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HOME & MORTGAGE

Renting Your Home? 7 Things You Need to Know

By **Kathryn Tuggle**

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Facing a down economy and uncertain housing market, many homeowners are looking to make extra cash by renting out rooms in their homes.

According to Harvard's Joint Center for Housing Studies 2011 report, "recession-induced income and job losses have forced many former homeowners to turn to renting...many more owners will become renters in the coming years—and

will remain so for some time as they build savings and reestablish their credit ratings.”

The study shows that from 2006 to 2010, the number of renter households rose annually by 692,000 to reach 37 million last year, an all-time high. Likewise, the number of owner households dropped by 201,000 annually during the same period.

Experts say that while renting out your home can be a great source of extra cash, without landlord experience, homeowners may be in for more headaches than they bargained for. We checked in with experts to find the top seven things first-time renters need to know before opening their doors to a stranger.

1.) Write a Lease

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The best way to avoid problems with a tenant is to have a written lease, says Zachary Schorr, lead real estate attorney at Los Angeles-based Schorr Law. While it may sound obvious, some homeowners prefer to keep things “casual” and choose not to spend the money to have a lease drawn up.

“The written lease can spell out the terms of the tenancy, provide for instances of default and even allow the landlord to recover attorneys' fees in the event he/she is forced to file an eviction action to evict a problem tenant. It is always best to plan ahead by spelling out all of the key terms of the tenant's occupancy to anticipate problem areas before they arise,” says Schorr.

First-time landlords should contact an attorney before drawing up their first lease to make sure the lease is worded properly and contains all the necessary information, says Robert Kaye, a managing partner at Kaye & Bender, a Florida lawfirm that provides legal services to more than 800 condo, co-op and homeowner associations.

“Many times people tend to be a little wary of contacting an attorney because there is a cost involved, but paying an attorney's fees up front is going to be a lot cheaper than going into litigation with a tenant if you have a lease that doesn't protect you,” says Kaye.

2.) Meet Face to Face

“You may want to have dinner with the person, and if you don't like having dinner with them, then this isn't the person you want to share your home with,” says David Innocenzi, managing director at Heddings Property Group in New York. “If you don't want to do dinner, then at least do coffee. Sure, you may need the money, but you have to separate what's best for you financially from what's going to maintain the best emotional balance in your house.”

While a few face-to-face meetings may not tell you everything you need to know about a tenant, it can still be a great indication if the arrangement is going to work, says Innocenzi. Just like a company wouldn't hire an employee based

solely on a resume, a landlord shouldn't take on a tenant without putting a face to a name.

"If you meet a tenant through a friend or are referred to that person, one meeting should do it. But if you put an ad in the paper or online and are leasing to a stranger, this is doubly important," says Innocenzi.

3.) Put Expectations in Writing and Set Boundaries

Innocenzi recommends setting rules about little things like who is going to purchase toilet paper and paper towels, along with detailing in writing who is going to do chores like vacuuming the stairs or washing the dishes.

"If you are renting a room and you only have one kitchen, then let your tenant know whether or not they can participate in a family meal. If they do, perhaps they need to contribute to the groceries or clean the kitchen afterwards, but it needs to be made clear," he says.

Landlords shouldn't take for granted that a tenant knows what's acceptable and not acceptable to use. As time goes on, a tenant may become more like a part of the family than a business arrangement, but initially, a homeowner has to be very clear about the "little things."

"A tenant should know details about everything—even how much food they can put in the refrigerator. They need to know what is expected from them, and the periodic requirements of chores. These things can really be a problem when they pile up and can become a much bigger issue. If they aren't addressed they can boil over and the whole house can be fighting," says Kaye.

4.) Check Income/ Credit

The most important first step in taking on a renter is to run a credit check, advises Kathy Braddock, co-founder of independent residential real estate firm Rutenberg Realty in New York.

"You certainly don't want a tenant who has been known to skip out and not pay their bills," she warns.

In order to run a credit check, homeowners need to get permission from a prospective tenant.

"It's perfectly normal to request a credit report so you can see where their standing is in the financial community."

When it comes to asking about income, Innocenzi says it can be a touchy subject, but homeowners shouldn't feel guilty about asking potential tenants how much they make. Some brokerages require prospective tenants to fill out formal spreadsheets detailing how much they make, how often they get paid, and whether or not they expect an annual bonus. The right renter isn't just a nice person—they're a nice person with the right financial qualifications.

"If you are renting out your home because you need an extra income, then you have to ask these questions. The biggest mistake is taking on someone in who is going to become a liability. You may be uncomfortable asking because you aren't a professional landlord, but this is how professional landlords make money—they ask these questions," Innocenzi says.

5.) Be Clear What's Included in Rent

"Now that everyone has cable and Internet, how do you share that? Do they have their own cable box or do they join the family room to watch TV? Do you have WiFi? If so, can they access it in their room? These are all things that need to be addressed," says Innocenzi.

Even things like whether or not you're going to allow a tenant to do their laundry in your home needs to be addressed, says Braddock. Things like detergent and fabric softener can really add up, and if the tenant is expected to replace those items, that needs to be addressed up front.

"Things like who is doing the laundry, whether or not a tenant must bring their own sheets and towels, what spot they are allowed to park in in the driveway—all this must be discussed," Braddock details. "You have a person in your home, and for privacy's sake and economic sake, you have to think about everything."

6.) Ask for Character References and Do a Background Check

Even if you've checked a person's income level, you should still ask for a reference from an employer, says Innocenzi. A person could make six figures in a year, but be very difficult to work with. If you found your tenant via an ad in the paper or online, it's doubly important to know who you're dealing with.

"Ask for references from former landlords, colleagues, friends, basically anything that tells you who you are taking in."

Background checks can also be done online for around \$30 and take about 15 minutes. A background check will reveal any previous arrests or run-ins with the law. A tenant's approval is not required in order to run most background checks, Innocenzi says.

7.) Get a Security Deposit

Before allowing a tenant to move in, Braddock says a landlord must receive the first month's rent and at least a month's rent to serve as a security deposit.

"The whole point of holding a security deposit is that it is a built-in buffer against losing a month's rent if they skip out. If a personality conflict breaks out with a tenant, you may be more prone to losing that tenant than if you were operating a traditional apartment building," says Braddock.

A tenant shouldn't be offended that you want a security deposit, says Braddock; the money could also be used in the event of damage to the property, which could have been unintentional.

"You want someone with a little bit of skin in the game so they are willing to protect your property," she says. "Otherwise you're really jeopardizing yourself financially."