

Seven Things You Need to Know Before You Buy Rental Property — Thing Four: Your Tenants

[On behalf of Dornish Law Offices, PC](#) | Jan 1, 2010 | [All](#), [Landlord-Tenant](#), [Real Estate Practice](#)

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Most of the time, we do not buy rental property which is vacant. We buy with at least some existing tenants, so we can enjoy immediate cash flow from the property. Banks generally prefer to loan against existing cash flow, instead of taking your projection as to the rent you think you can get, and assuming you will rent immediately in February.

But the Seller of the property who was thinking about selling last March, who listed in July and sold to you in October reasonably anticipated that he would not be the landlord for too much longer when he rented units in April, June and September. He knew that full occupancy meant top dollar and did not want to hold out for the ideal tenant and risk losing a sale.

So who are those tenants who moved in over the last few months? What are their incomes, credit scores and criminal records? Would you have rented to these folks if you had already owned the building when they applied? Are they paying their rent on time every month?

Over the past few years, I have noticed that a disproportionate number of the evictions I handle for my clients come from tenants who were there when they bought the building, and rapidly became very bad tenants. Did those tenants turn bad when a new landlord took over? I doubt that a good tenant for the Seller would become a bad tenant for the Buyer overnight. But that is the story I hear fairly often from sellers who are shocked that their perfect tenants haven't paid the buyers or worse.

But don't think that I have a crystal ball, either. I started paying attention to this phenomenon because I almost lost my shirt when I bought 60 units in Pitcairn with seller financing a few years ago. The seller was a friend and client, who assured me that there were only nine vacancies, and everyone else paid the rent on time. The rent rolls I received reflected that, and why would someone sell to a friend and a lawyer, take back 100% financing and

misrepresent the cash flow which was necessary to pay the mortgages on the buildings?

Besides that, I had all of the leases and tenant files for every tenant. The credit checks weren't in my files, but if the tenants paid their rent, how bad could they be? I found out the very first month when I was waiting for rent checks to come in. I received 30 out of 60, and that was renting three of the nine vacancies with the Seller's help within days of taking over. Maybe they hadn't gotten my letter with the self addressed envelopes to send their rent checks to the right address. Maybe they hadn't seen the signs I posted in every building with the new address and contact phone numbers.

I opened the tenant files and started to call the tenants who hadn't paid. Some numbers were bad, some didn't answer and a few who did told me they had moved out. The Seller blamed my letters and rules for scaring some of the good tenants away. He also suggested that I'd get more rent if I visited the units in the first few days of the month and knocked on doors. Many of the tenants, he said, liked to pay cash at their own front doors, and if you didn't get it within a few days, they would spend the cash on other necessities like food, utilities and drugs (hopefully meaning prescriptions). I started to visit the units the next weekend, and confirmed ten more vacant units. Since it was the second week of October, I knew I was in for a long and expensive winter. Some of the tenants I did meet complained that they weren't paying until their heat, plumbing or other problems were fixed, and others told me Section 8 paid their rent in full, though I had received a Section 8 check for those buildings already, and the additional tenants who claimed to be on Section 8 were not listed on the check.

I spent five grueling months paying for a lot of repairs to satisfy Section 8 and individual tenants. I had a full time handyman and another part time making repairs to other units, and showed and rented them on weekends. Despite all that work, I never received more than 40 rents in any one month, and depleted my reserve money from my other units just to pay for repairs and the mortgages. I never did have the cash flow to keep up with the taxes on those units, and went into my pocket to keep the gas and electricity on. I was glad I didn't lose more when I gave the properties back to the Seller. He still owns them, but I think issues with management of those tenants in those units were a major contributing cause to his bankruptcy. At least I wasn't the one forced into bankruptcy by having the wrong tenants.

I vowed never to let that experience happen to me again, and I am much more careful now to know my tenants when I buy property already rented. First, I get the leases before I make an offer. For free and in minutes, I check each tenant's name for certain civil and criminal records and under Megan's Law to make sure there are no sex offenders living in the building. For these searches, you don't need the landlord's or the tenant's permission, and nobody even has to know you looked at the public records. Of course, you can do the same search on prospective tenants who submit a rental application to you, prospective contractors and, with certain limitations, on prospective employees.

Start with criminal records. For every Pennsylvania County Court of Common Pleas and every Magisterial District, the records are online. Start by going to Pennsylvania's Unified Judicial System Web Portal at <http://ujportal.pacourts.us>. The fourth menu from the left at the top of the page is docket sheets, and gives you a choice of Magisterial District Courts, Philadelphia Municipal Court, Common Pleas Courts and Appellate Courts. Start with Common Pleas Courts, and go to the Search Type Box about half way down the page. For search type, enter "Participant Name" and put in the first and last names of the tenant as written on the lease. Choose the docket type Criminal, and leave the other boxes blank, then click "Search." Hopefully, the box under the search tab will show "No Results Found," but if it shows results, move your mouse over the symbol to the left of each item listed and click "Docket Sheet" to read the available story of what happened to your possible tenant. Repeat the process for "Miscellaneous" and "Summary Appeal" docket types, and you will learn about everything from traffic tickets to criminal citations which made it to the Common Pleas court level.

But after those searches, you are only part way there. You need to go back to the gold "Docket Sheets" tab at the top of the page and select Magisterial District Courts, or if you are in Philadelphia County, Philadelphia Municipal Court. Use the same search typing "Participant Name," and go through the docket types for criminal, civil, landlord-tenant, miscellaneous, non-traffic and traffic. After these searches, you will have a pretty good idea whether your prospective tenant has a court record. Not all counties are fully online for civil and landlord tenant dockets, so you can't use these searches exclusively, and for someone coming in from out of state, only a 50 state criminal record search, for which you have to pay, will get you to a reasonable level of comfort. The PA search is a good start, and may be

enough to decide you don't want to inherit a tenant now in the property, but instead require Seller to relocate them before you buy.

Don't forget the Megan's Law searches also available for free

at: www.pameganslaw.state.pa.us. After you accept the rules, search each tenant by name, and just to be sure, cross reference by running a search under the zip code of the property. That search will list all registered sex offenders in the zip code, and you should check each to make sure they aren't registered as living in the property you are buying, or even nearby. You get pictures, arrest information and even the vehicle reported as driven by each offender.

Many counties also have free or inexpensive civil docket information available online, and you should check your county to find out what is available to you. Civil dockets can give you information on litigious tenants who may be inclined to sue you as well, and information on other types of legal matters like divorce, custody and child support, in which they may be involved. Check with your county Prothonotary's office to see what information they have available online.

The final records available cheaply online are Federal Court and Bankruptcy Court records found at www.pacer.gov. Go to the register for PACER button to get started. Once you have your account, you are charged eight cents per page, but all your searches are free if you don't spend at least \$10.00 in a year. Once your account is active, go to the PACER Web links and find the court you are looking for in the index. Click the court and enter your login, then, go to the top of the page and click "Query." This will bring up a screen where you can type the tenant's name and search.

Hopefully, no information comes up. However, if it does, you can search the dockets and pull the information much as you did with the web docket sheets.

Public records are a good way to know what the public can learn about your prospective tenants, but confidential credit reports, containing all kinds of financial information, and available only with prior written authorization from the tenant, are needed to close the loop. Hopefully, your seller keeps a file on each current tenant which includes the credit authorization signed by the tenant and a report obtained thereafter by the landlord. If your seller doesn't have a credit report on each tenant, be concerned. Tenants with bad credit histories flock to landlords who don't check credit, and you are likely to have more than your fair share of evictions if the tenants in the building you buy weren't properly screened. You can wait until you sign an

agreement of sale to get the tenant files, but make sure you get and review them before you close. Make sure information in the files for long time tenants is updated, and that credit information on the tenants is at least fair, if not good. I like a tenant with at least a 600 credit score, but depending on the unit, time of year and demand, occasionally go lower. I would never again take a building full of tenants who have not been screened, or who have scores substantially below 600.

Finally, blame your accountant or lawyer for this last question: Insist on seeing seller's records of income and expenses for the property for at least the last six months or longer, tied into the seller's bank statements for his or her business bank account. Sellers can lie about receiving rent, Tenants can lie about paying rent, but the bank statement will show what the landlord deposited and when. It will also show real expenses in the month, but that is a point for a different article in this series.

If you follow all of the recommendations in this article, you are far less likely to have to evict the tenants you inherit when you buy a building. It may take extra time up front, but an ounce of prevention is worth a pound of cure!

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