

Get Real

(e s t a t e)

Get Real Podcast Episode: 043

“So you closed on your first investment property...”

Hosts: Ron Phillips & Angela Thomas

Welcome to The Get Real Podcast, your high-octane boost and in the trenches tell-it-like-it-is reality therapy for personal, business and real estate investing success with your hosts, power-preneurs Angela and Ron. It's time to *get real!*

Angela Thomas: Hey everybody, welcome to the get real podcast. I'm Angela Thomas and this is Ron Phillips. Hey Ron.

Ron Phillips: We're here.

Angela Thomas: Here for another awesome episode of getting real about everything you want to know about with the business and real estate. So here we go. So last time, if you guys listened to our last episode, we ranted on and on about what happens after you decide to buy your first investment property and sign that contract. Hopefully you listened to that. It was, it was interesting. It was good. Today we're going to talk about the good, the bad, the ugly, what to do, what not to do after you close on your property. So...

Ron Phillips: Can we start with what not to do?

Angela Thomas: Yeah, yeah. I mean, what not to do is always more fun, right?

Ron Phillips: You know, we are always here for our clients. I mean, we pride ourselves in the fact that we're always here for our clients. You could buy a property from us, you know, 10 years ago, call us up today, we'll help you out, right? We'll help you out with it. You know, if there's something going wrong, we want to make sure you're successful. But here's what not to do when you call my office. Well or anybody else's for that matter. Or if you're doing this on your own, I mean, don't tell your spouse this, okay, don't do this.

Ron Phillips: We had a dude call our office eight months after he closed. Now I'm gonna preface this with the fact that he received his call from our office, made sure everything was going well when he closed, yada, yada. Hey, reach out if you have any problems. This dude calls back eight months later and he says he's never received any money. Eight months.

Angela Thomas: Yeah. Every time we think about this guy, I'm like, what would it be like to not even worry about, you know, not getting money of something you bought for eight months, right?

Ron Phillips: He's like... Mean, what do you say to a dude who just learned eight months later that he had never received any money? I mean, at this point I'm thinking, well, did the property management company fall off the face of the planet? I'm almost a little bit pissed for him, even though, you know, he should've known before eight months. Someone should tell him that his tenant moved out. Right. So I called the management company, just trying to figure it out. Angela, guess what? The property management company had been trying to get ahold of him for seven months.

Angela Thomas: That sounds about right, actually. Oh man.

Ron Phillips: Don't be this dude. You got to be kidding me. Yeah.

Angela Thomas: I mean, when we say passive income, that is not what we mean.

Ron Phillips: I mean, you gotta make sure you're getting your money. In addition to that, it's fairly important to communicate with your management company. They're not calling for their health. I they're calling you repeatedly; emailing you repeatedly. There's a reason why they're trying to communicate with you. Right? I mean all of that sounds... Somebody is going, there's this, they made this up. I swear to you, we didn't make this up. His property sat vacant for seven months and the eighth month is they didn't pay so they got evicted.

Angela Thomas: Which is good. I mean property management did what they were supposed to there.

Ron Phillips: But they can't fix the property and release it without him saying it's okay to do the repairs.

Angela Thomas: So that's as far as they could go. Yup.

Ron Phillips: So don't be that dude. I mean, so it stands to reason then, Angela, the first thing you might want to do is what?

Angela Thomas: Maybe contact your property management company and make sure everything's ready to go.

Ron Phillips: Right. Right. Make sure they got your bank account routing number.

Angela Thomas: Your contract signed; you're set up to get payments.

Ron Phillips: Yeah. I would think someone would want the ACH payment. I think if I had just closed a property, I would want to make sure that my property management company had the means whereby they could actually give me my money. Maybe you're different out there in podcast land, and if you are, I'll partner with

you and make sure the money comes in for a small fee. I mean, if you're too lazy to check your account, I'll do it. I'll do it.

Angela Thomas: Ron, you might have people actually take you up on that. So a small fee, small fee, just a little fee. Ron's expensive. I don't believe him.

Ron Phillips: Small is relative. Right?

Angela Thomas: Right. Small to him. Yeah. So yeah, make sure your management company has all the info they need. You also want to make sure they have your home warranty information. That's pretty important. Yeah.

Ron Phillips: Why would you want to do that?

Angela Thomas: Yeah. And I mean if you're buying a property with us, we send it to them, but it's your property. You're the one who is going to be impacted by, you know, them not having it. So if I was the one buying the property, I would still check with my property manager and make sure they have it and they're good.

Ron Phillips: Yeah. I mean you just want to make sure things are set up properly before you start moving down the road and realize things aren't set up properly, you know, and it doesn't matter who you buy the property from. You know, I mean, we try, but there are certain things we can't do. Like we can't give them your ACH information. We can't do that. We can't sign your contract for you. I can't open up your bank account and make sure you got your first, you know, payment. I can't do those things for you.

Angela Thomas: Don't let us do that.

Ron Phillips: To be fair, I'm not the guy they're going to call, they're gonna call you. And you need to make sure that they're sending out the home warranty people and not, you know, the people that you're going to have to pay full price. I mean, it's your responsibility to do those things. That's an expensive mistake right there.

Angela Thomas: That is, that's really bad. And it's one that's pretty common. So if you're listening to this, please make a note of that. That's very important. And then like Ron said, you know, this guy, what did he not do? He he didn't check his accountant and didn't watch to make sure he got paid. Ron, how long does it take to usually get your first payment after you close?

Ron Phillips: Well, no more than 30 days. I mean, it depends on when they pay out. You know, let's say they pay out on the 15th and you closed on the 20th last month, you know, that's not a 30 day cycle. Right. So I mean you should get paid out within 30 days. But I, you know, I would make sure I understood that with the management company. When should I expect my pay? You know, and that way

you know every single month. There's these cool things, I mean, you guys know I'm a youth leader at church, so you know, occasionally I'll hold up my phone and I'll say, there's really cool things on this phone. Like this one has a calendar on it.

Angela Thomas: Oh, you got one of those advanced phones, Ron. No, I've never heard of that.

Ron Phillips: You can actually put a reminder in here and it will beep at you when you're supposed to do certain things. And the youth are just now figuring this out. Supposedly they're way more advanced with technology than we are, but apparently that's only to play games.

Angela Thomas: It's really just with games and selfies, really.

Ron Phillips: Yeah. I mean they're way better at duck face than I am. So don't be like the youth. There is a cool feature on everyone's phone nowadays where you can actually put it in here and it's, and it's just going to pop up and say, Hey, check your account. You can be as sarcastic to yourself as you want. Hey dummy, look for money. You know, so whatever you want to say. But I would put something in mine that says 'check your account'.

Ron Phillips: If you're high speed and you've got a bookkeeper, you can say, Hey bookkeeper, you want to make sure it all my money comes in like it's supposed to come in? You know, if you've got 10 or 15 properties and you don't want to do that anymore, you want to hire somebody to do it? Fantastic. I have a bookkeeper, she tells me if something doesn't come in right or if my money from my apartments is less than it should be. You know, all those things, right?

Angela Thomas: Those are things you need to know.

Ron Phillips: So if you're doing it yourself, you need to make sure that you're checking it. Seems basic.

Angela Thomas: It does, it does. But you know, we got to say it because of that one guy out there. And then setting up mortgage payments. You know, your tenant is, is paying for your mortgage but you actually have to make sure they are set up right.

Ron Phillips: And the management company guys, they do not make your mortgage payment and they shouldn't. And if they offer to make your mortgage payment, you still, they don't make your mortgage payment. Okay. That one you need to control because that your credits on the line, you know, so you want to make sure you control that one.

Ron Phillips: This one actually is one that people have questions about more frequently than you would think, because you're going to get a loan through a mortgage company and then afterwards your loan is going to get immediately sold off to another bank, and you're not going to know who that bank is until you get the cool letter from that bank.

Angela Thomas: Which you need to watch for.

Ron Phillips: Yeah, so you've got to watch for it. And then sometimes the letter comes from the bank and it doesn't actually tell you how to make your payment. It just says congratulations... You now owe us all this money. And that's confusing because you still don't know where to send your payment, but there's always a phone number and I would make sure you call and make sure you get your... If you're going to do auto payments, which I would suggest, set them up, make sure they're set up right. If for whatever reason that letter doesn't have any contact information, you have absolutely no idea how to get ahold of them, then you should call your mortgage broker back because they will know how to get ahold of them.

Angela Thomas: Okay, awesome. All right. And then you know from there you've got to keep managing this deal. You gotta, you gotta stay in contact with your property management group and make sure you have a good relationship with them, and there's some decisions you have to make along the way, right?

Ron Phillips: Yeah. Yeah. And you know, listen, property management companies are great. Property management companies do all of the things that we talked to you about in the property management company... Didn't we already do one on property management?

Angela Thomas: We did one on keeping your tenants.

Ron Phillips: All right, well then in the future we're going to have one on how cool property managers are. We'll have one of our property managers come on and say how cool they are.

Angela Thomas: Yeah. We need to have one on an interview. So.

Ron Phillips: Since they haven't been on yet, then we'll tell you some of the ways that property management companies will screw you over even good ones. Not intentionally, but sometimes intentionally, and you gotta watch out for certain things, right? Again, this is your investment. When they call you up and ask if you want to have your filters changed on a regular basis, and you know, they set you up on a service, that's your decision, right? They're going to give you a sales pitch as to why you should do that because they make money from doing that, right? You have to understand that.

Ron Phillips: Now I can make a case both ways. Your tenants probably aren't going to change them, and because of that, you're going to have less of a life on your air handler. Or it cuts into your cash flow because they're supposed to be doing it and not you, and now you're doing it and not them. And all that is, is a profit center for the management company. Okay? And there's a ton of things like that that they offer that you don't necessarily have to do. And it's your choice as to whether or not you do them.

Angela Thomas: Like another example is property management, you know, if they recommend replacing smoke detectors on a six month old home. I would question that.

Ron Phillips: Hey, I'm no builder. I don't know everything about construction. But I would question that one.

Angela Thomas: Yeah, I'd say, really the only last six months? That seems a little ridiculous.

Ron Phillips: It does. They should last longer than that.

Angela Thomas: They should, yeah. So you, I mean, there's a lot of common sense involved in this. They're going to ask you, you know, they're always going to want you to do these things. Like Ron said, it's a profit center. And you know, you have to make sure your tenants are happy and then they have everything they need to live comfortably. But you know, you don't want to be spending all of your cash flow on these extra maintenance items. So.

Ron Phillips: Then let's just make sure we're clear on what making your tenant happy means. Because I tend to have occasionally tenants that want me to do things that are maybe a little above and beyond, so to speak.

Angela Thomas: Yeah.

Ron Phillips: Now you could make the argument that if someone has lived in the house for five years and they are getting ready to do a lease resign, and they ask you if you'll replace the carpet for them and repaint...

Angela Thomas: Oh yeah. You did mention that one.

Ron Phillips: I mean, you could say yes to that if you wanted to. Now I think that that is above and beyond, you know?

Angela Thomas: Yeah.

Ron Phillips: I don't plan on going that above and beyond for my tenants, especially when they're the ones that messed the carpet up to begin with and the paint. So the answer on that one is a big fat no; but your management company, you got to

understand your management company, they're kind of like a dual agent. You know, if the tenant asks, they have to ask you. And that doesn't mean you have to say yes just because your tenant asks for something. So you know, use your brain there too, because the management company is going to make money if they do the repairs or install carpet or whatever. Right? So they're all for it. But that doesn't mean you have to do that.

Ron Phillips: And you know what? My tenant moved out, that's fine. Now I'll replace the carpet and I'll repaint it and I'll raise the rent, and then I'll release it. Okay. And screw you tenant; I'm not replacing the carpet for you to ruin it again,

Angela Thomas: But that's a math problem you got to do. Right. You determined that you would end up better off if that tenant left and you had a new tenant, even with those repairs you had to make. Right. So that's a decision nobody else can make for you. You as the owner and as the investor have to determine if that's a smart financial decision.

Ron Phillips: Yeah, and I'm not even sure that was a smart financial decision.

Angela Thomas: It was just an "F U" from Ron.

Ron Phillips: That is exactly what it was. If we're getting real no, I'm not replacing the carpet that you tore up. I'm going to leave. Okay. Okay. Go ahead. Leave. Don't let the door hit you in your ever widening butt on the way out. Thank you.

Angela Thomas: All right. And sometimes it's not a smart financial decision, you just want a new tenant and that is your decision to make as the owner. Right.

Ron Phillips: But you can't make those kinds of decisions if you're not involved and don't answer your phone.

Angela Thomas: So we also have a lot of people ask us, so Ron I kind of wanted you to answer this, but we have people ask like, should I let my tenant pay late? You know, is it worth filing an eviction or should I just let them pay late and wait for it? And how often is that okay? What's your opinion on that, Ron? You have a lot more tenants than I do.

Ron Phillips: Yeah. So I mean if people are notoriously late, but they always pay like the week after and they just want to keep paying the late fee? God bless them. I'm fine with that.

Angela Thomas: I'll take the extra money. Right.

Ron Phillips: Usually I split the late fee with my management company. Just means I get a little bit more rent. It's all good. All my apartments, I get all of it. I don't split it

with anybody, so if they want to be late, that's fine. Now, if they want me to put together... If they're late and they go, I'll pay, you know, \$200 this week and then \$300 next week and then I'll pay \$400 on the last week of the month. The answer to that is usually no, unless there's something in their life that's going to turn that around. That is a train wreck. Because the rent is due for the next month on the first and they just gave me the rest, the \$400 on the end. Where are they going to get the \$900 to pay me on the first? So I need a story that says this is going to turn around because if it's not going to turn around, then I just assume to get them out and get somebody new. I mean, they're going to live there for free anyway for 30 days. So I don't feel too bad about it, but I need somebody who's going to pay me.

Ron Phillips: And this is all just common sense, too. Sometimes the management companies will say, well, we've put together a payment plan. Okay, what happens after the payment plan because you continue to do a payment plan forever. I'm not going to take \$200 a week for the rest of the, of the length of this thing? No, no way. And if they can't afford to pay it now, what's going to change? Maybe, maybe they just were laid off from a job and they've got a new one starting and it pays more next month? Okay.

Angela Thomas: I mean, that's a good sign, right?

Ron Phillips: I'm not a heartless person who's going to say, no, not only did you get fired, but now you're going to get evicted. Right. But there has to be something on the other end of that that says that things are going to turn around because if they just got fired and they don't even have another job and there's no way to get the money in, well then I'm sorry, but there's no way to pay the rent anymore and you probably, you're doing them a disservice letting them stay there and try to make payments when they can't afford them. They need to go somewhere where they can afford to live. It makes sense. Hopefully that makes sense.

Angela Thomas: That does make sense. What about those people, cause I've heard this from quite a few people actually, where they're waiting for a payment that the property manager tells them is coming. The tenant says, yes, I'm going to pay it. I'm going to pay it. How long do you let them keep saying that before you file an eviction?

Ron Phillips: Oh no, no, no, no, no. Yeah, no, no, no, no, no. You find the eviction immediately. And then you say the eviction... I mean they already know this, the eviction gets stopped if they bring the payment in two weeks later.

Angela Thomas: Okay. Immediately like the day it's late, you're talking or you wait a week or so?

Ron Phillips: Yeah. No, you post depends on the state. Sometimes you have to post a, you know, three day pay or quit. Sometimes it's five days. Sometimes... Every state's

different. But as soon as you can post the notice legally you should post the notice.

Angela Thomas: Okay. Cause I know a lot of people even that invest with us are... Their property manager asks them for permission and they will tell them to wait because the tenant says they're going to pay. But you would recommend everyone posted ASAP.

Ron Phillips: Here's the reasoning behind that. Right? Cause usually it costs a couple of hundred dollars to file an eviction. So you're out \$200 bucks and then if you file the eviction and they're going to pay two weeks later, well then you're out the \$200 bucks and they paid you anyway. So you could have just waited. That's the rational thing to do.

Angela Thomas: Yeah.

Ron Phillips: And financially that makes decent sense. But when you get the tenant that says they're going to pay you in two weeks and then they don't and they say, I just need til next Friday. Okay, now you're three weeks in and you've not filed. Now you start the filing, you've missed three weeks, basically a month.

Angela Thomas: And this happens to a lot of people.

Ron Phillips: And the other thing is too is... Wouldn't you prefer that your tenant knows that you're serious?

Angela Thomas: I would.

Ron Phillips: The lease says the rent is due on the first and on the fifth you're going to file and if you don't file, what does that tell them? It's the same thing as it tells your kids when you say you better be home at 10 and if you're not home at 10 then you're going to be grounded. And then they get home at 11 and you go, well...

Angela Thomas: You were close. Yeah, I mean...

Ron Phillips: What happened? Oh I'm sorry you had to stop and get gas. Ah, that's too bad. Back in my day, back in the olden days, it doesn't make any difference if you had to stop and get gas, you should've stopped and got gas earlier.

Angela Thomas: Plan for that. Yeah.

Ron Phillips: So no, if you don't file you're teaching your tenants that it's perfectly acceptable to show up two weeks late and then ask for another week. You're teaching them that that's what you expect and that you're not going to do anything about it. So are you out \$200? Yup. I'd prefer to be out \$200 and my tenant

know for sure that if they don't bring the money on the first on the fifth we're filing.

Angela Thomas: Gotcha. I think that's great advice. Thanks Ron. What about, we also have people ask us if they should have their property manager perform regular inspections because I know that's sometimes an extra service. Some property managers just do it.

Ron Phillips: Well most charge for it because there's going to be a short charge for that. Yeah. I mean that's not a bad idea before you resign a lease, have it inspected, make sure that they're not tearing it up. Cause if you resign a lease and they've been tearing it up for a year, you've just signed up for another year's worth of tearing.

Angela Thomas: Yeah. And that's going to be massive maintenance. Right? Okay. So that's another one that's totally up to you. But you know, I think if you're a more conservative investor, that's definitely a good idea. It's worth the money. I would do it for sure. And then people also ask like how will they know when it's time to sell? What's the next step?

Ron Phillips: Well, I mean we did that video on return on equity. I think that's a pretty good one for them to go visit. You know, that one I told them, I mean that'll tell them exactly how to do it. Plus that makes people who just started go back and listen to our rest of our videos and stuff. Actually I want you to go back and just listen to that one.

Angela Thomas: Yeah. And we also did one on keeping your tenants and whether you should raise rents or not. So go back and listen to that one if you're curious about that.

Ron Phillips: I mean, I really think that for post-close, you just now gotten into your property, that's a pretty good litany of things that you need to do. I mean, if you're moving into year one, year two, stuff like that. And you've got other questions. I mean, most of this has, most of this is some common sense stuff, but for whatever reason, people just, they just forget it or they or they don't know to do it. And so we just wanted to make sure everybody understood this is what you do. And I think what let's do is we said we might do a lightning round. I think what we should probably do is just, let's do a lightning round of these and we can answer any questions you guys have about rental properties, property managers' financing, anything you want to know; and we'll just do kind of what Angela and I were just doing. We'll just go to town on like whatever questions you guys have.

Angela Thomas: Yup. Lightning round.

Ron Phillips: I'll just fire off answers.

Angela Thomas: So we'll do that in a couple episodes. We want to give you guys a chance to send in your questions and anything you're curious about, big or small. If you could just email your questions to invest at RPCinvest.com. That's invest at RPCinvest.com. And then also give us any feedback you have, go to RealEstateSuccess.com and you can subscribe to our podcast, give us any feedback you have. Give us some suggestions for future topics and then make sure you check us out on Facebook at Get Real Podcast and like us and let us know what you think and we'll be back.

Ron Phillips: Tell a friend and we'll be back with something else.

Angela Thomas: Thanks Ron. We'll see you guys.

This has been the Get Real Podcast. To subscribe and for more information including a list of all episodes, go to GetRealEstateSuccess.com.