WHAT YOU NEED TO KNOW BEFORE BECOMING A LANDLORD

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Owning a rental property can be a very lucrative venture. With home prices continuing to rise in the US, the demand for rental homes continues to grow. [Becoming a landlord](https://www.mashvisor.com/blog/steps-becoming-landlord/) means filling this demand and in doing so, you’ll enjoy a good return on investment. Of course, being a landlord comes with a number of other benefits like asset diversity and tax deductions. When you retire, a rental property can even be a good source of passive cash flow.

However, simply signing on the dotted line and becoming the owner of a [rental property](https://www.mashvisor.com/) doesn’t guarantee that you will be a successful landlord. It’s best to prepare yourself by learning a thing or two before you even start searching for property. Here is what to know before [becoming a landlord](https://www.mashvisor.com/):

7 Things to Know Before Becoming a Landlord

You need to choose the right location

When it comes to [buying a rental property](https://www.mashvisor.com/), the first thing you need to know is that the location can either work for or against you. The neighborhood where your rental property is located will determine the profitability of your investment.

You can find the ideal location for [investing in rental properties](https://www.mashvisor.com/) for beginners using Mashvisor’s real estate heatmap tool. This investment tool will help you distinguish different neighborhoods based on performance. It comes with four main filters; rental income, listing price, [Airbnb occupancy rate](https://www.mashvisor.com/blog/what-airbnb-occupancy-rate-can-you-expect/), and cash on cash return.

When you click on the name of any area, you will land on the [neighborhood analytics page](https://www.mashvisor.com/explore/#!/neighborhood/Lazy-Brook%20-%20Timbergrove-Houston-TX/403549/demographics) which provides the following additional data:

* Number of properties (investment, Airbnb, and traditional)
* Walk Score
* Optimal rental strategy, property type, and number of bedrooms
* Real estate comps
* Historical traditional and Airbnb rental income

With this data, you are sure to choose a great location for buying a rental property and becoming a landlord.

Finding the best-performing rental properties for sale is key to your success

Once you’ve identified a great neighborhood, the next step in [becoming a landlord](https://www.mashvisor.com/) is to find *the right* single-family home, condo, multi-family home, or apartment. And by this, we mean a rental property that promises positive cash flow and good returns. This is key to your success – you don’t want to purchase just any property for sale.

Strategies you could use to find the best investment property include driving for dollars, hiring a real estate agent, checking newspaper ads, or [direct mail](https://www.mashvisor.com/blog/real-estate-direct-mail-marketing/). Alternatively, use software like [Mashvisor’s property finder tool](https://www.mashvisor.com/). This software allows you to find properties that match your requirements in terms of optimal rental strategy, listing price, property type, return on investment, and market availability. The property finder will show you the best performing homes in terms of rental income, [rental property cash flow](https://www.mashvisor.com/blog/how-much-rental-property-cash-flow-good/), occupancy rate, listing price, [cash on cash return](https://www.mashvisor.com/blog/what-good-cash-cash-return/), and [cap rate](https://www.mashvisor.com/blog/2019-cap-rates-by-city/).

Get your finances in order early on

Before [becoming a landlord](https://www.mashvisor.com/), you need to get your finances in order. Lenders look at several things when considering your eligibility for a loan:

* Credit score – This number shows lenders if you will be able to pay off a mortgage. Most loans out there require a credit score of 620 or more. If you have a poor credit score, do your best to improve it before applying for a loan.
* Debt-to-income (DTI) ratio – DTI refers to the amount of your income that goes towards debt repayment. A low debt-to-income ratio will boost your chances of getting approved for a loan. You can improve your DTI by paying off as much debt as possible and avoiding credit cards.
* Cash reserve – How much money do you need to become a landlord? Well, to [qualify for a mortgage](https://www.mashvisor.com/blog/how-to-qualify-investment-property-loans/), you might be required to make a down payment of up to 20%. Make sure you have enough cash saved up to cover the down payment and closing costs.

When it comes to mortgage options, the most common are the conventional mortgage, Veterans Administration (VA) loans, and Federal Housing Administration (FHA) loans. Once you’ve chosen a lender, you will need to get pre-approved for a loan. Presenting a pre-approval letter to a seller will enhance your chances of clinching the deal.

Alternative sources of funding when buying your first rental property include hard money lenders, real estate partnerships, seller financing, private money lenders, and home equity loans.

Learn how to screen tenants

When it comes to traditional rentals, tenant screening is very crucial. Proper screening will help you identify tenants that are more likely to pay on time, take care of your property, and stay longer. It will help you better avoid [eviction and the costs that come along with it](https://www.mashvisor.com/blog/how-much-does-it-cost-to-evict-someone/).

Find out if your potential tenant is employed and how much they earn. [Check their credit rating](https://www.mashvisor.com/blog/renting-someone-bad-credit/), criminal record, and eviction history. Ask potential renters for references from employers and previous landlords. Preferably, have a face-to-face meeting with tenants before allowing them to sign the lease agreement.

Get familiar with the fair housing laws

It is very important that every first-time landlord understands and follows the fair housing laws. These are federal laws that prohibit discrimination of tenants based on factors such as sex, national origin, race, familial status, religion, age, and disability. Violating these laws could result in serious consequences for any landlord. However, the following kinds of homes are exempt from fair housing laws:

* Housing units run by private clubs and religious organizations which limit occupancy to their members
* Owner-occupied residences with not more than four rental units
* Housing specifically designed for senior citizens

Have a comprehensive lease agreement

You cannot talk about [how to become a landlord](https://www.mashvisor.com/) without mentioning the lease agreement. This is a legal document that will protect your interests as a landlord. It usually contains details such as:

* Rental rate and deposits
* The due date for rent
* Fees or penalties for missed or late payment
* Right of entry
* Pet policy
* Activity restrictions

Before finalizing the agreement, be sure to check with a real estate attorney that is familiar with [landlord-tenant law](https://www.mashvisor.com/blog/landlord-tenant-law/). This will help you avoid potential legal issues as you are [becoming a landlord](https://www.mashvisor.com/).

Adhere to health and safety requirements

Due to the coronavirus pandemic, there is a new aspect to consider before becoming a landlord and that’s COVID-specific health and safety requirements. This is especially important if the rental property you’re purchasing will house multiple tenants, contains common areas, or if you use the property as an Airbnb.

The US Centers for Disease Control and the World Health Organization have come up with mandatory [safety practices](https://www.airbnb.com/help/article/2839/what-are-the-health-and-safety-requirements-for-airbnb-stays) for renting a house on Airbnb. For example, guests and hosts must keep a distance of 6 feet from each other at all times. In addition, they must wear a mask when engaging in person. Anyone that has been exposed to COVID-19 is not allowed to host or travel. There is even an enhanced Airbnb [cleaning protocol](https://www.airbnb.com/help/article/2809/) that hosts must follow between each stay.

Conclusion

It’s important to know that [becoming a landlord](https://www.mashvisor.com/) is a long path that requires a lot of hard work. However, if done right, that path will be lined with wealth!