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# Ten most important considerations when purchasing rental property

Owning residential rental property can supplement your income and be an excellent investment, but it is important to weigh the benefits against the risks before you decide if investing is for you.

"Generally, rental property, if chosen wisely, is considered a stable investment and provides income as well as a tax deduction over a long period of time," says Peter J. Birnbaum, president and CEO of Attorneys' Title Guaranty Fund, Inc. (ATG).

But there are risks inherent in investing in residential real estate property, he says. The property's value may not increase as rapidly as expected, or it may even go down in value. Costs associated with maintaining the property may be more than expected. And, in some cases, the property may not comply with zoning or building inspection laws, requiring the outlay of additional funds for repairs. Some municipalities also have regulations regarding rental units.

"As with any transaction involving real estate, it is extremely important to consult with a qualified residential real estate attorney before you make an offer on the property or sign a contract," Birnbaum says.

Peter Birnbaum suggests that a person interested in making an investment in residential real estate ask themselves the following questions.

1. Costs – What costs are associated with owning and renting the property?
2. Occupancy Trends – Is the property fully occupied? What is the average vacancy rate? Do current tenants hold a month-to-month lease, or leases for a period of a year or more? On average, how many tenants are evicted each year for non-payment of rent?
3. Tenant History – How long have the current tenants resided there? Are they reliable? Are they current with their rent?
4. Tenant Complaints – What complaints have the tenants made in the past year? Did those complaints concern the facility or other tenants? How were those complaints addressed? If the complaints concerned the facility, did the owner or an outside contractor correct the problems?
5. Vacancy Rate of Comparable Units – What is the vacancy rate at other rental properties in the area? What is the average monthly rent for a unit of this size?
6. Condition – What is the condition of the building? Is the foundation solid? Are the sewer and water lines, and heating and cooling systems operational? For example, what ma-

ior repairs have been made in recent years? How soon will the heating and cooling system require replacement? How old is the roof? Do the windows meet current state and local energy standards or will they require further improvements?

7. Real Estate Taxes – What is the most recent property tax assessment? How does that compare to similar rental properties in the area? Are any property taxes owed? Have any extraordinary assessments been made? What municipal improvements, such as new roadwork or sewer lines, are planned in the area in the near future? Will this result in an extraordinary assessment or increased property taxes?

8. Zoning – Does the property meet zoning and building code requirements? Has it ever been cited for noncompliance? Has the property ever been the subject of litigation, liens, or other adverse actions?

9. State and Local Laws – What state and local laws affect rental properties and/or landlords? Will those laws have an impact on operation costs?

10. Parking – Does the property have off-street parking? If not, are there any restrictions on street parking that could have an impact on the attractiveness of the rental property to a tenant?

The answers to these questions literally form a blueprint for a successful investment property experience, says Birnbaum.

If you decide to move ahead, you'll want to have an attorney review the contract, he continues. In addition, an attorney plays an important role at the closing – a meeting that includes buyers, sellers, their respective attorneys and real estate sales people, and a representative who typically acts as a closing agent. "There are many documents and fees associated with the transfer," Birnbaum says. "Your attorney can provide a clear understanding of these documents. Prior to the closing, you will be informed about the amount of money needed (usually paid by check or certified money order) to cover closing costs."

Beyond the initial purchase, your attorney can help draw up the leases to clarify the responsibilities of the landlord and tenant, and provide assistance should legal action become necessary. He or she also can be helpful when you prepare to sell a rental property, ensuring that the seller retains no continuing liability for the property or its tenants, Birnbaum says. A good real estate lawyer will also advise the buyer on local, state, and federal tax issues.

"The care you take in preparing for the home buying process is important before the sale, but it pays even greater dividends later," he states. "Your attention to the legal and financial details now will allow you the peace of mind in the future that comes from knowing your investment is protected."

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