

Getting down to Business

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Getting
down to
Business:

Entity Formation and Asset
Protection;


Understanding Landlord Tenant
Law including Discrimination;

Rental Property Finance


Insurance



Part 1: Entity Formation and asset Protection



Entity formation and asset protection:

- The possibility of losing some or all of their hard earned real estate investments is something most landlords do not want to consider. Unfortunately, the likelihood of this happening is real, and it can happen in unforeseen ways.
 - There are countless risks associated with property management and maintenance. Damages taking place from outside events such as lightning , storms, winds, etc. to internal incidents such as injuries to third parties.
 - How can you protect yourself from these?
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Risk management program:

1. Purchase a variety of insurance plans to reduce risk of loss from specific perils;
2. Transfer a degree of risk to a third party (such as your tenant) by insisting that each tenant manage renter's insurance or sign Tenants Self Insured Responsibility forms;
3. Retain some risk through higher deductible levels on your insurance policies to reduce premiums;
4. Practice good loss reduction strategies – keeping the building in good repair and leasing to quality tenants.

Managing risk:

Insurance cover should include:

- A dwelling policy that will protect your property against riot, civil commotion, vandalism, theft, glass breakage, lightning ,
- Liability coverage for tenant and guest injuries;
- Crime policy and a fidelity bond to protect against employees and other burglary and theft
- Loss of rental income coverage

Four ways to reduce risk and limit personal liability

1. Maintain adequate property and casualty and general liability insurance coverage on your rental property.
2. Attempt to form a separate business entity to hold the title to your rental property with a separate corporation for each property to provide maximum protection. Talk to your accountant and lawyer to ensure you maintain a separate identity for the company in practice by not commingling funds and to learn about other easy to avoid traps.
3. Practice risk management techniques that reduce your risks and personal liability as a landlord such as requiring scheduled maintenance and inspections.
4. Use tools to screen prospective tenants for credit history, criminal background, eviction history, and other determining factors to ensure you only accept high quality tenants.



Part 2:
Understanding
Landlord – Tenant law
including
Discrimination

Knowing your rights:

- According to landlord-tenant law, the tenant has a property interest in the land (your condo unit or single family home) for a set period of time;
- The length of the tenancy may be for a given period of time, for an indefinite period of time (renewable /cancellable on a month to month basis);
- Terminable at any time by either party (at will) or at sufferance if the agreement has been terminated and the tenant refuses to leave;

Tenants should:

- Pay rent on time;
- Use reasonable care and not damage property;
- Properly dispose of garbage;
- Refrain from taking on additional occupants or subleasing without the landlord's written permission;

Landlords should:

- Make property habitable before tenants move in;
- Make and pay for repairs due to ordinary wear and tear;
- Refrain from turning off a tenant's water, electricity or gas;
- Provide written notice to tenants when ownership of the property is transferred to a new landlord;
- Not unlawfully discriminate ;
- Put it in writing (the best way to avoid later problems is to address issues in a lease. Put it in writing who has to mow the lawn, fix a clogged sink , or pay the utility bills.)

Important tip:

A common thread through all leases is the implied covenant of quiet enjoyment, which basically ensures the tenant that his or her possession will not be disturbed by someone with a superior legal title to the land including the landlord.

Part 3: Rental Property Finance



Rental Property Finance:

- In the previous lectures we noted the mechanics of rent billing, collection and reporting, but there's a whole other financial aspect of your property management business that can't be ignored:
 - Financial controls;
 - Reporting and
 - Taxes.

Maintaining Records (1):

- Tax records for the past ten years;
- Maintenance schedules for all rental property organised by property and by type of work done;
- Improvement schedules for all rental property organised by property and by type of completed project;
- Building records, including original cost of the building, the mortgage, and information about when the building was constructed;

Maintaining Records (2):

- Bills, receipts, and invoices from all contractors, cleaning services, or companies that have done work on the rental property;
- Insurance policies for all rental property (organised by building)
- Tenant contact information, including telephone number, cell number and email address;
- Signed rental agreements and leases from all current tenants;
- Financial information on disposition of all security deposits for current tenants;
- Corresponding files with all letters notices; legal actions, and contact with current and former tenants

Taxing Matters:

Property managers benefit from a number of tax deductions that can add up to substantial savings in taxes each year:

- Interest expenses;
- Property depreciation;
- Property repairs;
- Local travel;
- Out of town travel;
- Insurance related to the rental business;
- Home office;
- Employees and independent contractors;
- Casualty/theft losses;
- Legal and professional services;
- Class fees and educational products;

Part 4: Insurance



Insurance:

As a residential rental property owner, one should carry the following types of insurance covers:

1. Property and casualty Insurance;
2. General Liability Insurance;
3. Flood or Water Damage Insurance
4. Umbrella Liability Insurance.

Property and Casualty Insurance:

- A property and casualty policy, in its most basic form, will provide you with protection against damage to your property from perils ranging from civil commotion, glass breakage, and vandalism to lightning, fire, smoke, or damage resulting from a car ramming into your building.
- Hazards often are not included are flood, earthquake, war, landslide, mudslide, or sinkhole; (Acts of God)
- Depending on what part of the country one resides and what laws are applicable.
- It is advisable that a proper insurance broker is sought to put mind at rest and prevent any surprise.

General Liability Insurance:

This type of coverage insure you against claims:

- by third parties (e.g. tenants or visitors) for negligence,
- damage caused to the property by a tenant or visitor to your property,
- injury to someone on the premises or
- damage or harm to a third party who may be working on your property.

Flood or water Damage Insurance:

- As the name implies, this coverage protects against any sort of water damage except sewer backup. Normally this sort of coverage is in addition to a basic property insurance policy.
- If you live on a flood plain, flood insurance can be expensive and hard to get;
- Consequently people in areas susceptible to floods (or to hurricanes) must often rely on federal government-backed insurance programs to cover this sort of risk.

Umbrella Liability Insurance:

- This is a coverage beyond what a basic liability insurance policy provides and comes into force after the basic policy has paid the maximum it will pay.
- An insurance against the unexpected, even catastrophic loss.
- A basic policy is sufficient only for basic needs and losses.

So you're sure this will cover against any unforeseen problem?

INSURANCE

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Other coverage's:

- Ordinance or law;
- Debris removal;
- Outdoor trees, shrubs, plants; *(covering landscape)*
- Glass breakage; *(covering glass plate)*
- Signs coverage; *(covering electric signs)*
- Boiler and machinery insurance; *(accidents arising from changes in pressures or to refrigeration equipment)*

Best Investment:

- As a landlord, your insurance policy may one day prove to be your best investment – or worst mistake, if you fail to get the right kind and amount of coverage .
- Switch from homeowner's insurance to rental property insurance;

Final Tip on Insurance:

Be sure to factor insurance cost into your initial business plan;

As one builds the property management firm, one needs to review the policies on at least an annual basis and when any major changes such as new acquisitions or property sales take place within your business.

One should also encourage tenants to purchase renter's insurance to cover their belongings. A landlord's policy will not cover the loss of their personal property.

Any
questions?



Thank you!