

Purchasing and Renting out Real Estate is a **BUSINESS**

How to avoid the pitfalls and reap the reward

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This is an opportune time for individuals to purchase property at great prices and rent it out to earn extra income. With the market as it is, some people may decide to buy a new home and rent out their former home until the market improves for selling.

Unfortunately, people get into predicaments and problems because they do not think about rental property as a business. Oftentimes people rent to friends or family members with nothing more than a verbal agreement. They may rent out a second home or a portion of the house they live with no written contract and no congenial way to end the relationship at some point in the future.

That's when they come to me for legal advice or representation in a lawsuit. Real estate is one of the biggest "businesses" around. The unsuspecting homeowner can end up in serious litigation, which may turn perceived profit into deep losses. A few of the pitfalls I have seen include:

- Failure to properly screen renters
- Landlord does not act quickly when tenant fails to pay rent
- The property is damaged by the renter and/or his family
- Landlord threatens eviction and renter sues resulting in court costs and attorney fees
- Renter brings in friends or family to live with them without prior landlord approval
- The property is abandoned

I tell people to try to understand that rental property is a business. The moment you make the decision to rent your property, you are running a business. Here are some do's and don'ts:

- Do consult an attorney to acquaint you with the laws in your state and prepare contracts for your protection should the unforeseen happen.
- Do not undertake this without available counsel via phone or E-mail.
- Do understand the landlord-tenant laws.
- Do make sure you have the right property management skills.
- Do develop an exit strategy and outline what is expected of each party.
- Do create a limited liability company to keep transactions away from personal accounts.

Keep in mind that due to historical experiences, the laws today favor the tenant more than the landlord. You should choose a lawyer who is experienced and available to take your questions through phone or E-mail and respond quickly.

Real estate investment and rental can be a good source of revenue if done properly to avoid personal liability. □

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