THE ULTIMATE RENTAL GUIDE

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FINDING AND SELECTING THE BEST TENANT



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How to advertise your rental

I. Determine the monthly rent

Determining your list price can be tricky due to the number of external factors that influence how potential tenants value it. Things such as the neighborhood, seasonality, and aesthetics can all play a key role in determining a fair price point.

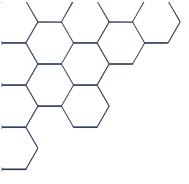
Many landlords list their rentals much higher than the market rate dictates. This happens because landlords let their emotions, rather than data and facts, determine how much they think is reasonable for rent. This is one reason to get a third party opinion.

Listing your rental for higher than market rate is more detrimental than you may expect. First, you will get fewer tenants interested and thus may accept an unqualified tenant. Second, you most likely will lose more money from vacancy than from lower monthly rent.

Let's say a rental is listed at \$3,000 per month but no potential tenants are inquiring because they think the asking price is too high. With the space vacant for two months, the landlord has a total sunk cost of \$6,000. The other option is to list this property at \$2,900 per month. More tenants would see this as an affordable option, reducing the length of vacancy. Although \$100 per month would be lost due to the price reduction, which is a yearly loss of \$1,200, this is far less than the sunk cost of \$6,000 for two months of vacancy.

Seasonality also influences the rental price. For example, a property may be more popular and demand for a higher monthly rate during the summer, when school is out and weather conditions are better. And very important! If you are listing your rental during a slow month (for example, February), then you may want to negotiate an 18 month lease rather than a 12 month lease. This strategy will put your rental on a summer turnover when it will get more interest and a higher rental rate.





There are three ways to determine your monthly rental rate:

1. Market Analysis

View other rentals in your area with similar square footage, bedrooms, bathrooms, and aesthetics. You can find their listing price on websites like Zillow. This analysis puts you in the shoes of the tenant to understand their other options. From here, you can determine what would make your rental attractive in comparison to other rentals.

2. Historical Trends

If you have a tenant who has been in your property and paying what seems to be market rate, you can take this prior rental price and apply your county or city annual growth rate. This will help you arrive at what your rental is worth.

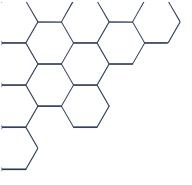
3. Data Driven Approach

There are websites out there that use large amounts of data to determine the list price. An example is Rentometer. While these tools are not always accurate, you can cross reference the recommendation from these tools and your analysis from the first two approaches.

Our recommendation is to always perform a market analysis to understand what other rental options a tenant has. What matters most is that you have Terry the Tenant who is searching for a rental. In comparison to the other rentals on the market, how are you going to make it attractive for Terry to sign a lease with you?

Incorrectly pricing your rental can be very emotional. You can read more about adjusting the rental price in later sections, but make sure you start with a rental price that is competitive in the market. Listing your rental too high will cost you more in the end. It will cost you in both vacancy and/or an unqualified tenant.





II. Include necessary information in your ad

In order to attract qualified tenants, your advertisement should be comprehensive yet easy-to-read. Tenants are reviewing many listings, and therefore you want to avoid long paragraphs and make it visually appealing. **Bullet points and high quality photos** to answer questions such as, "Is a washing machine provided?" keep tenants engaged and reduce follow up questions.

Some of the most common questions that should be answered in your advertisement include:

1. Layout and size of rooms

If you have a three bedroom with one smaller room, then include a photo to show the true size. Total square footage is also very important to be transparent on how large the space actually is. You want to avoid showings with 25 tenants without any interest to apply because they thought it was too small.

2. Appliances included

From a washing machine to a garbage disposal, tenants have varying preferences on what is important. By listing out what you have (and photos are even better!), then tenants will know exactly what to expect and whether it meets their criteria.

3. Policy on pets

It is common for a tenant who has a furry friend to filter for rentals that accept pets. If you have not specified your preference on pets, then your listing will not show up. You want to add your policy on pets and any pet rent or deposit required.

4. Objective criteria to qualify

To make sure you are abiding by Fair Housing, it is recommended to list the *objective* requirements to qualify. This is the minimum credit score and monthly income. You do not want to waste your time showing the rental property to someone who has 3 bankruptcies and no income.





5. Showing dates and times

We recommend avoiding open houses as it wastes time if the tenants are not qualified or no one shows up to view it. You should have a link with pre-qualification questions and scheduled times when they can reserve a time to view the rental.

When a tenant responds with additional questions, we recommend updating your advertisement to answer those questions.

III. Follow Fair Housing at all times

Did you know that writing "great family neighborhood" in your advertisement is considered discriminatory? The Fair Housing Act of 1968 protects people from discrimination against race, color, national origin, religion, sex, familial status, and disability. And, each State has additional Fair Housing requirements.

Here are the top mistakes that we have seen when you are advertising to tenants:

1. Failure to educate your team on Fair Housing

Whether it is your spouse or business partner, anyone filling out the marketing materials and interacting with tenants should understand Fair Housing. A tenant may come into a showing and ask "are there other Asians in the community." The person who opened the door should know that they cannot answer that question.

2. Forgetting service and companion animals are not pets

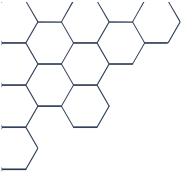
If a tenant has an emotional support animal, you cannot deny their application for having a pet. You also cannot charge extra fees, such as a pet deposit or pet rent. If you are like many landlords who are suspicious of companion animals, then you can ask for an ESA (emotional support animal) letter and verify the license of the doctor. But, you cannot contact the doctor directly.

3. Refusing a reserved parking spot for a tenant with a disability

For tenants with disabilities, you will need to make reasonable accommodations. If they ask for a reserved parking spot, then you need to work with them on something that is agreeable, even if you have plenty of handicap parking.



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4. Denying a tenant because you have a "bad" feeling about them

All decisions must be objective with evidence to back up your claim. You also cannot make a blanket statement that says "anyone with a criminal record will be denied." You must have a clear reason for denying them, such as "they did not meet my minimum credit score."

5. Asking a prospective tenant how many children they have

A tenant may think you are discriminating based on their family size. It is best to avoid mentioning the word "children" and rephrasing to "occupants and guests."

What about roommates? Fair Housing still applies. You can only specify a gender when the roommate is sharing a bathroom, kitchen, or common area.

As a landlord and manager, you should familiarize yourself with your State's laws around Fair Housing.

IV. Allow pets (a case for them)

A study conducted by the American Pet Products Association found that US pet ownership in is up to 68 percent of households. Allowing pets can increase tenant inquiries by more than 50 percent. You are more likely to attract tenants by mentioning that you welcome pets in your advertisement.

You can also increase your total rental income with pets. It is very reasonable to charge additional pet rent and an additional amount to the security deposit. The average increase in revenue for landlords who allow pets is \$450 per year.



INCREASED REVENUE PER RENTAL UNIT	
Average Pet Rent	\$15-35 / month / pet
Average Pets	1 pet per household
Average Turnover (time in the rental)	1-2 years
Average Increased Revenue	\$450+ / year

Here are the three standard fees that are typically charged:

1. Pet fee

This is a nonrefundable fee paid up front by any tenant who plans to own a pet in the rental unit.

2. Pet rent

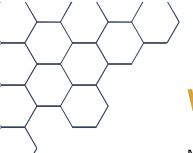
Pet rent is a monthly charge paid by the tenant, on top of their normal rent. This option considers the pet another resident and is charged for the duration of the pet's stay.

3. Pet deposit

Pet deposits are the same as a normal security deposit, but it is specific to having a pet. Pet deposits can get you into trouble from an itemization perspective, as you can only deduct damages caused by the pet. Therefore, it is not recommended to distinguish between the pet and security deposits. Instead, combine the pet deposit into the original security deposit to avoid these discrepancies.

Before you advertise, **determine which breeds the landlord's insurance policy covers**. A landlord should avoid all liabilities by making sure the breed of the pet is listed in the policy. And while marking your property as pet friendly seems like the obvious choice, it is a good idea to screen the pet and make sure the pet is safe for the surrounding community and your rental property alike.





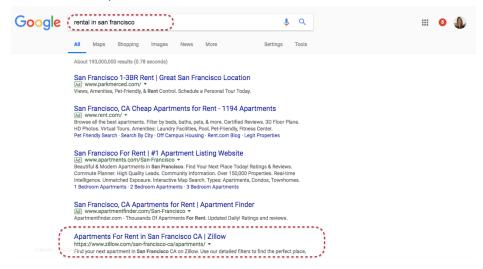
V. Advertise on rental listing websites

Nationwide, landlords lose an average of \$117 per day when their rental sits vacant. It is important to have the right advertising channels in place.

You should not pay for Google ads unless you are an expert with Adwords or have a large inventory of rentals in any given city. Landlords typically set it up incorrectly and lose a lot of money. The price per click is typically too high, even if you bid on tailend keywords that are specific to your rental.

Some rental listing websites are better than others. How do you know which ones are the best? It is determined by Search Engine Optimization, or SEO for short. Without getting into the technical side of it, the easiest way to determine where you should advertise your rental is to pretend you are a tenant. Go onto Google and search as if you were a tenant. Underneath the advertisements, you will see which rental listing websites are performing the best.

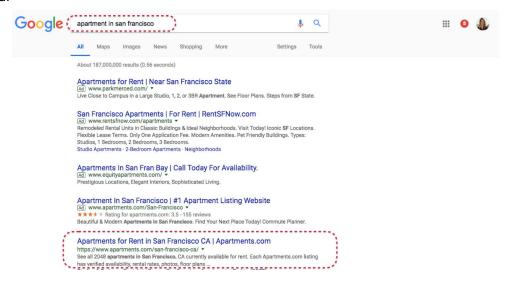
For example, Zillow is the top result for "rentals in San Francisco":







But, if you search "apartments in San Francisco," www.apartments.com takes the lead:



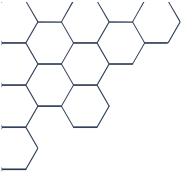
The fastest growing rental listing website is Facebook Marketplace. It is free to use and verified through your Facebook identity. One of the best things about it is that you can copy and paste your listing link from another website directly into Facebook Marketplace. Tenants who inquire are verified through their social identity, making it a great way to reduce spam from contacts.

In addition to Facebook Marketplace, the best strategy is to advertise on all popular websites: Zillow, Trulia, Zumper, Padmapper, HotPads, Apartments.com, and many others. You have a better chance of having tenants view your rental listing if you open up to more sources.

VI. Other useful marketing tips

Once your rental is advertised, track the number of inquiries you receive each day. If you have few inquiries over the first days of advertising it, then there must be a reason your rental is not gaining traction. Most likely, you need to drop the price as it is advertised above market rate. Or, you may want to review your advertisement to see what else may be happening. For example, your security deposit may be too high or it may be furnished when the majority of long-term tenants want unfurnished. Your rental gets the most views during its first days on the market, since it is considered a new, hot listing. You want to make sure the listing is fully ready and priced correctly.





How to show your rental property

I. Respond quickly to any inquiries

On average, tenants contact five landlords when looking for a new home. And, **over 80 percent of tenants want to view the rental** as the next step in the process. Speed is everything. To increase the chance that a tenant will select your rental, **you want to be the first to respond**. Use an automated system, like Hemlane, to respond and immediately book showings with tenants. Whether a tenant inquiries at noon or 2AM, you want to provide them with the best experience to get their question answered. Organization will help you reduce vacancy and sign a lease with the most qualified tenants.

II. Prequalify tenants before the showing

It is important to screen tenants before a showing to make sure they have met all the pre-qualifications for the rental. The last thing you want is to spend time showing a rental to someone who will not pass your application criteria.

Asking a tenant whether or not they meet the requirements can be rather uncomfortable since you're asking personal questions such as income and credit qualifications. Some tips to make this process as comfortable as possible include:

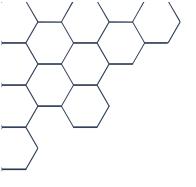
1. Use online forms to pre-qualify tenants

If you are asking the questions over the phone, their initial instinct is "will the manager ask these questions to everyone or it is only me?" Tenants feel more comfortable answering questions online, as they know it is a standard procedure.

2. Ask if they meet the minimum requirements

Rather than asking what the tenant's credit score is, you can ask "is your credit score over 650?" This helps to make sure they know what your minimum is for financial qualifications.





3. Make sure you have the same consistent questions

Every tenant should be screened the same way. We recommend including these pre-qualification questions: the expected move in date, minimum credit score, minimum income requirement, and whether they have pets. You want to avoid questions that may be considered discriminatory, such as "do you have a significant other?"

The minimum credit score requirements will differ by property. A luxury property will require a higher credit score than another rental due to the higher rent and liability for the landlord. TransUnion Credit Bureau recommends the following for accepting credit:

1. Conditional*: 524 to 537 2. Low Accept: 538 to 559

3. Accept: 560+

* requires a co-signer or additional security deposit

As a rule of thumb for credit, you may want to increase the minimum score to 600 for rentals over \$1,000 per month. And increase the minimum to 650 for rentals over \$2,000 per month. Of course, this is dependent on your location and property.

For income requirements, there is a rule of thumb of 2 to 3 times monthly rent. You want the combined income of the applicant group to be 2 to 3 times the amount you are charging in rent. For example, if a rental is going for \$1,000 per month, then you may require \$3,000 per month in income.

III. Show your rental during these times

Open houses are not a great idea, because you have no insight into demand (how many tenants will show up) and qualifications (whether it's worth it to show the rental to tenants). While we do **not recommend open houses**, we also do not recommend private showings. Tenants are very flakey and you could waste time with last minute cancellations.

The best results are when you list a couple of available times during a week where tenants can pre-qualify and register. You typically will have 1 to 3 interested tenants book a specific time. And if no tenant is interested in a time slot, then you don't need to show the rental. By allowing multiple tenants to book the same showing, a last minute cancellation won't upset you as much.



Also, multiple tenants at the same viewing lets them know that the property is in high demand and they should submit their application faster.

The most popular time for tenants to view a rental are early evening, lunch time, and weekends. If you add all three options to your showing calendar, then there is a good chance that you will accommodate all tenants who are looking to schedule a viewing.

IV. Remind tenants to show up

Things happen and plans change that may cause a tenant to miss a showing. Although you may be so frustrated to a point where you want to start charging tenants for being flaky, it's better to take steps to remind tenants about their upcoming commitment. It is not standard to charge for **no shows** or require payment to view a rental.

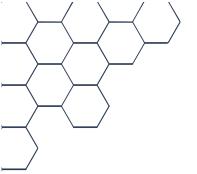
One step in confirming a tenant is coming is by reminding them periodically. An example of this could be sending an email and text 24 hours and 2 hours before the showing. It is important to vary communication channels in case a tenant prefers one platform over the other. Hemlane comes in handy when rental owners have to juggle multiple tenants and platforms by automating this entire process.

V. Follow up with all tenants after the showing

After the showing, it is important to follow up with tenants. The goal is to find out whether they plan to apply. If they aren't applying, you can learn a lot from their reasoning. You'll be able to find out if it's a problem with price, amenities, or something else. Knowing why tenants turn away can help you improve your listing to increase the likelihood of getting a tenant.

When a tenant is ready to apply, you should inform them on the next steps. Our recommendation is to request the application before the tenant screening, because you want to confirm the applicant qualifies before the background and credit check. You should use a standard application from a reputable online software or website. We recommend online applications since you can track progress through analytics.





How to screen a tenant

I. Qualify tenants at a high level

Once an application is submitted, you want to check that they meet minimum criteria. There may be showstoppers that prevent you from moving forward in the process. For example,

- Pets: You have requested no pets, and the prospective tenants have a dog. Be careful on
 what you consider a pet. Service and companion animals are not considered pets, and it
 is illegal to discriminate on this basis.
- Community Restrictions: You live in a community that requires someone to be over 55
 years of age, but none of the prospective tenants are over 55 years of age. Be careful of
 Fair Housing as community restrictions are the only case where you can discriminate
 on age.
- Move Criteria: The prospective tenants has an anticipated move in date that is unreasonably far in the future (and you have other prospective tenants in the pipeline who are ready to move sooner)

Then, you want to review the *combined* income and assets for each group of applicants. Income should meet your income-to-rent ratio, described in the pre-qualification section. However, if the tenants do not have income, the combined assets should be 2 to 3 times the annual rental amount. This is to make sure the tenants can live in the place without income for the duration of the lease.

II. Make sure anyone over 18 years old fills out an application

Anyone over 18 years old should complete an application and tenant screening. Even if it's a 22 year old who recently moved home with their parents, you want to have a good understanding of who is living in the property. For anyone under 18 years old, they will be listed as an occupant but not required to complete the application and tenant screening.





III. Review the application in detail

Once you have looked at the high level showstoppers and confirmed applications are in, you want to look at the details.

We recommend verifying the past 2 places of residence. The current place of residence will most likely not be able to answer questions regarding the deposit withholdings or move-out condition. And unfortunately, some residences provide a positive review for a poor tenant, just to get them out of their own property.

Be prepared to provide the prior landlord or manager with your "authorization form," as they may request it. This form contains the tenant's signature, allowing you to perform verification on their application. Fortunately if you are using <u>Hemlane</u>, we provide this form for you. When you contact the property owner or manager, ask the following questions:

- 1. Can you please confirm the dates of residence and the rental amount? Helps confirm this is not a friend.
- 2. Did you have to take any steps towards eviction? If yes, then this is pretty severe.
- 3. Were there any partial or late payments? Confirms timely payments. More than one late payment is a red flag.
- 4. Were there any lease violations or neighbor complaints?
- 5. Did the tenant leave the property in the same condition as when he/she started the lease (excl. normal wear and tear)?
- 6. Can you confirm the tenant did not try to sue you? Confirms tenants amiability. Tenants sometimes feel entitled to get a full deposit back and may threaten to take you to court over it.

Similar to their residence history, two employers should be listed and verified. When you contact the manager, ask for dates of employment (to confirm it's truly their manager), type of employment, and current income. Please note that the same authorization form, used for the residence history check, is required for the employment verification.



IV. Request tenant screening at the right time

Tenant screening can be requested before you verify employment and rental history, but you should review the application before requesting tenant screening. The last thing that you want is for a tenant to be charged a tenant screening fee and then you reject them for something in their application.

Never let a tenant provide you with an emailed or paper version of their report. How can you be certain that they did not tamper with the numbers or information. However, your credit check process should **provide the following reassurances to all applicants:**

- 1. Transparency: A report that is also shared with the tenant for their own use
- 2. **No impact to credit score:** A check that is considered a soft pull on their credit and will not affect their score
- 3. **Security:** A system that is encrypted, which means their personally identifiable information (such a social security number) is not shared with anyone. Due to the amount of identity theft out there, it is not advisable to have the applicant's social security number floating around on a paper application.

V. Interpret the results from the credit report

Once you have requested the tenant's credit report and score, you should understand the details in the report. From a score perspective, each of the three Credit Bureaus have slightly different reporting systems, but the credit score should not be drastically different. A score above 650 would be considered a "qualified" score in most situations. However, if you have a rental below \$1,400 per month, then you may be in the 500 range for acceptable credit.

If the score is below the required minimum, then you want to understand the details. Here are a couple of situations where the score may be low:

1. Little or no credit: If a tenant has low or no credit, then you may not want to immediately deny them. The tenant may be responsibly paying their bills with cash or on debit. Or, they may just be starting out, such as a recent college graduate. A tenant who is financially responsible and paying cash with zero credit is better than a tenant who irresponsibly purchasing on credit and cannot pay their bills.





- 2. **Medical bills and student debt:** Some tenants get into debt very quickly due to unforeseen medical expenses and/or education. While these situations are not ideal, it is not as bad as the next situation (below).
- 3. Irresponsibility with bills: In most cases, you will see tenants have low credit due to being financially irresponsible. They have a car loan past due and five credit cards out for collection. When you see credit low due to these types of accounts, you should be extra cautious.

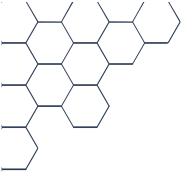
If a tenant does not meet the credit or income requirements, then you can request a co-signer. This person should complete both the application and screening. For the application, the most important sections are the employment and assets sections. On the screening, the credit must be over the minimum.

This co-signer also needs to be listed on the lease as they are responsible for any financial damages. If the tenant cannot provide a co-signer, then you can consider requiring more for the security deposit.

VI. Review the background check

If an applicant has an eviction on record, then it means not only did the tenant go to court over the eviction, but the court did not rule in their favor. It is recommended that you do not move forward with a tenant who has evictions on their record. And unfortunately, there are some eviction scenarios that go unreported.

For the rest of the criminal report, the US Department of Housing and Urban Development (HUD) states that owners cannot put a blanket ban on applicants with an arrest or criminal record. Landlords also cannot refuse to rent because of a prior arrest without conviction. If an applicant's background check has a conviction, then the owner must prove the exclusion is justified.

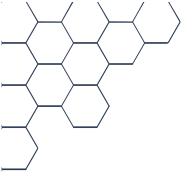


VII. Ask for co-signers if necessary

When an applicant does not meet your objective criteria, you can request a guarantor or cosigner who meets the minimum qualifications to be on the lease with the tenant. Accepting a cosigner or guarantor can be an excellent way to reduce vacancy and move a tenant into your rental property sooner. We recommend listing the third party as a cosigner. Cosigners have equal responsibility for payment of monthly rental costs, while a guarantor is generally sought for payment only when the property occupant is unable to make the rental payment. The most common use cases for a guarantor or cosigner are when someone has no credit or low income. For example, foreigners and students often do not have US credit and therefore are asked to provide a guarantor or cosigner.







How to prepare for move in

I. Prepare a concrete lease

When preparing the lease, you should consult a real estate lawyer or manager who knows the local laws and regulations. Here are 6 tips for preparing the lease:

- 1. Do **not let someone move in**, or move in their belongings, **before the possession date**. You may be liable if there is a break-in or other situation.
- 2. **Do not accept Venmo, PayPal, or direct deposit for rent collection**. Tenants can dispute funds or pay what they want without a verified invoice amount each month.
- 3. Require full rental payments only to avoid a situation where they pay partial rent to avoid eviction.
- 4. List joint responsibility in roommate situations. In other words, tenants are responsible for their roommates' actions.
- 5. For the accepted pets, list the exact breed and name to avoid confusion on which pet has been accepted.
- 6. Do not allow smoking on premise as cigarettes can leave a stench in the carpet and walls.

II. Request deposit and rent

One of the major mistakes is taking the rental off the market before the funds have cleared into your bank account. Until you have the security deposit, it is not recommended to take the property off the market. If the tenant has signed a lease but decides to cancel last minute, you would be able to use the security deposit as collateral for the financial loss of breaking the lease. But, if you have not collected those funds, it may be a lot more money and work to chase the tenant in court.





The first month's rent is typically requested at the same time as the security deposit. We do not recommend requiring last month's rent as it makes it more difficult to evict a tenant if they fail to follow the lease terms.

III. Confirm renters insurance

One of the many **mistakes is not requiring renters insurance and confirming it**. Whether there is flooding or a break in, you do not want the tenant coming after you for damages. It is much easier to tell them to submit a claim with their renters insurance. Also, your homeowners insurance could go after the tenant if they have damaged your property. And, renters insurance may help to cover that.

IV. Get ready for the move in

Keys should not be handed over until you have confirmed receipt of funds and a signed lease. The property should be move-in ready, which means that it should be professionally cleaned, including appliances and baseboards, to start the relationship on a positive note.

V. Perform a move in inspection

The purpose is for the tenant and the landlord to agree on pre-existing issues, ensuring that they are not deducted from the tenants damage deposit when they move out. An additional benefit of the move-in inspection is that the documentation process lets tenants know how clean the property is, which incentivizes them to keep the property just as clean during the duration of the tenancy. By explicitly informing the tenant of how clean things are when they move in, they have a clear understanding of the standard that is expected when they return the unit.

Timing: The Move In Inspection must happen before you give possession of the unit. This ensures a clear understanding of the condition before the tenant moves their belongings into the rental. The most common time to do this is when you hand over the keys to the tenant. If the tenant insists on performing the inspection before the move in date, then you can perform the



inspection but do not hand over the keys. There is a huge liability with providing access to the property before the move in date. Believe us on this one.

During the move in inspection, it is very common for a tenant to start "nit-picking" any small cosmetic damage. Some examples include:

- 1. Dents in the baseboards
- 2. Drawers not sliding seamlessly
- 3. Small scratches on the wall

Since rentals are turned over more frequently than for sale properties, it is not always expected to have a fresh coat of paint, new fixtures, etc. It is important to communicate the purpose of the move inspection:

- 1. Appliances are working properly
- 2. Safety has been checked (door locks, window latches, smoke detectors)
- 3. Rental is ready for a tenant move in

Minor cosmetic issues will be noted on paper and with photos but may not necessarily be fixed. If you are an agent performing an inspection, do not agree to any upgrades or contract work unless you have approval from the owner.

Here is what we notice are the most commonly overlooked items during the inspection:

- Windows with and without screens
- Prior door damage from pets
- Drawing of the drapes, blinds, and curtains

Make sure to take photos and have the tenant sign the move in inspection form. Once you are done and have handed over the keys, you can sit back and enjoy your real estate investment.