



Wealth Creation and Real Estate

Firm but Fair

Investing in real estate can be a financially beneficial – and often intimidating – experience. As an investor, when the decision is made to create wealth through real estate, it is critical to have a legally binding contract in place for every investment (i.e., 100 leases for a 100-unit apartment complex). An investor should view this contract, or lease, as the “Bible”; in other words, both tenant and investor should live by the words that comprise the lease.

Many investors – particularly first-time investors – mistakenly put together what they believe to be a stellar lease; in other words, it has (what they perceive to be) the best clauses, addendums, rules, regulations and policies. However, if this lease (and all its stellar attributes) is not enforceable, it is not worth the paper on which it is printed.

Whether the property invested is commercial or residential, the investor must collect income in order to build cash flow. Part of the lease that is comprised for the property must stipulate how income will be collected. Additionally, part of the lease will indicate who is responsible for expenses, maintenance, etc.

It is important that every investor be both firm and fair when dealing with a lease and a tenant. An investor should be firm with regards to a lease, specifically in the following area: Every lease has a date on which the income is due (i.e., rent from a commercial or residential piece of property). If the income is due by the fourth day of every month, an investor needs to be firm in the collection of the income. In doing that, the investor is essentially “teaching” the tenant what is expected of them and that makes the overall property management experience much easier.

In terms of being fair, an investor should consider the following: If the rent is due on the fourth day of every month, but the fourth of a particular month falls on a national holiday, the owner should be fair and give the tenant until the next business day to submit payment. The owner should also take into consideration circumstances beyond human control (i.e., a death in the family that prohibited the tenant from being physically able to submit payment). If the tenant has verifiable documentation that such a situation occurred, the property owner should allow the tenant to submit payment as soon as possible. The key, however, is verifiable documentation.

Many property owners/investors frequently ask: What makes a good lease? A good lease is simply one that can be enforced. A property owner and his or her attorney can compile a nine-page lease, but if the terms of that lease are not enforceable, the lease itself is null and void. When all else fails, keep these two simple requirements in mind: A good lease is one with sound legal clauses that can be enforced in the state in which the property is located.