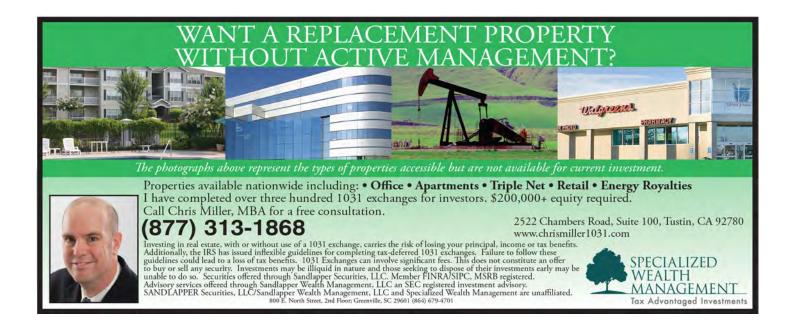
INVESTMENTS: Tenant Quality: When You Hire Your Tenants, Hire Well

hen I sell a car, I want to give it to the person who shows up first with the money I am asking for it. Too many of us real estate investors are renting our properties this way. Our investments are amongst our most important assets, and we need to protect them by *choosing* good tenants.

Years ago, I attended a real estate conference where tenant selection was discussed. The speaker made a case that choosing tenants for your property is exactly like hiring employees for your business. If your new employee empties the cash register one night, just like he did at his last two jobs, then that is YOUR fault as an employer for not finding that fact in a background check.

Similarly, the type of tenant who moves in and never pays a dime in rent while gaming the eviction process for a free place to stay has usually done something like that before. That type of tenant would give you a list of his friends as "landlord references," but he can't fake background or credit checks.



This month, we'll discuss the hiring process for your tenants, and illustrate some ways you can minimize your risk by doing some homework.

Who is the Lease Guarantor?

Every single lease has a *guarantor* – this is the person or entity who is guaranteeing payment under the lease. If Joe and Mary Tenant are renting an apartment from you, then Joe, Mary or both would be the guarantors. If Joe and Mary are just out of college, you may want Joe's dad Fred to be the guarantor – as a *co-signer*. If Joe owns a sandwich shop, then he may be the guarantor on the lease – no matter what happens with the shop, he needs to pay the rent. If the sandwich shop is a large enough company, (Firehouse Subs, for example), then perhaps the lease can have a corporate guaranty – where a parent company guarantees the lease. (It's important to verify this if it's assumed, as I'll discuss later.)

How Strong is that Guaranty?

Those of us in the investment business hesitate to use the "G word" of guarantee often because the very sound of it implies that something is as sure as the sun coming up tomorrow, or the IRS collecting taxes next year. A guarantee, in reality, is only as strong as the person making it. If Joe and Mary are just out of college with little savings, then Fred may be a good bet as a co-signer: but only if he has sufficient financial means with which to make rent payments, if necessary. If Joe's Sandwich Shop fails, how likely is it that Joe the guarantor will make good on his rent payments if the sandwich business is his only means of financial support? (Not very.) If Firehouse Subs corporate is the guarantor of our lease, then they have to make the lease payments as long as they as a corporation are in business. Are they doing well and likely to stay in business? We'll need to look at their financial information to find out. Lastly, note that the "large chains" like Kentucky Fried Chicken and Subway are most likely run by franchisees and not by corporate. This means that it's not KFC corporate, (YUM Brands), that is guaranteeing your lease – it's the franchisee – who could be the Joe mentioned above. The same argument against his sandwich shop applies here – if the KFC is doing poorly, and it provides a substantial amount of Joe's income, how is he going to pay the rent?

My Tenant Hiring Process

My investments that I manage myself are exclusively residential rentals. When I am looking for a new tenant, I'll collect information from multiple potential tenants and "hire" the best one. I will ask for, and review, personal information, employment history, a paycheck stub copy, a bank account statement copy and copies of identification cards. I will also perform a credit check and a criminal background check. I will always personally call to verify employment and past rental history. I don't accept co-signers so if none of the potential tenants are up to snuff, I'll wait until I have more tenants to review. I still fill my vacancies guickly and have been, so far, very happy with the tenants I've hired. I think this extra effort is certainly worth my time, and it probably will be for you too. If you have any questions, please call me at (877) 313-1868.

This does not constitute an offer to buy or sell any security. Investments in securities are not suitable for all investors. Investment in any security may involve a high degree of risk and investors should review all "Risk Factors" before investing. Investors should perform their own due diligence before considering any investment. Past performance and/or forward looking statements are never an assurance of future results. Examples given in this article are for illustrative purposes only. SANDLAPPER Securities, LLC nor Specialized Wealth Management/Chris Miller do not give tax or legal advice. We recommend that you seek advice from your tax and/or legal professional before investing. Securities offered through Sandlapper Securities, LLC. Headquarters: 800 E. North Street, 2nd Floor, Greenville, SC 29601. Member FINRA/ SIPC. Specialized Wealth Management is not affiliated with Sandlapper Securities, LLC. California Insurance License # 0180282. Copyright 2017 Specialized Wealth Management. All rights reserved.



Christopher Miller is a Managing Director with Specialized Wealth Management in Tustin, California and specializes in tax-advantaged investments including 1031 replacement properties. Chris' real estate experience includes work in commercial appraisal, in institutional acquisitions for a national real estate syndicator, and as an advisor helping clients through over two hundred 1031 exchanges. Chris has been featured as an expert in several industry publications, and on television, and earned an MBA emphasizing Real Estate Finance from the University of Southern California. Call him toll-free at (877) 313 – 1868.