

Tip #92 Confirm The Existing Tenant Details

The Place You Want To Buy Is Being Marketed With “Existing Tenants.” Make Sure Those Two Words Aren’t Investment-Speak For “Assumable Headaches.”

Revenue property may be sold with existing tenants. Some vendors may even promote those tenants as an added asset to the deal. After all, beginning investors often believe that the advertising and due diligence involved with acquiring tenants costs real time and money. Who wouldn’t see existing tenants as money in the bank?

That’s not how the sophisticated investor thinks.

Experience shows existing tenants demand the same due diligence as new ones. Since you didn’t negotiate any of the terms of their tenancy, you must assume you know nothing about those terms.

Sophisticated investors want to have as much information as possible on the current tenants and their terms of tenancy. This way they can make a very clear decision as to whether they wish to take the property with tenants or vacant.

To get these details you should use a **Tenant Confirmation Form (example provided at end of this tip)**. This form is completed and signed by each tenant and it confirms all of the terms of their tenancy. Many times you will discover that the landlord and the tenant’s recollection of the tenancy differ, and it is best to get these straightened out long in advance. It helps you decide whether the rental income statements give to you by the vendor are actually accurate. If you are in a jurisdiction where security or last month’s rent is in the landlord’s hands, this form will clearly outline what amounts are to be credited to you at closing. Being clear keeps everyone honest.

Red Flag: Make sure this written form is signed and dated by all of the tenants in each suite.

What do you need to do?

1. Review the status quo and make sure you have all the details.

- Do not accept anyone’s “word” on tenancy terms. Meet your new tenants face-to-face. Ask

how they feel about the property and their plans to stay or go. No loss in being brutally honest with your questions. This should be a part of your due diligence

- Review their lease agreement and make sure you can live with its terms. Poor leases are not uncommon, but you don't have to get stuck with one!

- If they don't have a formal lease, clearly explain to the tenant that a lease will be put in place that outlines your rules. If they are not accepting of this, you may wish to move on to another property

KEY INSIGHT: You can always request vacant possession as part of your Offer to Purchase if you don't want any of the current tenants or if you are planning on completing extensive renovations...

Red Flag: Read a copy of each lease that is in place. Look for situations that may not be appropriate for you. The need for caution is especially strong if the existing tenancy isn't based on a formal lease agreement! When these current tenant's leases are expired, make sure you get them to agree to your new lease with all of your rules and regulations.

KEY INSIGHT: Bad surprises are a natural consequence of due diligence that falls short of its mark. That's why you are studying a real estate investment system that stresses property score cards, analyser forms and check lists for everything from vendor motivation to prospective tenants! Apply your due diligence strategy to *every* tenant relationship and every property you own and you'll start to see why sophisticated investors can talk about "Quality tenants and Quality property" as an investment strategy.

RENTAL INFORMATION CONFIRMATION

Date _____
(Day) (Month) (Year)

My name is _____
(First) (Middle) (Last)

I Currently Rent Suite # _____ at _____, _____
(Address) (City)

DETAILS of my tenancy are as follows:

1. Current Rent \$ _____/month

2. Security Deposit \$ _____

3. Date I moved in _____
(Day) (Month) (Year)

4. I have a written lease with my Landlord. YES NO

4a. If 'NO', please describe tenancy arrangement _____

5. Date my current lease expires _____
(Day) (Month) (Year)

6. I am currently up to date with my rent payment YES NO

6a. If 'NO', I currently owe \$ _____

7. There are no side deals, pre-paid rent or rent-discount (i.e. free-rent) arrangements between my Landlord and me, other than that I am a tenant as set out above.

Dated this ____ day of _____, 20 __.

Tenant Name _____

Witness Name _____

Signature _____

Witness Signature _____

Tenant Name _____

Witness Name _____

Signature _____

Witness Signature _____

Other Comments:

