

Seven Things You Need to Know Before You Buy Rental Property — Thing Six: State of Repair and Contractors

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Looks can be deceiving. You can't judge a book by its cover. Beauty is skin deep. All of these sayings are even more relevant to the purchase of rental property.

When I began renovating properties and holding them for rental, I tried to cut corners in the work I was doing on each unit to save money. Cosmetic repairs like paint, plaster and carpeting got a big bang for the buck, and a few outlet covers and new switches made old wiring look good, at least. Nobody actually looked at the furnace, water heater or breaker/fuse box when they were renting, so why should I bother to spend a lot of money replacing wiring, panel boxes, plumbing and heating systems?

If you are flipping properties, your shortcuts become someone else's long term problems. When you hold properties, however, the mechanical, electrical and plumbing upgrades you make while the unit is empty, and before you paint and carpet, drastically reduce your regular and emergency maintenance expenses. An ounce of prevention is worth a pound of cure. That ten year old water heater may have a few more years of life in it, but it is just as likely to go on a Saturday morning in the middle of next month. Every five dollar 90 degree valve you install in your rental unit plumbing is another way you could reduce the cost of warping floors, collapsed ceilings and water stained walls. Old furnace blowers die in February, on the coldest nights when they are running full tilt. They don't go in April when new furnaces are on sale. I can virtually guarantee that wiring from the 1940s or 1950s wasn't built to handle the loads new flat screen TVs, high power vacuums, hair dryers, curling irons and kitchen appliances draw, especially when all are used at the same time.

I learned these lessons the hard way, over years of replacing too little, followed by repairing too much. When I look at a potential purchase, I see past the flowered wall paper pretty easily. I have two Wagner Power steamers which make short work of that. Instead, I look at wiring, plumbing, heating, roofs and windows. Those are the places I've spent the

most money in repairs, and those are the problems which cause good tenants to leave.

Don't think that these issues are limited to or more prevalent in single family homes or duplexes than large, multi unit properties. Recently, a client of mine was bidding on a large, multi unit complex in Pittsburgh. We talked about the age of the units and that they had been retrofitted with individual hot air furnaces a few years ago to eliminate the shared boilers and shift the responsibility for heat from owner to tenants. While that was a very good thing, I recommended the inspection of the furnaces by a good hvac contractor. The inspection found all 100 units were improperly vented, creating carbon monoxide risks for tenants. Additionally, flames shot out of the bases of many units when they fired. Had my client bought the building, she was facing over \$2,000.00 per unit in heating repairs, and it was likely the units would fail city inspections whenever they arose. A \$200,000.00 surprise problem not covered by any insurance can turn even a large project from profitable to teetering on bankruptcy.

If you don't know what to look for yourself, and don't want to pay in higher repair costs for the education over time, get a good home inspection before you buy a rental unit. If you are buying a multi-unit building, negotiate a discount for multiple units but get them all inspected. Almost every time I've been asked to skip a unit because that tenant is difficult or won't let people in, I've gotten a surprise or two later. Coincidence or not, I can't be sure, but I can eliminate the risk next time. If the inspection identifies problems, follow up with estimates from the highest priced contractors in the area. That will help you get the best credit from the Seller for repairs, and you can use any contractor you choose after you close.

While you are inspecting, also look for exterior painted surfaces, from decks to soffit, wood and cedar siding to wooden trim, wooden painted fences, and even paint over brick. All of these surfaces require more maintenance more often than brick, stone and vinyl. A little power washing and the non-painted surfaces look almost new. This even works on concrete. But painted surfaces become peeling surfaces every few years, the time varying with the quality of preparation and paint used by your painter.

The challenge with many of these items when you are looking to buy rental property is that many of the more expensive maintenance issues are hidden either by their very nature, or intentionally by sellers. If you spend the time when you look at a property to uncover signs of deferred maintenance, cover-ups and cosmetic repairs without work on the major systems of the

building, you will have made a good start. Then, make your offer contingent on a more thorough inspection of the building, and walk away unless the seller fixes or credits the cost to bring things to the level you expected in the first place.

Also, don't forget that you have to have your repair and maintenance team, at least a handyman, plumber, electrician, hvac contractor and roofer, and maybe an appliance repair service, a snow removal contractor /grass cutter, janitorial, washing machine and garbage collection services ready the moment you close on the property. If you own other properties in the area, you already have your team in place. However, if you are out of the immediate area of your contractors, their travel time adds to maintenance costs, and you may need to build a full or partially different team.

Waiting until after you close on a property to build a team in the area can prove very expensive. I once bought a 12 unit building in a new area, and was just too busy to get a team together before closing. The day after closing, an inspection revealed a gas leak, and I needed a plumber instantly. Not having one in the area, I used the prior owner's plumber, who charged me about double what I was used to paying, and spent three days with two helpers to diagnose and fix the problems. He didn't have the same type of expensive meter the gas company used to make sure pressure was maintained, so when the gas company came back, they found still more leaks, and I had to finish with another day of services from another plumber. I won't make that mistake again, and neither should you.

So, how do you build a maintenance team in an area where you don't know the local contractors? I have found the best way is to ask other investors with property in the area. Not necessarily the seller who got out of owning the property you bought, but others still actively involved in buying, renovating and maintaining properties in the area. Check them out by running criminal checks online, and look at the Better Business Bureau's and PA Attorney General's free websites and check online civil dockets in the county to make sure they aren't being sued by other customers.

Several local investors have contacted me recently about their legal problems with a particular contractor who attended our local investors meetings in Pittsburgh for a couple of years. I first sued him for several other investors more than two years ago, their cases are over (we won), he doesn't come to meetings any more, and there are three pending cases by my office against him. The attorney general refused to register him, and the Better Business Bureau lists him as unsatisfactory. Had the investors

currently having problems with him seen any of this, I'm sure they wouldn't have given him their money. And beyond that, he paid the earlier judgments. By the time the current claims get through court, he is more likely to be out of business, out of money and uncollectible.

Learn your lessons the easy way, from getting an education on other investors' mistakes, instead of the hard way, all alone. Read, attend your local investors' meetings, seminars and conventions, and take the courses you need from national and local experts. The money you spend will be a small fraction of the money you save!