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The Self-Managing Landlord

MCGEE & GUDENKAUF

Amelia McGee & Grace Gudenkauf

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CHAPTER 1
Risks and Benefits of Self-Managing

— Amelia —

When it comes to real estate investing, most people think of self-managing their long-term rental properties as a daunting task. What they don't realize is that there are many benefits to self-managing a property. Not only will you save a decent portion of profit to reinvest, but you will also have better control over the quality of your property, tenants, maintenance personnel, etc. Learning how to efficiently and profitably manage rental properties is also a highly sought-after skill that can transfer well to future partnerships and joint ventures.

When you start a business—which is how you should think about your rental portfolio—the goal should not be to immediately hire out the most critical components to your success. The truth of the matter is, no one is going to care about your property or business in the same way that you will. Property management companies are spread thin between too many properties to give your tenants and property the attention they deserve, and you will ultimately be the one picking up the pieces, as this is *your* business and *your* responsibility to run effectively. On top of that, even if you do choose to use a property management company, there is still someone who will end up having to manage the property management company, a.k.a. you. Why not just bring that role in-house and greatly improve the profitability and quality of your rental?

Before we dive into how self-managing actually works, we have to get a few housekeeping items out of the way, such as explaining what landlording is (and what it isn't), followed by giving you the tools to think deeper about why self-managing might be a good fit for your skills, goals, and lifestyle.

What Is Landlording?

Merriam-Webster defines a landlord as "the owner of property (such as land, houses, or apartments) that is leased or rented to another"[3] but the truth of that matter is that being a landlord and self-managing your property encompasses an array of other responsibilities. As a landlord of a residential property, it is your job to maintain a safe living environment for your tenants—something that should not be taken lightly. You must comply with the requirements of applicable building and housing codes and keep the residence in a fit and habitable condition. In addition to providing a safe residence for your tenants, you must also have a hand in a multitude of other responsibilities such as:

- Bookkeeping and financial management.
- Managing maintenance team members.
- Performing maintenance tasks.
- Liaising with vendors and utility providers.
- Showing properties and screening tenants.
- Communicating with tenants.
- Leasing and non-renewing leases.
- Legal compliance.

Successful landlords provide a necessary service in communities. People rent for many reasons, some of which include flexibility in relocating, lower maintenance responsibilities, credit or financial constraints, proximity to amenities, lifestyle or life stage, etc. All of these renters are owed safe, quality housing. Landlords provide that housing in exchange for a profit, as with any service. The most important job as an ethical landlord is to be a good service provider.

The second most important job of a landlord is to be a problem-solver. When an issue arises, someone in the position of a landlord cannot bury their head in the sand. Instead, they must be vigilant about getting to the bottom of the problem and coming up with a solution in a timely manner. If that sounds overwhelming, you must remember that we are talking about investment properties that have the potential to change not only your financial future, but the future of generations after you. If it was easy, everyone would do it. Our goal is to show you that self-managing your rental properties does not have to be as complicated as it may initially feel.

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3 *Merriam-Webster*, s.v. "landlord (n.)," accessed February 16, 2024, https://www.merriam-webster.com/dictionary/landlord.

Amelia

I distinctly remember a conversation I had with my boyfriend shortly after submitting an offer on my very first rental property. We were sitting at his son's Little League baseball game, and my mind was wandering (if you've ever watched a Little League baseball game, you understand). I turned to my boyfriend and said, "What happens if they actually accept my offer on that property?"

The truth of the matter was, I was a twenty-eight-year-old with not even an ounce of rental property or landlording experience. All I knew was that I was over working a nine-to-five W-2 job and thought that real estate investing could be my path out. Ever the black-and-white, straight-to-the-point kind of guy, my boyfriend responded with, "You'll figure it out." Little did I know how true that statement would turn out to be.

A few days later, I got news that they had accepted my offer to purchase a fixer-upper triplex that would be completely vacant upon close. I had to "figure it out" right away. I'd never financed the purchase of a property before and didn't know the first thing about how any of it worked. But I started building a team that was able to answer all of my questions along the way. That's the thing about real estate investing: You don't have to know all the answers, but you do have to be unafraid to ask the questions.

As with most real estate purchases, there were hiccups along the way to closing. I was so eager to have my first property and start making money that I had pre-advertised the units as available prior to closing. I quickly lined up tenants to move in, and low and behold, the closing date got pushed back. This was in October of 2020—the height of COVID—and appraisal inspections were weeks behind schedule. I was in absolute panic mode. My incoming tenants were counting on me to provide them with a place to live! I immediately switched into a problem-solver mentality. I changed my financing plan and decided to purchase the property with cash to forego the appraisal requirement. Keep in mind, this is in small-town Iowa, so the purchase price was only $78,000. I let my lender know about the change and that I would be refinancing the property shortly after close to pull my cash back out. I was working with a small, local bank and they OK'd the plan. Before I'd even closed on the property, I'd already gotten a taste of how one must be able to pivot and problem-solve as a rental property owner.

Fast forward to the first six months of owning the property, and I'd already learned more about how to be a landlord than I ever did reading a book or watching YouTube videos. I know this is a funny statement to make, as I'm now writing a book teaching others how to be a landlord, but I want you to know that you will never truly learn how to be a landlord until you jump in and do it for yourself. Your biggest strength when it comes to landlording is understanding how to problem-solve and resolve issues quickly and professionally. If you have the confidence to do that, you are well on your way to being an incredible, self-managing landlord.

Who Is Landlording For?

Are you someone who's afraid of the infamous "leaking toilet in the middle of the night" phone calls from tenants? After managing over thirty rental properties for three years, we have only ever received one of these phone calls between the two of us. And boy, what a story that is (more on that later). In my large community of fellow self-managing investors, I have not heard of this happening to anyone else. The chances of this happening to you are so slim that it shouldn't even be in your top-ten reasons not to self-manage. As you're thinking through whether self-managing is going to be the right fit for you, here are some factors you should take into consideration.

First and foremost, self-managing investors should be people who have enough time to devote a few hours a week to management. We can tell you, from personal experience with self-managing our current portfolios of over sixty units (a mixture of LTR, MTR, and STR**), that some weeks you will spend thirty minutes doing landlord duties and other weeks it will be five-to-ten hours. Most of the fluctuations in time commitment revolve around vacancies, maintenance requests, managing contractors, new tenant onboarding, and lease renewals. It's also important to think about whether you will hire out the work for small maintenance requests or take on that responsibility yourself. If you plan to function as a handyperson for your rental properties, add on an hour or two more per week. Again, some weeks or months you won't have any repairs, and others you might have two or three. Just be prepared for issues to come up, and be ready to address them appropriately.

> **
>
> **LTR = long-term rental.** These types of rentals are unfurnished and have lease lengths of one year or longer.
> **MTR = midterm or medium-term rental.** These are furnished, thirty-day-minimum-stay rental properties.
> **STR = short-term rental.** These are furnished properties rented for brief periods of time. These are most commonly associated with vacation rentals and hotel stays.

If you're the type of person aiming to squeeze the most cash flow** out of your property, that's another good reason to give self-management a shot. When I first started out, I wanted to be on the fast track to quitting my full-time job. I needed to be able to keep as much bottom-line revenue from my properties as possible to replace my W-2 income. We're going to talk about the benefits of self-managing shortly and will go into more detail of how much revenue you can expect to keep in your pocket by doing so.

> **Cash flow** is the amount of money that's left over after you've collected your rent for the month and subtracted all of your expenses.
>
> **Cash Flow = Rental Income – Operating Expenses**

And last, if you are someone who wants a direct say in how your property is run and managed, then self-managing could be a good fit for you. Because of the nature of property management companies, and the small profit margins they run on, they need to have hundreds of properties in their portfolio to run a successful business. This leads to most properties being lost in the fray; maintenance issues go unresolved, units sit vacant for long periods of time, tenants are frustrated by the lack of communication, etc. There is a reason that many management companies have less than 2.5 stars on Google. Self-managing your property is a direct way to have control over the success of your business. By keeping maintenance requests up-to-date and tenant communication streamlined, you can increase the longevity of your tenants and, in turn, increase the profitability of your business, as vacancies are the true cash flow killers of long-term rental properties.

Who Is Landlording Not For?

As a business owner, it's your job to decide which roles you excel in and which you need to outsource to someone who can do it better. This isn't a failure but actually a great thing to realize, so you can optimize your business sooner rather than later.

As mentioned, one of the most important skills you need to have as a self-managing landlord is the ability to problem-solve. Landlording may not be the right fit for someone who quits when the going gets tough or does not react well to stress or pressure. That's not to say you can't learn better problem-solving techniques, but if you've tried time and again to self-manage a property and it continues to add too much stress to your life, you need to decide whether it's really worth it for you to continue landlording or if hiring it out is the better option. But since you're reading this book, you're likely one of the bold few who is up for the challenge! Real estate investing is not always easy, but it's worth it for the enormous benefits it provides.

Another individual who may not be suited for self-managing a rental property is a high-income earner who prioritizes their primary job over investing time in property management. Sometimes the hourly price of your time is worth more than what you would save by self-managing. Not everyone who invests in real estate does so for the monthly cash flow. Many investors are people looking for tax benefits or are investing in low cash flow, high appreciation markets. If this is you, it's still important to understand what all goes into managing a property, so you know what to look out for if your property management company is not up to snuff.

And last, people with highly demanding full-time jobs or families who don't have an extra couple of hours per week to devote to their rental properties should probably not try to take on the task of self-managing. I don't want to say that anyone with a highly demanding job or a family can't self-manage, as that's not true: I know lots of busy professionals who still choose to self-manage because they realize the enormous benefit to their business in doing so. I mean to say that if you are not able to or *willing* to dedicate *any* time to being a property manager and are going to drop the ball on everything, then self-managing isn't for you. Being a good landlord means being responsive and fast acting when issues arise. If you do not want to do this, you may need to hire out your property management.

If you're thinking that landlording might not be for you and that you don't need to continue reading this book, I would encourage you to see it through. You may not be the right fit to self-manage your property, but it's still imperative that you understand the process so you can better manage your property management company. Because even if you hire out property management, you still have to make decisions and keep a finger on the pulse of the business. Ultimately, the success of your rental business depends on you.

Whether you're on the fence about self-managing or are ready to dive right in and start signing those leases, let's cover all of the amazing benefits of self-management.

Benefits of Self-Managing Your Rental Properties

There are many reasons why self-managing is beneficial to your business. While it's hard to pick one of them as the greatest reason, if we had to choose, it would be the cost savings you'll realize by keeping management in-house.

Cost Savings

Let's walk through what you can expect to pay a property management company.

The first fee you can expect to pay most long-term property management companies is their monthly management fee, which will typically range between 8–12 percent of gross monthly rent roll. (Gross monthly rent roll is the total rent collected each month before any expenses are taken out.) Standard services covered by this fee are rent collection, handling maintenance requests, preparing units for rent, marketing vacant units, tenant screening and background checks, lease creation, and compliance with state and local laws. It's important to understand which services a property management company includes in their monthly management fee, as many other services are subject to an upcharge.

Common upcharge fees:

- **Account set up fee:** Up to $300 to onboard you as a client and set up your account
- **Advertising costs:** Between $100–$200 to market a vacant unit
- **New tenant placement fee:** Ranges between 25–100 percent of first month's rent
- **Lease renewal fee:** Up to $200 on a tenant renewal
- **Late payment fees:** Between 25–50 percent of the late payment fee from a tenant for having to chase them down
- **Eviction fee:** Typically between $200–$500 per eviction, plus court costs
- **Maintenance fee:** Some may mark up materials and labor when handling maintenance requests

Let's look at an example of how much you can expect to pay a property management company for one year of managing your property. As of writing this book, the average rent in the United States is around $1,700 per month. Assuming that you purchased the property using the 1 percent rule, you will have paid $170,000. (The 1 percent rule means that the monthly rental income will be 1 percent of the purchase price.)

- **Account set up fee:** $300 one time
- **Monthly management fee:** $1,700 × 10% = $170
    - Yearly total: $2,040
- **New tenant placement fee:** 50% of $1,700 = $850
- **Maintenance fee:** 3 maintenance requests of $100 upcharge each (does not include cost to fix the issues)
    - Yearly total: $300

Assuming that you only had minor maintenance issues, and the tenant paid on time every month and no other issues occurred, you would be paying your property management company $3,490 over the course of one year. That breaks down to about $290 per month! With most new investors happy to get $200 per month in cash flow, you would be able to make an additional $290 per month in saved property management fees alone! When you look at it this way, it's easy to see how much you can increase the bottom line of your rental property by keeping this job in-house.

As a self-managing landlord, another way to look at this is how much time you would need to spend on managing this property for it to make sense to hire out the task instead. In the example above, you're paying a property management company $3,490 to manage your property for a year. If you value your time at $30 per hour, then you would need to spend around 116 hours per year managing the property ($30/hour × 116 hours = $3,490) to justify hiring it out instead. This breaks down to a little less than ten hours per month of your time. If you use the systems and processes we lay out in this book, we know you will be able to manage one door in much less than ten hours per month. In fact, we manage to spend less than five hours per month on our portfolios, which are both in the double digits, and we are confident you can too. Using an average of five hours per month at $30 per hour of your time, you are only spending $150 per month, or $1,800 per year, of your time to manage this property (time is money, remember). Compare that to what you're paying a property management company and you can see how self-managing is truly a life hack to make more money and still get to enjoy life on your own terms!

Quality Control

The second biggest reason to self-manage your properties is direct quality control. The most common recurring issue I hear from investors who are using a property management company is that they don't feel like their property is getting enough attention or that the property management company doesn't really care about them after their contract is signed. Let's think about this from a macro view of the property management industry. Most property management companies are only making $100–$200 of recurring revenue per month on every property they manage. These are thin margins in the grand scheme of things. In order to run a profitable business, pay their employees, and cover other business expenses, these property management companies need to onboard hundreds of clients, which in turn spreads their efforts out too thin. This issue is further exacerbated if you only have a few properties with the management company. Their main priority is going to be their bigger clients, so the smaller you are, the further down the "call back" list you're going to be.

I want to highlight the top three benefits of having direct control of your property that will impact your bottom line the most.

1. There is no middleman, and you can make decisions about your property promptly. Grace likes to call this "playing monkey in the middle." When you self-manage your property, you can have direct contact with your handyperson instead of having to approve repairs through the third-party management company. Responsiveness when issues arise creates a level of respect and trust with your tenants. If you're able to build a professional relationship with your tenants that keeps them happy, there is going to be a greater tendency for them to renew their lease. If they renew their lease, you don't have the loss of income and turnover repairs like you would with onboarding a new tenant.
2. You have better control over the tenants who are placed in your property. There are obviously Fair Housing laws you must follow when placing a tenant (more on that in Chapter 7, but this is a chance for you to be more diligent in the tenant placement process. I have heard countless stories of investors whose property management companies have placed tenants who had to be evicted less than three months after moving in. How does a tenant like that slip through the cracks of a property management company? Property management companies are incentivized to quickly replace tenants. Many companies are getting the new tenant placement fee and are not making money if the property sits vacant. When you're in control of the tenant placement process, you can make sure none of the screening steps get missed. This also gives you the opportunity to do gut checks on potential tenants when you're meeting them in person. Are there major red flags that make you feel uneasy about renting to them? A few that stand out to me when meeting potential tenants are sob stories, complaining about their current landlord, and picking apart the property or pointing out flaws right away. These kinds of potential tenants do not make it to the top of my priority list when selection time comes. I would argue that placing the right tenant in your property can be a total make-or-break decision in your business.

3. You may also hold higher standards for the property's condition and be more proactive in making repairs because you're giving it closer attention, which might not be the case if property management is outsourced and not your primary focus. This, in turn, attracts high-quality tenants who are happy and want to stay for a long time. The longer your tenants stay, the better your return on investment is going to be.

Better Tenant Communication

The ability to foster a good working relationship with your tenants is a real game-changer when you're self-managing your properties and can set you apart from large property management companies. Like we talked about earlier, it's easy to get lost in the shuffle when you're working with a property management company. This applies not just to landlords but also to tenants. Communication can be slow, and maintenance requests and other issues are apt to fall through the cracks. Fostering positive professional relationships with tenants can lead to longer tenant stays and cut down on those pesky vacancy costs. We're not saying you need to be best friends with your tenants (in fact, we would caution against that), but there is a way to have an open line of communication with your tenants that is beneficial to both parties.

Learning Marketable Skills

This is one of the most underrated benefits to self-managing rental properties. It's how I've been able to scale my portfolio value to over a million dollars in less than two years. There are many people out there who want to invest in real estate but are scared to manage properties or simply don't have the time to source deals, manage the closing process, find tenants, manage tenants, etc. (basically all of the steps that go into owning real estate). This is where you, as an experienced self-manager, come in! If you can create great systems and processes to self-manage, you can better position yourself to be the boots-on-the-ground partner in a joint venture. We believe that this is actually the more valuable role in most partnerships, as money becomes easy to find once you know where to look. The hard part is finding someone with experience and time on their hands who's willing to do a little bit of the dirty work—but that could be you, if you self-manage.

Amelia I first realized how powerful the skill of property management (and using social media for networking) was when I partnered with an out-of-state couple from Idaho, who I found through Instagram. I had been documenting my investing journey on Instagram for about a year when I came across an amazing opportunity to purchase an eleven-unit apartment building in Des Moines, Iowa. The problem? I'd already scaled to fifteen doors and had none of my own money left. Unknowingly, I had already been laying the groundwork for future partnership opportunities by building my "know, like, and trust" factor on social media. By showing my followers a candid look into my investments, my wins and losses, and how I ran my business in general, I was sourcing potential partners. When this opportunity came up, I took to my Instagram stories and posted that I was open to partnering if anyone was interested. I didn't post any numbers or guarantees and was really just putting feelers out there to see what would come of it. I had no idea at the time that it would actually lead to a very successful partnership.

About sixty days after posting that Instagram story, my new partners and I closed on the property. My job was to run the day-to-day operations of the business, and their job was to bring the down payment money to the table. We purchased the property for $500,000, and they came up with the 20 percent down payment. Our partnership agreement is a 60/40 (60 percent to them, 40 percent to me) split of equity and monthly cash flow. It was truly a match made in heaven. They have the security of knowing that the property is run and managed by a co-owner who wants it to succeed just as much as they do. And I was able to buy a property that I never would have been able to afford on my own. I don't want to oversimplify this process, but it really was that easy. Obviously, there were a lot of steps that we took in between to ensure we were legally prepared to partner, but I don't want to bore you with all the nitty-gritty details and would recommend you talk to your own attorney prior to entering into a partnership. Just know that your skills as a property manager are highly sought after and marketable. In fact, if I were to do the deal over again, I would have included an additional 5–6 percent of gross rent to go to me every month as additional payment since I now realize just how valuable the skill of property management is. This is still much less than we would pay a property management company but is a way to reward me for this task and the time involved with it. Keep this in mind for your own partnerships in the future.

Challenges of Self-Managing Your Rental Properties

We would be remiss if we didn't also share with you the risks of self-managing a rental property. As with anything in life, there are going to be pros and cons. Here are five areas where self-managing can create drawbacks.

1. **Managing tenants:** Mismanaging tenant relations can lead to disputes, vacancies, and potential legal issues, making it crucial to educate yourself on landlord–tenant laws and best practices.[4] Managing tenants well involves screening potential tenants, addressing their concerns, ensuring rent is paid on time, and removing them if necessary. For me, this has been the easiest part of self-managing. I've found that most people are reasonable and pleasant to work with if you treat them with respect and professionalism. There will be bad eggs out there, but we will cover in future chapters the best ways to communicate with tenants in those situations.
2. **Managing contractors:** Property maintenance is a significant aspect of rental property management. When you self-manage, you must find and coordinate contractors for repairs and upkeep. Understanding how to hire, negotiate contracts, and oversee work is essential. Poor contractor management can result in cost overruns and subpar maintenance, affecting your property's value and tenant satisfaction.
3. **Tenant emergencies:** Rental properties may face emergencies, like plumbing leaks, electrical issues, or security concerns, that require immediate attention. When you self-manage, you may not always be available to address these situations promptly, potentially leading to property damage and tenant dissatisfaction. Developing a reliable emergency response plan is vital.
4. **Emotion-based business:** Dealing with tenants and property issues can be emotionally taxing. Personal feelings and biases can cloud judgment, affecting your decisions and interactions. To succeed in self-managing rental properties, you must learn to maintain professionalism, set boundaries, and handle situations objectively, even when emotions run high. We will talk more in future chapters about creating systems and processes in your business that take a lot of the emotional decisions out of the equation.
5. **Legal risks:** Self-managing rental properties exposes you to legal risks, especially if you are unaware of or do not fully understand local, state, and federal landlord–tenant laws. Failing to adhere to

4 You can find a full list of links to individual state laws at www.biggerpockets.com/managebonus.

legal requirements can result in costly legal disputes, fines, and even eviction difficulties. It's crucial to stay informed about the ever-changing legal landscape in the rental property business and seek legal counsel when necessary to mitigate risks effectively.

These factors aren't here to deter you from self-managing, but they should serve as a reminder that you will need to obtain the proper skills to protect yourself as a real estate investor and property owner. There are a million things that could happen when you manage your own property. One way we like to minimize spiraling out of control with the what-ifs of self-managing (or investing in real estate in general) is to think about the worst-case scenario in each situation. Many worst-case scenarios can be worked through and overcome, and the chances of them occurring are usually slim anyway. This helps us come to a conclusion and make decisions instead of continuing to worry about situations that haven't even happened and aren't even likely to happen. We're here to give you the information and steps you need to make good decisions and become a successful, self-managing landlord.

Let my journey be a living example that you do not need to have real estate or property management experience to be a successful self-managing landlord. The first property I ever purchased was a vacant triplex in which I was responsible for making necessary repairs, advertising the property, placing tenants, signing leases, and the ongoing management. I had no experience and wasn't even as proactive as you are by reading this book. I did most of my research through Google and was learning on the fly. If you follow the steps in this book and use good judgment to make executive decisions, or find the answers for any small things we may not cover, you will be able to see positive results in your portfolio.

Finding Your "Why"

Determining your "why" for real estate investing is a crucial step in building a successful investment strategy. It will also help influence your decision to self-manage. Take some time to reflect on your personal and financial goals. What do you hope to achieve through real estate investing? Is it building wealth, generating passive income, funding retirement, or something else? Next, think about your financial objectives. Are you looking for short-term gains, long-term wealth accumulation, or a combination of both? Define the financial milestones you want to reach, like a specific amount each month or a target net worth. It's also important to identify your time commitment. Determine how much time you can commit to real estate investing. Reflect on your lifestyle and values and how real estate will fit into that.

While one of the scenarios above of "who is landlording not for" *may* describe you, that doesn't mean self-managing might not be for you! You may be someone with a highly demanding job but are so passionate about changing your life and getting out of that job that you make time to work self-managing into your schedule as a means to an end. When deciding whether self-management is right for you, we encourage you to dig deep into your "why" for investing. This is the groundwork for your business, and it is imperative to understand what your goals are for your rental business and life. Does self-managing fit into this picture?

There is great power in having total control over the success of your business. With self-managing your rentals, you will save yourself thousands of dollars over the course of a year or two, have a direct say in the quality of your rental, and be able to build strong, professional relationships with your tenants to ensure their happiness and the longevity of their tenancy.