

TALES FROM THE TRENCHES™

BY BARRY C. MCGUIRE

October, 2013

TRAVEL AND TENANTS

Our investors were pretty happy with their first two properties. Both were rented out to long-term, trouble-free tenants. Now they were starting to talk about their next property. Should they go with the tried and true strategy to buy up another single-family property or should they move on to multi-family?

They had mentioned to their realtor that they were considering multi-family. Next thing you know, the realtor is calling to ask, "are you still interested? I have an out-of-town owner who self-manages a 12-suite building and he is tired of the travel back and forth to manage. He wants out." Negotiations didn't take too long with a motivated seller and soon they had an accepted offer to purchase.

The closing process brought home a few lessons.

In the weeks before closing, they called the seller to organize a pre-possession inspection. They just wanted to make sure that the property was still in the same shape as it was when they made their offer. The seller wouldn't allow the inspection.

The seller did allow them to interview new tenants for the single vacancy. They took 10 applications, picked the best one, and took a one-month security deposit when signing the lease, with the move-in date 15 days away. The tenant changed his mind and demanded return of his security deposit. Our investors didn't want to give it back. A deposit is a deposit, right? It's good faith money, why should they have to give it back?

Although there was only one vacancy, there were a couple of problem tenants who had to go. One of our investor's fathers was helping out. His advice, "just kick them out with 30 days' notice," was problematic.

Lessons Learned:

1. Long distance self-management is tough without the proper training. Find a way to locate out-of-town owners. Realtors, property managers and title searches are all possibilities. There is a good chance their approach is leaving them frustrated and motivated to sell.
2. Standard Multiple Listing Service ([MLS](#)) contracts have no right to a pre-possession inspection. It is a very difficult clause to negotiate. If you think you need an inspection, call your knowledgeable investment lawyer about the exact wording that your inspection clause requires. Every situation is different; you need custom clauses to protect yourself.
3. Our investor's father was wrong. You can't just kick the tenant out. There must be grounds under the Residential Tenancies Act or the Regulations to the Act. Learn the Act and the Regulations to give yourself better management control.
4. When taking any deposit from the tenant, make sure it's a rent deposit not a security deposit. If the tenant doesn't move in you can forfeit their rent deposit but not a security deposit.

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