



Don't Wait 'til You Get Burned . . .

One of my clients is a widow who owns a small house that she leases to tenants. Every time she has a new renter, she has me pull a credit report on the prospect. Several months ago I received a signed release from her on a potential resident, but not long after it arrived, I got a phone call from her. She explained to me she didn't "have a good feeling about this guy," and wanted to know if there were any other checks I could do.

I suggested we could run a criminal background check to see if he has any history of convictions, and we could check civil records to find out if he has prior evictions or a history of suing landlords. She thought a minute and said, "No, no, it'll be OK, I'm just acting like a silly old woman." I asked if she were sure that's what she wanted to do and she replied, "Yes."

A couple of months went by and I received another phone call from her. "Why don't you go ahead and run a criminal check on that last renter you did for me?" I

said to her, "What happened?"

"Well, you know that uneasy feeling I had about him. I should have taken your advice and looked a little deeper."

"What happened?" I said again.

"He skipped out in the middle of the night owing me two months rent."

"That's terrible, I hate that for you."

"That's not the half of it, he did a lot of damage to my house—a lot." "How much is a lot?" I asked.

"One estimate I have is for \$8,200 and another is for \$8,700."

I ran the criminal check and when I got the results back, he had a felony conviction for "Criminal Damage to Property." I called the landlord who had filed the charges against him and asked if he remembered the guy. "How can I forget him?" he scoffed. "I had him under dispossessory for not paying rent for three months, and before we went to court he skipped out in the middle of the night. But not before, stealing all the appliances, knocking holes in the walls and doors in almost every room of the house, pulling down all

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the light fixtures, curtain rods and drapes, breaking the mirrors in the bathrooms, and destroying the carpets.”

“How much did all the damages add up to?” I inquired.

“Almost \$11,000.”

When I got back to my client and reported to her what I learned, she bemoaned, “You know, I could have spent another lousy \$50 bucks and spared myself all this trouble and heartache. I am a silly old woman.” Needless to say, she now does criminal and civil checks on every person who not only rents, but on every person who lives in her rental house.

One of those property-owner horror stories, right? Maybe you’ve been spared from the residents from hell who make your life miserable and cause you to wonder why you ever even thought about being a landlord. Your experience has been mostly positive with a minor irritancy here and there, but no big problems.

Consider this email that was recently forwarded to me from a real estate agent friend of mine. It had been sent to everyone in the real estate office by another agent.

Until recently I had been very lucky in my rental property endeavors - always having great tenants who took care of the homes and they paid their rent in full on time. However, in the last couple of months things have changed.

I now have some tenants who have moved out (literally in the middle of the night) in the middle of their lease, leaving the house severely damaged and not paying rent (or any of their utilities). Since they've already moved out, obviously I don't need to evict them. But, how should I go about tracking them down, and collecting the money owed? Is there a specific type of legal action I need to take, form to file, etc.? I've documented the damages, taking photos of everything. But, obviously, I have to repair things and get it back on the market.

I really don't know where to begin... Does anyone have some advice / experience in this type of matter? Can anyone recommend a good collection agency (if that's the appropriate route)? Any pointers would be greatly appreciated.

Here was my reply to him . . .

Not only do I do background checks, I was in apartment management for many years. I’ve come across every kind of rental problem you can imagine (and probably a few you can’t!). Since the rental pool is so tainted now (with all the foreclosures and evictions), your days of “nice” tenants are over.

That's why you got burned; you're not dealing with the same kind of people you have in the past. They aren't there anymore. And because of that you better be sure to whom you rent in the future—or it can cost you, big time.

So, if you've never been burned, you're living on borrowed time. It's coming. It's going to happen. Remember the old Purolator oil filter commercial where the dirty mechanic stands there holding a burned out oil filter, looks into the camera and smirks, "You can pay me now, or you can pay me later"? It's not so much about paying me later, as much as it is, like my widow client, saving your self from a lot of trouble and heartache by paying me now.

In short, don't wait 'til you get burned. OK, let's break it down . . .

You've worked hard, saved your money and decided to invest in rental property. Maybe you've taken a real estate seminar or read a couple of "How To" books on buying foreclosed houses or distressed properties. You might even have the experience and skills to 'fix up' homes in disrepair and turn them into attractive places to live and then later sell to the people who rented it from you.

Or maybe you're a commercial real estate investor who has the resources to buy apartment complexes, large multi-family investment properties, or multiple single family dwellings for investment rental purposes.

You've learned how to forecast rental income, project annual lease increases, plot estimates of growing rents over the next seven to ten years. You feel comfortable that the money you are about to invest will bring you a good, if not, better than average, return. But all the forecast charts, projection graphs and calculation grids are dependent on one thing and one thing alone.

And that essential dependent variable is this -- Can you keep your rental property occupied, and can you keep it occupied with good tenants who pay and stay?

These crucial facts are not what they tell you in the seminars and the pricey, monthly newsletters. They presuppose, and you take for granted, that when you invest in a rental property, it will be occupied as soon as you put in on the market. You are assured when you buy a property you will immediately start earning a return on your investment that not only covers your debt service, but will give you expendable income. In addition, they reassure you that you will have good tenants who will pay their rent on time and take care of your property.

New investors in real estate, and sometimes even experienced professionals, learn the hard way that the critical difference between making their financial dreams come true and

realizing their worst nightmares is the quality and character of the tenants who rent and live in their properties.

Whether you are a first time investor or an experienced professional, TurnStone Background Services is prepared to assist you in making sure the potential resident or tenant you have is one who will give you the best chance of maximizing your investment objectives.

How can we do that? By helping you conduct a basic tenant/resident background check designed to economically and efficiently screen your prospective renters. We suggest the basic screening process include a Social Security Number Verification and Trace, a Criminal Records Search, and a Credit History.

This three-point advantage assures you that the prospective renters are who they say they are, do not have a violent or fraudulent history, and can appropriately manage their financial affairs.

If you are leasing a high value property or have concerns about the potential renter, we can perform civil record searches searching for past history that could significantly reduce your risk. The last thing you need is some resident with a history of landlordtenant litigation, in your face demanding concessions to which they are not entitled. My experience in the courtroom is that judges almost always give the tenants the biggest benefit of the doubt in deciding who is at fault. Protect yourself.

Think of the advantage you have over all the other rental properties around you, as well as all your fellow landlords. Not only are you protecting your investment by screening and qualifying the people who want to move into your properties, you are also meeting your financial goals, calculated and determined when you got into this business.

Let me tell you about my friend, Pierre. He and I used to be in a leads sharing group that met weekly to network with other members for the purpose of gaining new clients. Pierre owns a commercial building in Norcross that has retail space on the ground floor and residential space on the second floor.

He and I always arrived early, so one morning when we were eating breakfast alone,

Pierre says to me, “Can you find about people before they move into my property?”

I immediately responded, “Tell me, what’s going on?”

“I own a commercial building in Norcross with retail space on the first floor and residential space on the second floor.” “OK,” I replied.

“The space is empty, so this guy answers an add in the Atlanta paper about wanting to rent all the space—commercial and residential. And, as you can imagine, that’s exactly the kind of person for whom I’m looking.”

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“So, what’s happening?” “We set a time to meet; he looks over the space and says it’s exactly what he is looking for. He wants to put a deli on the ground floor and live above it on the second floor.” “What’s the problem?” I question.

“He writes me a check for the first and last month’s rent and another check for the security deposit. So, I give him the keys and he takes possession of the property. (I’m listening.)

“Every one of the checks bounced, so I go to the property and face him about all the checks he wrote that were worthless. When I confront him about the bad checks, he says to me, ‘Oh, I was transferring money from one account to another and the deposit wasn’t recorded yet, so let me write you another check’ So, I took another check.” (I’m still listening.)

“And it gets even worse, (not that I’m surprised). He ordered all this restaurant equipment, fixtures, supplies, food, and furnishings. It was delivered to my property, but all the checks he wrote to set everything up were no good. We even found out he had diverted electricity from an adjacent GA Power customer over to my building so he wouldn’t have any utility charges.”

After Pierre finished telling me about his plight with the aberrant renter, I had a two-fold response.

“Your first mistake,” I said, “was accepting uncertified funds for move-in money. Once you give a tenant possession of your property, they legally have the right to remain there, even if whatever funds you accepted are no good.”

“Your second mistake was accepting another check on a bounced check. If the first check you took was no good, what makes you think the second check will be any better?”

“And to answer your question, ‘Can I find out about people before they move into my property,’ the answer is, ‘Yes.’ Give me what information you have about him, and I’ll see what I can find out.”

The next week I showed up at our meeting at the usual time before anyone else had arrived, and there was Pierre sitting at the table having bran flakes, yogurt, an orange, and sipping on Earl Grey tea. I slid a Report of Investigation across the table and said, “Take a look at this.”

Contained in the report were three full pages of court records of twenty-seven evictions over the course of several years. All the evictions were anywhere from two to five months apart, just long enough to move in, not pay rent, and then get evicted. I showed Pierre that pattern and explained to him the guy “does this for a living.” Every house was owned by a couple or an older man or woman whom he pulled this trick on over and over again. Pierre looked at the report and proclaimed, “Well, I’ll be damned.”

It took Pierre three more months to complete the eviction and regain possession of his building. He had lost a total of five months of rent, and when I inquired as to how much that was, he told me, “around \$19,000.” I asked him, “Wouldn’t it make sense to spend \$75 bucks to keep this from ever happening to you again?” Pierre now does a complete background check on the prospective renter every time he leases the building.

Are you beginning to see a pattern? One of my business colleagues once told me, “Stafford, the problem with what you do is the only people who are going to use your services are: a) those who have to; and b) those who get burned.” And he is right. Almost all of my new clients are people who have been burned. Whether it’s a business owner who employed the wrong person, a real estate investor who rented to the wrong tenant, or a family who hired the wrong nanny, they all say the same thing to me. “You know, Stafford, I knew I should be doing background checks. I knew it was in my best interest and the right thing to do. But I just never got around to making myself do it. And boy, am I sorry now.”

Let’s just hope “sorry” is as far as it goes. In addition to loss of income and damage to your property, in some cases it can be downright dangerous. Last week, I had the rare experience of having someone call me for a background check on a tenant who told me she was doing this because her realtor “insisted on it.” When I sent her the results, she immediately called thanking me for what I found. The prospect had over twenty arrests and a dozen convictions for assault, battery, molestation, disturbing the peace, disorderly conduct, criminal trespass, and threatening public figures. I told her, “Guess how he would react if you two got into a dispute over something.”

My newest client called this week because he has a house in downtown Atlanta that he just rented to a young lady who also wrote him a check for all the move-in money. Since you already know what happened, I’ll cut to the interesting part. When he goes to the house to confront her about the bad check, a “biker dude” answers the door and tells the owner the lady moved out. Then he says, “I know the law. I know you cannot make me leave. And I am staying in this house for how ever long it takes you to evict me.”

I listened to what he said and remarked, “I’ll bet you you’re not the first person she’s done this to. And when we do a civil records check, I’m sure we will find a long string of evictions.” I was right.

You don’t have to wait ‘til you get burned before you start checking out your potential renters. Get started before you lose a pile of money.

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