state and local property taxes and insurance premiums.

**Termite Inspection:** An inspection to determine whether a property has termite infestation or termite damage. In many parts of the country, a home must be inspected for termites before it can be sold.

**Third-Party Origination:** A process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package a mortgage loan. See also "Mortgage Broker."

**Title:** The right to, and the ownership of, property. A title or deed is sometimes used as proof of ownership of land.

**Title Insurance:** Insurance that protects lenders and homeowners against legal problems with the title.

**Title Search:** A check of the public records to ensure that the seller is the legal owner of the property and to identify any liens or claims against the property.

**Trade Equity:** Real estate or assets given to the seller as part of the down payment for the property.

**Transfer Tax:** State or local tax payable when title to property passes from one owner to another.

**Treasury Index:** An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the results of auctions by the U.S. Treasury of Treasury bills and securities.

**Truth-In-Lending Act (TILA):** A federal law that requires disclosure of a truth-in-lending statement for consumer

credit. The statement includes a summary of the total cost of credit, such as the annual percentage rate (APR) and other specifics of the credit.

**Two- to Four- Family Property:** A residential property that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed; a loan secured by such a property is considered to be a single-family mortgage.

**Trust** A relationship under which one person, the trustee, holds legal title to property for the benefit of another person, the trust beneficiary.

**Trustee** A party who is given legal responsibility to hold property in the best interest of, or for the benefit of, another. The trustee is one who is placed in a position of responsibility for another, a responsibility enforceable in a court of law.

**Underwriting** In mortgage lending, the process of determining the risks involved in a particular loan and

establishing suitable terms and conditions for the loan. The process used to determine loan approval. It involves evaluating the property and the borrower's credit and ability to pay the mortgage.

**Uniform Residential Loan Application:** A standard mortgage application you will have to complete. The form requests your income, assets, liabilities, and a description of the property you plan to buy, among other things.

**Unsecured Loan:** A loan that is not backed by collateral.

**Valid** Having force, or binding forces; legally sufficient and authorized by law.

**Valuation** The act or process of estimating value; the amount of estimated value.

**Value** Ability to command goods, including money, in exchange; the quantity of goods, including money, that should be commanded or received in exchange for the item valued. As applied to real estate, value is the present worth of all the rights to future benefits arising from ownership.

**Veterans Affairs (U.S. Department of Veterans Affairs)** A federal government agency that provides benefits to veterans and their dependents, including health care, educational assistance, financial assistance, and guaranteed home loans.

**VA Guaranteed Loan:** A mortgage loan that is guaranteed by the U.S. Department of Veterans Affairs (VA).

**Void** That which is unenforceable; having no force or effect. Waiver Renunciation, disclaiming, or surrender of some claim, right or prerogative.

**Walk-Through** A common clause in a sales contract that allows the buyer to examine the property being purchased at a specified time immediately before the closing, for example, within the 24 hours before closing.

**Warranties** Written guarantees of the quality of a product and the promise to repair or replace defective parts free of charge.

**Warranty deed** A deed that transfers ownership of real property and in which the grantor guarantees that the title is free and clear of any and all encumbrances.

**Working capital** A firm's investment in short-term assets—cash, marketable securities, inventory, and accounts receivable.

**Worst-case scenario** An analysis in which all the input variables are set at their worst reasonably forecasted values.