



Landlording in Hamilton & Niagara: A How To Guide For Success

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TABLE OF CONTENTS

Two Types of Markets _____	4
Financial Benefits of Rentals _____	5
Important Questions to Consider _____	6
How to Manage the Property yourself _____	11
How to Interview a Property Manager _____	14
Keys to Success _____	17
Hamilton & Niagara Landlording Tips & Tricks _____	20
About the Author _____	22

FOREWORD

So you've decided to explore the wonderful world of owning rental property.

Congratulations!

Whether you're just starting out or you're a seasoned investor, as investors we are always learning. This guide is just that, a guide to becoming a successful landlord.

What a number of real estate investors fail to realize is that they are not merely a landlord but they are now a small business owner. So many landlords fail to realize this key point.

My goal with this guide is to challenge you to think critically, and to change your mindset from landlord to small business owner, while providing great customer service to your tenants. It starts with a key realization is that our tenants are our customers. They are the ones that take care of our property and help us pay-down our mortgage. A lot of us fail to realize that. Two of the biggest issues on why tenants choose to move on is outstanding maintenance issues and poor customer service.

Owning real estate investment properties is one of the best paths to financial freedom, but it also comes with risk. If you're looking for a get rich quick scheme, you should probably go buy a lotto-ticket. I am going to provide you with insight I have learned over the years in hopes you can learn from my mistakes.

It's important to note that these are merely my opinions and experiences. I have no formal training as an attorney or an accountant, however, like you, I have watched the hit TV show Suits on many occasions. With that said, I would strongly encourage you to also seek advice from your Accountant or Lawyer regarding any legal or tax implications.

I hope you find this guide helpful and please ensure you provide feedback through our website at www.welcomemgmt.ca. Your input makes this document even stronger and more useful for other investors embarking on the journey of real estate investors.

Jay

TWO TYPES OF MARKETS

Real Estate is not a get rich quick scheme. It's a strategy for building wealth that over time can help investors increase wealth by way of stable growth through market appreciation and mortgage pay-down.

There are two types of real estate markets, appreciating markets and cash flowing markets.

An appreciating market is where the main benefit of holding real estate is to capture future appreciation.

In cash flowing markets prices do not appreciate much year over year, but you can earn a substantial monthly positive cash flow (income minus expenses).

It's important as real estate investors to ensure that it may not always be good times as a landlord, markets go up and down and maintenance issues come up, however at the end of the day people will always need a place to live.



FINANCIAL BENEFITS YOU GET FROM RENTALS

Besides cash flow and appreciation, there are many other financial benefits of owning rental real estate:

- 1. Tax Benefits-** The government wants you to own real estate so they entice you with tax deductible expenses like: Interest, depreciation, repairs, management fees, taxes, insurance, and travel expenses just to name a few. How much you can deduct will depend on your income and if you actively participate in operating the rental.
- 2. Leverage-** Through the power of leverage, you can put a small amount down and borrow the remainder from the bank. You earn on your money and the bank's money. This can provide you a great ROI (return on investment).
- 3. The Power of Refinancing-** You can pull cash out of rental properties without paying taxes on the proceeds and use it to fix up your rental or buy more rentals.
- 4. Collateral-** You can use the equity in your rental as collateral for other deals. This is a bit advanced, but many real estate investors use it to their advantage.

IMPORTANT QUESTIONS TO CONSIDER

When investing in a rental property, as an investor you should consider the following:

1. What are my short and long term goals for this property?
2. Will I manage the property myself or hire a property manager?
3. What is the estimated net income of this property? What happens if I don't make money on this investment?

1. What are my short and long term goals for this property?

Your goal may be to rent it for a few years or perhaps hold the property longer term. At the end of the day the goal for most investors is to build wealth over time through real estate, however maybe you want to sell it and buy another property. If the property cash flows well, many investors elect to hold the property long term and pay down the mortgage.

While no one can predict the market, it is important you talk to a Real Estate professional about where you may be in the market cycle and your goals as it relates to real estate investing. Real estate is cyclical so you need to be educated on the short and long term forecast of the market so you can make more informed decisions.

It's important to note that rental properties that are sold are subject to capital gains tax. The government allows homeowners to be excluded from paying capital gains tax on the first 50% of that capital gain. You should consult your tax professional prior to selling a rental property.



2. Will I manage the property myself or hire a property manager?

This is always the question investors struggle with. Should I hire a property manager or can I do it myself. Whatever you decide, stick to it, however, you should consider the following things before you make your decision:

- **Time:** Property Management is expensive and not worth the money. That's what a lot of investors feel, however they've likely worked with the wrong Property Manager. Self Management is a great alternative, however, you have to ask yourself, how much is your time worth? The secret of the rich is they gladly trade money for time. You can always get more money, but you can't get more time. On average it will take 40 hours per year to effectively manage your rental property. Make sure you have the time to do the job right. This is probably your largest asset (your home and your time, both so valuable!), so make sure you are set up for success if you decide to self manage (more tips on this later).
- **Protection:** Ontario is one of the most litigious provinces in the Country with some of the most complex and restrictive rental laws. Hiring a property manager will reduce the risk of running into legal trouble, as they know the laws and best practices.

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Maintenance: It's a gorgeous Sunday afternoon and you're out at the park with your family when all of a sudden your cell phone rings, you freeze, it's a call from your tenant. What do they want? Why are they calling? What's wrong? It never fails! They're likely calling about a maintenance issue, but are you prepared? Who will perform the maintenance when issues come up? If you manage yourself, make sure you have a plumber and handyman or contractor you trust, who can handle repairs that come up. If you live out of town make sure they can send photos of work so you can be sure things are getting done correctly.

- **A Property Manager can help you make better decisions:** When you self manage, the tenant has direct access to you the decision maker. When you hire a property manager they are a buffer between you and the tenant. This helps you make better decisions and not be put on the spot by the tenant.
- **Better results:** Studies show owners that self manage have much higher vacancy rates and on average rent their properties well below market rate. A professional property manager will also have a proven tenant selection system that will find you a higher quality tenant. They should also know where to price your property in order to minimize vacancy and maximize income over the lease term.
- **Tax ramifications:** Did you know that the fees you pay in Property Management are tax deductible. Remember, you're a small business owner, not just a landlord. It's a mindset shift. Talk to your accountant about how to deduct your property management fees from your taxes.



3. What is the estimated net income of this property? What happens if I don't make money on this investment?

The first thing you need to determine is what the property will rent for. You can request a market analysis from 2-3 local property managers by calling them directly, or depending on their sophistication, requesting a “Free Market Analysis” on their websites. Welcome Home Management has this feature on our website and is able to provide owners valuable data of what their property should rent for.

Once you determine the rent you can expect, you need to deduct from the rent monthly expenses:

Rent Collected

Less: PIT payment (Principal, Insurance, Taxes)

Less: Management fees (if applicable, use 10% of the rent as a rough calculation)

= Net income/loss

You should also factor upfront costs like the initial loss of rent due to vacancy and the cost to make the home rent ready. A property manager should be able to give you a rough estimate of make ready and vacancy costs.

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An average initial vacancy time is around 30 days (figure 45 days to get the property ready to market, plus 3-4 weeks to get a tenant).

Next, talk to your tax professional regarding your estimated taxable income or loss. Taxable income or loss, is equal to rent minus 3 types of expenses: operational expenses, depreciation, and mortgage interest. Your tax professional can assist you with structuring your investment in the most tax efficient way.

Those are the good times, however, what happens if my investment doesn't make money? What happens if the investment sits vacant for a month or even two months. It could happen, but you've likely set yourself up with a team of experts, an investor friendly realtor, an experienced property manager and a tax professional. Regardless of whether you choose to self-manage or have a property manager, it's imperative you build a team of experts that work with you to help you achieve your objectives and goals.



HOW TO MANAGE THE PROPERTY YOURSELF

So you've decided to Self-Manage. Congratulations on taking the first step! Now that you've decided being a landlord is for you, you should consider doing the following:

1. Become a member of a local landlord association. There are many resources for new landlords online as well as local networking groups. These organizations specialize in providing the landlords the tools they need to manage their own property successfully. You should allocate time to researching basic laws on the *Residential Tenancies Act*, property condition, marketing, and the Landlord Tenant Board.

2. Have a solid lease in place. As of April 2018, all leases in Ontario must use the new Standardized Lease. The lease is just a generic template of standard terms and conditions. It is imperative you have your own addendum to this lease that outlines the rules and regulations for tenants living in your house, such as smoking, cannabis, maintenance requests etc. There are some paralegals who will write this addendum for you for a fee. It is well worth the cost.

3. Decide how you are going to select a tenant. Are you going to process applications in the order they were received or process them all and pick the best tenant? Are you going to have a minimum credit score or minimum income requirement (ex. 3 times the monthly rent is common)?

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It's strongly recommended that you contact the current and previous landlords, as rental references are the best indicator if a tenant will pay rent (more important than credit). Be cautious with the current landlord's reference though, as he or she may say anything to get rid of their problem tenant! The previous landlord, not the current landlord, is the most reliable reference. It is also important you determine what your approval criteria is in advance as tenants will ask.

4. Contact a couple property management firms that work your area and ask for a free market analysis. They can provide you an estimate of what your home should rent for. Do some checking yourself on Kijiji, Facebook Marketplace or PadMapper to see what other landlords are asking.

5. You're now ready to rent out the property, but there are a few steps before you can list the property. You need to ensure that your property is Rent Ready:

- a.** Have the interior of the unit freshly painted.
- b.** Check every moving part in the house and make a list of all functional issues. Have your contractor correct all the issues.
- c.** Have a plumber go through the house and make recommendations to correct and prevent plumbing issues.
- d.** Have the property professionally cleaned, including carpets.
- e.** Have the exterior locks rekeyed

6. Once the home is rent ready, list it on Kijiji, Facebook Marketplace, and PadMapper just to name a few. These sites are free and have the highest user rate.

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7. List on your rental ad two open house times on Saturday and Sunday from 12-2pm. This way you can set your open house and have many prospects through at the same time. This creates buzz around your property and saves you time going to the property around everyone's schedule. Make sure you have plenty of rental applications to hand out.

8. Process the applications and pick your new tenant. Offer the new tenant the place as long as they can sign the lease and pay you the money in 24-48 hours. Often tenants will stall once approved, so they can look for a better deal. If they don't move quickly and you have other applicants, move on. Always collect first and last month's rent at signing.

9. Take photos to document the condition of the home prior to move in. Either do a move in walk through with the tenant where you note the cosmetic issues with the property or you can simply ask them to provide you a list of the issues with the home within 7 days of move in. Make sure they understand that if they do not send you a list of issues within 7 days, they agree that the home was in perfect shape. A good lease should already cover this, but it does not hurt to remind them. Provide the tenant your contact information for emergencies and make sure to notify them if you will be unavailable at any point.

10. During the tenancy make sure you document every conversation with the tenant. Email is best for communication, but when you do talk on the phone or in person, it is best to take notes or follow up your conversation with an email. Keep copies of all your receipts and use a separate bank account for your property to keep track of income and expenses. Your accountant will need this to accurately do your taxes at the end of the year.



HOW TO INTERVIEW A PROPERTY MANAGER

Finding the right property manager can be a daunting task if you don't know the questions to ask and what to look for. When interviewing a property manager for your rental property, here are some of the Top Questions you should consider asking:

1. What kind of involvement do I have as an owner, and what decisions do I get to make? This is an important question because not every management company is right for every owner. If you want a lot of involvement, where you pick the tenant, set the rent, and be alerted regarding all maintenance issues up front, you want to be sure the management company you're talking to can provide that for you. Some companies are setup to manage properties using a system that requires very little owner involvement. Some companies can tailor their management to the specific needs of each owner.

2. How often do you inspect the rental property and are you currently behind on your inspections? Your property manager should be visiting the property at least once a year. Asking if they are behind on inspections is a canary in a coal mine question because when property management companies get busy, one of the first things that falls behind is their inspections.

3. Who will I be working with? Some companies are set up in what's known as a departmental model. This means there is a different person that handles each major aspect of the management process: property turnover, leasing, move in/outs, maintenance, accounting, etc. Some companies have a portfolio model where there is one property manager for your property

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and they handle everything. Then there are hybrids of the two models. It is important you understand how the company you are interviewing is set up so you understand and feel comfortable with the structure. The pros of departmental is that each person will be an expert at their job function and more people are available to answer questions. A con of this model is communication between multiple departments can lead to mistakes if the systems are not finely tuned. The pros of portfolio management is one point of contact for everything and that manager really gets to know your property well. The con is it is hard to find managers that are really good at all aspects of property management. Also, if that manager is unavailable or leaves, it can cause the owner issues as they were the only person managing your property.

4. What is your average days on market last month and last year? If they aren't tracking it, they're probably not serious about improving it.

5. How long will it take to make my house rent ready, what will it cost, and how much vacancy time should I budget for? You'll want to know how long it will take to make your house rent ready, how long it will take to lease, and what it will cost. A good property manager can give you a fair answer.

6. Do you have an operations manual detailing all the steps in the management process? A credible and experience management company will have taken the time to detail out all the steps in their property management process. If they don't have a manual and it's all in their head, they probably aren't serious about their business. You need consistent procedures that are written and documented. I'm not talking about an

office policies and procedures manual. I am referring to an operations manual with detailed checklists that guides staff down each tasks in major management projects (leasing, move outs, etc.). Having this means less errors and more consistent service.

7. If I don't choose you, who are a few other management companies you may recommend? I love this question as it will show how confident and trustworthy the company is. Most companies will answer, "I can't recommend anyone else because no one is as good as us." A company who will give you their honest feedback on a couple other good choices you may want to consider, may be worth hiring. The best service providers in any business know their competition well and have no problem talking about the good things other companies do. Beware of any company that badmouths a competitor.

KEYS TO SUCCESS

Whether you hire a manager or self manage, there are some key actions you need to take in order to set yourself up for success. Here they are in no particular order:

1. Call your insurance agent and talk to them about the right insurance coverage for your rental.

If you are living in the property currently, you will need to switch your insurance policy from a homeowner policy to landlord policy. Landlord policies have specific coverage you will need to protect yourself, like loss of rental income and renter liability. Your homeowner's policy requires you live in the home for it to be valid, so you could have no coverage if you forget to change it to a landlord policy. Landlord policies typically cost 15%-20% more than homeowner's policy as insurance companies see rentals as more risky.

2. Have a plumber check your home and perform the following:

- a. Upgrade old angle stops (the shut off valves at water sources like toilets and sinks)
- b. Clear any slow drains (this way you have an invoice showing they were clear when the tenant moved in).
- c. Make sure your water heater is properly, vented. If over 8-10 years old you should consider replacing now vs waiting until it leaks and causes lots of damage.
- d. Check the water pressure on your home. Your pressure regulator could be bad and it could be a ticking water bomb.
- e. Identify where the shut off valve to the property is so you can show the tenant.

- f. Check your washer hoses. Steel braided hoses are preferred, not rubber. Rubber tends to leak after 5 years.
- g. Leave a garbage disposal wrench at your property so the tenant can clear jams on their own.

3. Call your accountant or visit a tax planner to learn how your rental will impact your taxable income:

I mentioned it earlier, but it is important you understand the basic tax benefits of owning real estate and how they affect you. Even if you have a negative cash flow, the tax benefits may be enough to make it worth holding.

4. Set aside a certain amount of money each month for repairs:

Just like your car, your house will need regular maintenance. Unlike your car, your house is a great investment that appreciates while you sleep! If you have a house or condo in good condition, allocate \$50 a month in maintenance. If it is an older house, plan for \$100. You can set up an auto transfer from your checking account to your property bank account so it is out of sight out of mind. If you know you need to make a capital improvements soon, like replace a roof, start planning in advance to set aside that money.

5. Whether you self manage or hire a property manager, do your due diligence:

If you decide to self manage, great! Just make sure you invest the time to learn to do it right. This is not a business you want to enter with limited knowledge and tools. Most of the horror stories about renting property, are from inexperienced landlords who were taken advantage of by professional tenants. If you are hiring a property manager, make sure to interview 2-3 companies so you can pick the right company for you.



6. Set your 1-3 year plan for the property:

If things don't go the way you'd hoped, you need to have a plan. The main options are usually rent your property, sell your property, or refinance. During the housing crisis, people got in trouble as they assumed they would sell if things didn't go as planned. When prices went down and easy financing dried up, that option was off the table. You want to ensure that your investment has multiple exit strategies. When planning, consider what will happen if rates go up, prices go down, or if you have extended vacancy.

7. Use only licensed and insured contractors:

Don't put yourself at risk by using unlicensed or uninsured vendors. You may save some money upfront, but if you plan to be in business long-term, you need to set up policies that will help ensure you stay in business. Unlicensed workers are usually less reliable. You put yourself in a risky position when you send unlicensed workers into occupied homes. You need to make sure you are sending qualified vendors into your tenants home, and not put your tenant at risk. You can put yourself and your tenants at risk by having unlicensed handymen working on these older homes and not following the proper procedures.

8. Weigh the risks but move forward with a positive mindset:

This is my personal philosophy, but often times the clients that are most worried about water damage, end up having have a massive leak. The owner who is terrified that a tenant will destroy the place, finds the tenant has done just that at move out. The universe tends to deliver what you set your mind on. Get educated, make decisions, and move forward with a positive mindset. So important!

LANDLORDING TIPS FOR HAMILTON & NIAGARA INVESTORS

The laws in Ontario are very tenant friendly. Here are some tips and tricks to help navigate the waters:

- 1.** Never discourage anyone from applying. Even if you think they are not the right fit for whatever reason, give them an application. Talking someone out of applying could leave you open for a human rights complaint or even a lawsuit, especially if they are a member of a protected class.
- 2.** You need a smoke alarm outside of the bedrooms and one in the hallway near the bedrooms. You also need a CO alarm on each level of the home near the bedrooms. Use only new smoke alarms that have a 10 year sealed lithium ion battery. It is the landlords responsibility to change smoke alarm batteries. If your smoke alarm is over 10 years old replace it. Even though it beeps it may not be working properly since it is passed its useful life.
- 3.** Make sure you have a solid lease. Too often landlords have a very flimsy lease agreement that often do not have disclosures required by law. As of April 2018, all leases in Ontario must use the new Standardized Lease. The lease is just a generic template of standard terms and conditions. It is imperative you have your own addendum to this lease that outlines the rules and regulations for tenants living in your house.
- 4.** Don't stop by unannounced. Tenants have a legal right to 24 hour notice. Make sure to respect that or they could use it against you in court if a disagreement happens.

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I hope this guide will help you in your journey as not only a landlord but as a small business owner. Remember, this is not a hobby but a small business.

It is my hope that you are successful as not only a real estate investor but also as a landlord and the financial rewards it brings. If I can answer any questions, please feel free to contact us at [1-855-375-3300](tel:1-855-375-3300) or via email at info@welcomehomemgt.ca

All my best,

A handwritten signature in black ink that reads "Jay".

Jay Shaw



ABOUT JAY

Jay Shaw is a licensed real estate agent, investor and Coach with Rockstar Real Estate as well as a Property Manager with Welcome Home Management.

As an active investor Jay and his wife Erika purchased their first property in 2014 on the Hamilton mountain and in 2015, when the Hamilton market really heated up they began investing in the City of St. Catharines in single family homes. Real Estate has allowed Jay and his family to truly live life on their terms! He is confident that it can do the same for you as well.

In 2017 he launched Welcome Home Management after discovering gaps in the Property Management Industry. He saw traditional property managers lacked the ability to effectively communicate with their clients, backlogs of maintenance requests as well as the simple fact that Property Managers failed to focus on the simple fact of making the investor profitable – not themselves.

Today, Welcome Home Management manages a number of properties in both the Hamilton & Niagara area with an aim for making the investor profitable while at the same time providing great customer service to the residents and investors. In his spare time Jay enjoys spending time playing sports and being outdoors.