THE LANDLORD PROFITABILITY | PLAYBOOK |

The Eight Profitability Plays You Need To *Automate Property Management* And Get On With Your Life

ROOST Real Estate Co

The Landlord Profitability Playbook

The Eight Profitability Plays You Need to Automate Property Management and Get on With Your Life

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Complete Your Scorecard Online…

ProfitabilityPlaybookScorecard.com

The Landlord Profitability Playbook

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How To Use This Book

Flip forward to the Landlord Profitability Playbook mindset scorecard on page 50and read through the four stages for each mindset.

While looking at each of the mindsets, see which of the options resonate with you, then, within that option, pick a score that represents how developed you feel.

A 1,4,7,10 would indicate your weakest acknowledgement of this option, and a 3,6,9 would mean you are almost at the next stage, and it is easy to see where you can make the transition.

The scorecard offers a subjective assessment of your development. If you are at point 12, you are completely focused on that mindset, whereas if you are at point 10, there is room for improvement.

You can also complete the scorecard online at **www.LandlordProfitabilityScorecard.com**.

Here's What's Inside…

Introduction

Welcome to The Landlord Profitability Playbook. This is the system we use at Roost Real Estate Company to help our property management clients collect more rent more often, attract and retain great tenants, minimize rehab and maintenance costs, and maximize monthly cash flow and profitability.

You can use this same playbook to identify opportunities left unrealized in your real estate investment business.

I subscribe to the theory that the only thing that ever improves is what gets measured. Almost all of us track and measure our numbers, our financials, but very few of us have a method for measuring our mindsets.

This is why I love the concept of the mindset scorecard. A mindset scorecard allows you to measure your mindset today and compare it to where you'd like to be in the future.

Most people have no time to think about their mindsets, or in other words, think about their thinking. They're generally focused on the immediate problem or task at hand – and often, there is little time for that.

We are all busy. 'Thinking about our thinking' sounds like a luxury we don't have time for. However, if we don't make time, we can never improve our businesses or our lives.

Most landlords we meet spend so much time working in their business that they never get the chance to work on their business. They never get the chance to think about their thinking. They never get the space to improve.

I hope this book gives you that space.

Here's to Automated Profits,

Chris

Mindset Number One Automate Your Rent Collection

The Ultimate Goal for mindset number one is:

You set proper expectations for yourself and your tenants upfront. Your systems are so good your properties seem to manage themselves.

That's the end goal, but no one starts at the finish line.

Stage One

If you score yourself in stage one:

You spend too much time chasing tenants and personally collecting the rent. You hear new excuses every month and could write a book.

I’ve been here! The excuses would be funny if they weren’t so sad. Here are three of my favorites. Not only are they entertaining, but they have the added benefit of being true.

We had one person say, “I can’t pay the rent this month because I’m going to prison, and it turns out they charge rent there too.”

Another favorite our team gave me was, “I have a rare brain disease that made me forget my rent. Can you make an exception for me this month?”

My personal favorite all-time winner is, “My dog ate my rent money.”

When you’re in the real estate business, you’re really in the tenant relations business. You are in a business relationship with your tenant.

You’re providing a service. You’re providing a place to live. That is your part of the relationship. The tenant’s part of the relationship is living up to the terms of the lease the two of you agreed upon.

The lease is the instrument we use to spell out the expectations the parties have for each other.

Stage Two

If you find yourself in stage two:

You’ve learned much since you bought your first rental property. If you could find the space to start over, you know you could make it all work.

I hear this all the time. You buy your first couple of properties, and you think it will go one way, but it ends up going another. The fact is, managing your rental properties can be all-consuming.

Stage two is hard to break free of. It's almost impossible to step back and look at your processes objectively when you're caught in a downward spiral that gets worse every month.

Making the move out of stage two requires finding the headspace, the bandwidth if you will, to sit down and think about what's happening and how to improve it. It's not enough to want to change; you have to create the space to change.

I talk about space and margin all the time. You have to have a little bit of 'give'. You have to have a little 'play', a little 'margin', and the extra bandwidth necessary to get outside of the problem, step away, and look at it objectively.

Do that, and you will have completed the first step to automating your rent collection.

Stage Three:

In stage three, we find:

You strong arm and harass your tenants every month until they pay. You don't like playing the heavy, but you've gotten used to it.

We’ve met many landlords in stage three. They are collecting their rent, which is wonderful, but the effort required is overwhelming. They eventually realize that ‘muscling the month’ every 30 days is no way to live.

Muscling the month may get the job done in the short term, but it always ends up with the same result. You start neglecting other important parts of your life.

The stress stage three creates is a huge negative. The effects of stress build up slowly over time. You may not be aware of how it is affecting you until you reach a breaking point.

This stress is twofold. You have the stress of the actual tenant interaction and the stress of worrying about all the expenses that have to be paid whether you collect the rent or not. It’s dual action stress.

What other parts of your life are you neglecting while you are in stage three? Your family? Your friends? Your personal health and well-being?

Sometimes you end up neglecting your career, your “real” job, the job where you earn the extra cash to invest in real estate, to begin with. You can only muscle the month so many times before it catches up with you.

Stage Four:

If you score yourself in stage four:

You set proper expectations for yourself and your tenants upfront. Your systems are so good your properties seem to manage themselves.

I always tell people that what we do is not rocket science, but it is an intentional set of processes, steps, and habits that lead to profitability when executed month after month.

The cool thing about investing in real estate is, if you do it right, you figure it out, and you get those properties working for you instead of the other way around; you get Mailbox Money.

Mailbox Money is the most wonderful thing in the world. Mailbox Money is the goal. It's getting a check in the mail, net of expenses, month after month, for the rest of your life.

Collecting Mailbox Money looks easy because it is easy. You just have to open the envelope. Getting there is the tough part. Mailbox Money is the holy grail. It's what happens when you automate your rent collection.

Mindset Number Two
Start as Day One

The aspiration of mindset two is:

You approach every month as a fresh start. Your team collects your rent, posts notices, files your evictions and creates repair and rehab lists.

This sounds like a lot because it is a lot. But this is reality. This is what is required. This is what we have to be prepared to do every month.

When you master this mindset, a funny thing happens. You start to have ‘easy’ months once in a while. Over time, you will have more easy months than hard months.

Regardless of how well last month played out, however, you have to be prepared to start this month as if you just bought the property.

Stage One

In stage one:

Your cash flow is so tight that you accept partial rent every month. Your tenants will never get current, but you can't afford to evict them.

In stage one, you're getting some money, but not enough money. Still, you can't afford to lose the little bit you are able to collect. If you evict the tenant, you will have nothing.

Collecting a partial payment is better than nothing if it's enough to cover your mortgage and expenses. Even if it is enough, there is no upside if there is no profit. Without profit, there is no margin. (There's that word again.)

Without profit, there's no wealth creation. There's only wheel spinning. If you scored yourself in stage one, you don't really need me to point this out to you.

Stage Two

Here is what you find if you land in stage two:

You feel like Bill Murray in Groundhog Day the first week of every month - but it's not as funny. You know there has to be a better way.

We find, and I suspect you do too, that it's always the same tenants who pay on time every month. It's also the same tenants who drag it out every month. We learn to accept it because we don’t have the space or margin to get out in front of it.

You soon feel like Bill Murray in the movie Groundhog Day.

Stage two reminds me of cooking frogs. If you drop a frog in a pot of boiling water, the frog will jump out. If you have a frog in a pot of room temperature water, and you set it on the stove, turn on the heat, and let it slowly warm up, that frog is going to stay in the pot and stew.

Sadly, if you scored yourself in stage two, you’re the frog in this story.

Stage Three

In stage three:

You do the best you can with the time you have. You could do better, but you don't have the resources you need to simplify the job.

Again, it’s about creating enough space to first realize there’s a better way, and second, figuring out what the first couple of steps are you need to take to get to a better place.

Stage three is where a lot of our clients are when they come to us for help. They’re doing the best they can. They are surviving, but they’re sick of surviving. They want to simplify the job. They want to get on with their lives.

Landlords here are relatively stable, but they're also at the end of their rope and ready to ask for help. The best help they can get is to hire a team of people who enjoy property management and do it full time for a living.

Better yet, find a team that will treat your properties as if they were their own.

Let me make something clear. As challenging as managing real estate can be, real estate is still the best way I know of for creating wealth, and a bigger future for yourself, over time. Nevertheless, we have to face the fact that real estate can also turn on you.

In stage three of this mindset, you realize that starting every month as if you just bought the property is too much for one person to handle. The personal cost is too high, and you are ready to try a different path forward. It's time to get some help.

Stage Four

The ultimate manifestation of this mindset is:

You approach every month as a fresh start. Your team collects your rent, posts notices, files your evictions and creates repair and rehab lists.

How awesome is that?

Things are never perfect when a client comes to us for professional management. We expect that, and we are prepared for it.

Everything starts with communication. We communicate our standards, policies, and procedures. We explain to our tenants what they can expect from us and what we expect from them. We take nothing for granted.

Not everybody is going to be able to meet our standards. We're going to be fair, but our responsibility is to you, the owner.

Sometimes tenants choose to move out rather than abide by our standards, which are always the same as the terms of their lease. Fortunately, most tenants step up and improve their performance right away.

Some tenants will choose not to comply, and we will post a notice on their door, demanding that they vacate the premises within three days. If they do not respond, in consultation with our owner, we will file an eviction. We then work with the courts to regain control of the property.

Once that poor-performing tenant is out, we set the stage for getting that property cleaned up and rent ready, so we can get a new tenant in there. We gain access, change the locks, make a repair and/or rehab list, and start soliciting bids for completion.

I always tell our new clients that the first two or three months under management are generally a little rough. There will be turnover, and there will be missed rent. Rest assured, we know that it is our responsibility to return you to profitability as quickly as possible.

This is what we do on day one for a new client. It’s also what we do every month for all of our clients. This is what ‘start as day one’ is all about.

Mindset Number Three Rehab to the Neighborhood Standard

After rent collection, rehab and repairs are the most frustrating part of being a landlord. Rehab and repairs make even seasoned landlords nuts from time to time. I know they do that to me.

Here's the ideal:

You collect and evaluate at least two bids for every rehab project you undertake. You separate labor quotes from material quotes.

Before we dive into the four stages of mindset three, I want to talk about exactly what I mean by 'neighborhood standard'.

Every home in a given neighborhood has a standard set of features and amenities representative of the homes surrounding it. Adding features and amenities to a home above and beyond what is the standard for the neighborhood will not increase its value or the amount of rent you can charge.

Don’t do it.

Conversely, to offer a house with features and amenities below the neighborhood standard will result in a less than average rental rate.

Rehabbing to the neighborhood standard means that you will not improve above, or below, what is customary. Your goal should be to offer a home that is competitive in the neighborhood. No more and no less.

I was guilty of over-improving my properties for years. I like to think I am smarter now, but I still catch myself thinking about going too far with some rehab projects.

I believed that if I gave somebody something above and beyond what they expected, they would appreciate the property and take better care of it. It never happened.

Every property needs to have a solid roof, structural integrity, functional plumbing, and working electricity. It has to be safe and watertight.

Not every property in every neighborhood warrants a jacuzzi tub, or even a dishwasher for that matter. At an apartment complex, washer and dryer hookups, or even washer and dryers on the premises, may be above standard.

When you start to put money into things that aren’t representative of the other neighborhood houses, it’s a waste of money.

Stage One

In stage one:

You do as little as you can get away with when it comes to repairs and maintenance. You know your tenants won't appreciate it anyway.

This is an unhappy place to be. It’s like you’ve lost all hope

When someone scores themselves in stage one, it’s usually because they put a lot of money in a property and got burned.   Now they’re sick of the entire business. They wasted their money on a rehab that failed to earn a decent return. Now, they have to cut costs to the bone to make up for it. It turns into a downward spiral that will take another infusion of cash or time to break free of.

Stage Two

If you are in stage two:

You really don't know how much things cost or how to evaluate a bid. You are at the mercy of every contractor you call. You hate this part.

Again, this is where landlords are continuously frustrated. The good news is a simple shift in thinking will relieve your anxiety.

I've found that I often have unreasonable expectations for what things cost. Let's say I look at a house and it needs a paint job. Invariably I make a snap judgment with no rational basis in reality. I'll say something to myself like: "this is going to cost $1000."

Just because I decided that this is a $1000 job does not make it so. It doesn't mean that any contractor I call is going to do that job for $1000. Because I want something to cost a certain amount doesn't mean it will.

If you want to save yourself some grief, whatever your first instinct is for the cost of a repair, budget another 25%.

If my snap conclusion is $1000, I am going to go back to the office and budget $1250 and find a way to make that number work. If the job actually gets done for $1000, I just made $250! That's how my mind works.

One more tip, always solicit at least two bids for every project, study them critically, and compare them line for line. If there is a drastic difference between the first two bids, get a third. You will thank yourself later.

Stage Three

Moving on to stage three:

You feel the only way to avoid getting ripped off is to do the work yourself. You have a great relationship with the cashiers at Home Depot.

We do have a few of our clients who do their own work on their homes, but they are usually in the contracting or construction business, so they are maximizing what they do best. It's a great way to leverage their unique abilities.

Other clients have tried to do a lot of the work themselves to save money but found that it took too much of their precious time. When they come to us, they are ready to give up the DYI mindset, but they do not have unlimited funds either.

Personally, I never had the talent, time, or inclination to do much of anything myself when it comes to maintaining my rental properties. I focus on what I am good at and hire others who love to do what I do not.

However, I do not have unlimited funds, and I have specific financial goals for my portfolio. So, I create budgets that I am able to stay within but also project profitability into the future.

I budget between 25% and 35% of every gross rent dollar I expect to collect across my portfolio to cover future lost rent and repairs. My goal for a $1,000 rental is to set aside $200 to $350 a month. Some months the money gets spent, and some months it stays in the checking account as reserves for future months. If you have 10 units, this adds up to between $2k and $3.5k a month.

Every tenant eventually leaves. Every property is going to have to be cleaned up and rehabbed eventually. It's easy to get complacent when you string together a few good months in a row. You start feeling good, and then BOOM, a couple of people unexpectedly move out at the same time you have an expensive rehab to get through.

Find the discipline to set cash aside in the form of reserves because you're going to spend it one way or the other. If you have a good month, keep the money in the checking account. Keep a cushion that creates more margin and mental space for you and your business.

If I have a banner rent month, great. It doesn't mean I'm going to get any of it. It doesn't mean I'm going to turn around and use all that cash to buy another property. It means I can sleep nights knowing that I have enough reserves in place to be okay when stuff inevitably happens.

Stage Four

Stage four is the sweet spot:

You collect and evaluate at least two bids for every rehab project you undertake. You separate labor quotes from materials.

This is a big one. Most people don't separate the labor quotes from the material quotes.

We've been asking our contractors to do this for years because it's hard to argue what materials cost when there's a Home Depot on every street corner. If you want to verify the cost of materials, you can. It's hard to hide that.

I don't like to go to an owner and try to explain where the fudge factor is with a rehab quote from a contractor. Even if it appears to be a super competitive quote, I want to know what the thought process was that went into it. I want to know if the contractor knew what he was doing when he wrote the quote. If the contractor made a mistake and needs more money to finish the job later, it ends up being my problem one way or another.

That's why I want to see a detailed material quote and shopping list separated from the labor line. Labor is variable. Materials should not be. Separate the variable labor from the 'fixed' materials and simplify the management process up front.

I want our owners to get at least two estimates for each project. Our property managers will go out and get two quotes. Most of the people who work on our properties are self-employed solo independent contractors. They're not formal corporations. They're not big companies or anything like that.

Consequently, we get a lot of what appear to be handwritten scribbles for estimates. I ask our property managers to take those handwritten scribbles, talk to the contractors, decipher them, and sort them out so we can present them to our owner. We have to be prepared to discuss the pros and cons of each estimate, make our recommendation, and move forward.

We are always 100% transparent with our owners about everything, but especially when it comes to rehab and maintenance bills. We do not mark-up owner invoices with extra fees or surcharges. We are paid a management fee that includes keeping your properties ready and rented. I never want an owner to think that somebody's collecting extra cash on the side that is not spelled out in our management agreement.

Transparency in this business is an absolute necessity. In my experience, the reason more owners do not invest in professional management is that they expect to be taken advantage of. You have to be able to trust your management team. If you can't, your only option is to do it all yourself, and we have established that is not an option.

Mindset Number Four Market Purposefully

Marketing a vacant property is an art in and of itself. A Craigslist ad and a sign in the yard is not going to get the job done.

The goal is:

You benchmark your marketing and advertising against the most successful investors you know. Your systems are foolproof.

Stage One

If you are in stage one:

Your marketing strategy is to put a sign in the yard and place an ad on Craigslist. Your phone rings so often you stop answering.

This is the worst place to be in the Marketing Purposefully mindset. You set yourself up in a situation where your phone won't stop ringing. There are so many messages that you can't get through them, much less make calls back. It's horrible.

When I started, I did something similar. I put ads in newspapers. Remember those?

I used to hate putting an ad in the newspaper when I needed a tenant. The calls from unqualified prospects were overwhelming. With Craigslist, it is infinitely worse. My stomach churns just thinking about it.

Stage Two

Usually, if you find yourself in stage 2:

You want to attract better applicants, but you don't know where to begin. You need a system that cuts marketing time and costs.

I think what we all want is a system that cuts marketing time and costs. Not that Craigslist, in and of itself is expensive, it's not. I'm talking about the expense of taking time away from your real job or your family.

The stress of literally hundreds of inquiries combined with the need to get a paying tenant in place as quickly as possible can be overwhelming.

When you’re doing a rental ad on Craigslist, or Zillow or Apartments.com or wherever you choose to go, my advice is to answer every question in the ad that you can think somebody’s going to ask.

Are you going to allow pets? Say yes or no upfront. If you will allow a cat, but you’re not going to allow certain breeds of dogs, say that upfront. If you require pay stubs that show proof of income to be submitted with your application, say that up front.

Not every applicant will read your ad before they apply or call you, but most will. It is a necessary step in the right direction.

The goal for the market purposefully mindset is to collect as many great applications as possible so that you have something to work with.

You want to attract as many qualified applicants as you can so you can choose the one tenant most likely to pay the rent on time, to abide by the terms of the lease, and to leave the apartment in as good or better condition than when they moved in.

Stage Three

Part of attracting and collecting multiple good applications is making sure the rent you’re asking for the property is appropriate.

In stage three, we find:

You are unsure of the market-rate rent in your neighborhood, but as long as you have cash coming in each month, you feel fine.

Suppose every other house in the area is renting for $800 a month, and you've arbitrarily decided that you're going to get $900 a month. You may get a deposit, you may get a signed lease, and you may get somebody to stay for a month or two, but the likelihood of that person honoring the lease to term is slim to none. It never works.

Of course, on the other side, it's not good business to ask too little and leave money on the table either. There's a sweet spot. You want to be competitive.

I may be more aggressive than most, but if the market rate rent for one of my units is $800, and I can make my numbers at $775, I am going to price it competitively. At a minimum, my $800 rental will be marketed at $795. The $5 is silly, but it makes a difference.

Stage Four

Here is the best of all situations:

You benchmark your marketing and advertising against the most successful investors you know. Your systems are foolproof.

Go online and check out successful property management firms in your market and see what their ads look like. Assuming they have vacancies to advertise, you will see ads with their expectations for their tenants front and center. You will see offerings that are clear and direct. You will not see bait and switch ads or ads that read ‘Apartments For Rent From $500’, for instance.

Most professional property management firms have a waiting list of qualified applicants in house. Consequently, some vacancies will never be advertised because they are rented from their list.

In any given month, we have a handful of pre-qualified prospects who are waiting for us to have a vacancy. That’s the downside of looking to a successful firm for tips because they may never have to advertise.

If you want to get to stage four, be detailed in your marketing, make your expectations for tenants clear, set your rent competitively, and benchmark the best property managers in your market. That is how you Market Purposefully.

Mindset Number Five
Select Applicants Strategically

You have systems in place to 'screen-in' applicants most likely to pay their rent on time without running afoul of fair housing laws.

The best way to retain great tenants is to rent to great applicants and teach them how to be great tenants.

I know that sounds easier said than done. This mindset requires that you keep in mind that nobody really knows what your expectations are. Your prospective tenants cannot read your mind.

Things you and I take for granted may not be common sense for everyone else. Sometimes you have to tell people, “You can’t disturb the neighbors with loud music.”

Sometimes you have to tell people that being a great tenant means you leave the property in better shape the day you move out than it was the day you moved in.

We have to set standards and expectations, and we have to communicate them continuously. If we don't, we will never get the margin we need to automate property management and get on with our lives.

Stage One

In stage one, we find:

You rent to any applicant that shows up with enough cash to move in.

I understand the desperation people in stage one feel. I get why landlords resort to this, but until you move out of stage one, your real estate investment business and your life will only get worse.

Stage Two

In stage two:

Your tenants never finish out their lease and never leave the property ready for the next tenant. This was supposed to be easier.

I always tell people that qualifying an applicant requires more than a signed application and cash to move in. Your criteria need to include proof of ability to pay, a history of completed leases, and if possible, a previous landlord report that they took care of their previous rental units.

To move out of stage two, start by using an application that clearly says you're going to do a credit and criminal background check and that you require three months' worth of pay stubs to show they make enough money to pay the rent.

Make every effort you can to contact the applicant's previous landlord. Sometimes you won't get a response. Sometimes they may not tell the truth, but more often than not, they will.

Do your due diligence.

Stage Three

In stage three:

Your properties are vacant longer than you would like because you have learned the hard way that you have to wait for the right tenant.

This is a quantum leap from stages one and two, but you are still leaving money on the table. You have mitigated the downside but also your upside. You've foregone profit, margin, and space to improve your business.

Stage Four

When you move into stage four:

You have systems in place to 'screen-in' those applicants most likely to pay their rent on time without running afoul of fair housing laws.

I use the term “screen-in” in reference to attracting and making it easy for financially qualified applicants to find and successfully apply to rent a home or apartment from you.

‘Screening In’ is not about screening out or exclusion. It’s about inclusion. It is saying: “These are our standards. This is what you need to have to be a qualified applicant. If you meet these qualifications, we want to hear from you today”.

The moment you adopt a ‘screen out’ mindset is the moment you run the risk of running afoul of local, state, or federal fair housing laws and guidelines.

Remember, the mere perception, or unfounded suspicion of discrimination, is enough to invite scrutiny and inquiry. You don’t need that in your life or business. Be mindful of the words you use in your advertisements, in your application, and when communicating by email, text, or telephone.

Mindset Number Six
Track Your Numbers

The ultimate goal:

You receive an income statement detailed by property each month, and you measure the profitability of each property against your plan.

That's not where we start. We start off in stage one.

Stage One

Stage one is when:

Your rent is often paid in cash, and your income and expense records are incomplete. You may be a good credit risk, but you cannot prove it.

If you collect cash, it's easy to spend that cash. It's easy to put it in your wallet and forget about it. It's also possible that you're not going to record it in your income and expense records. If that happens, your records will be incomplete, and that will cause problems and frustration later.

There are two primary reasons why you want to keep accurate records whether you allow your tenants to pay in cash or not.

The first is for tax purposes. In the event you are audited, you want to have accurate records of all income.

The second is for financing purposes. In order to qualify for a new mortgage or refinance, you want your rental properties to show their actual performance. That performance needs to be in evidence on your tax returns as well.

You don't want to set yourself up for disappointment when you find a new property to purchase. The bank is not going to take your word for your 'actual' income. Your actual income is what you report to the IRS.

There is a third reason for tracking your numbers accurately. The reason is so you can measure your performance as an investor over time. You need accurate numbers to keep score.

Your scorecard is your monthly financial statement. You, your accountant, or property management company should be producing a profit and loss and/or cash flow statement for your review each month.

You keep score by comparing how you did this month compared to the previous month or months, or to the same period last year. Your ability to track your performance over time, year over year, is critical to making your investments run like a business that can support you over time.

We do not accept cash from our tenants. All rent is paid online, by check, or money order. It's different for us, of course, because we are managing for others, but I have never accepted cash from my tenants either. Every dollar that comes in, electronically, via money order or a check, gets documented, recorded, and deposited no later than the next business day.

If you score yourself in stage one, you may think you're doing yourself a favor, but you are not. You are going to have a lot more flexibility and freedom to expand your portfolio in the future if you are tracking your numbers.

Stage Two

In stage two:

You have the information you need to file your tax returns accurately, but you have no

idea what your true return on investment (ROI) is.

Filing accurate tax returns is critical but filing your taxes is not the same as having access to a dynamic financial reporting system. An excel spreadsheet will work for a while, but at some point, you will want to upgrade to something like QuickBooks if you are managing your portfolio yourself.

If you are working with a property management company, they should be using software that tracks your financials for you. Your management company can supply you with year-end reports that you can turn over to your accountant or tax preparer.

Some of the better known property management software brands are Buildium, Propertyware, and Appfolio. We have been using Appfolio in our business for several years now.

Stage Three

In stage three:

You are confident that your books and records are in order, and you are receiving all benefits due to you at tax time.

Not bad! Congratulations! It's one thing to file your taxes and avoid an audit; it's quite another to take advantage of all of the incredible tax breaks available to real estate investors. They are plentiful and valuable. You deserve to take advantage of all of them.

Being able to prove you qualify for every deduction you take in the event of an audit is a beautiful thing. I take every single deduction I am legally entitled to take. I make sure my financial records provide clear justification for each one.

Stage Four

Here is where you are in stage four:

You receive an income statement with detail by property each month. You measure the profitability of each property against your plan.

Comparing your performance to last year is an important metric. I worked in retail for years, and the one thing we looked at constantly in operations was how we were doing compared to last year. What are my comparable store sales? I still look at that to this day, only the question is ‘what are my comparable unit collections?’

Even if the total amount of rent I collect doesn’t go up every year because of changes in the market beyond my control, I still need that benchmark for a reference point. Without it, I will never come up with a new strategy to adapt and continue to enjoy ever increasing profitability.

The next step is to look at your past performance over time and use that to extrapolate what is likely to happen in the next one to three years. That extrapolation is called your ‘plan’. You want your plan to be challenging and require your best thinking to achieve it, but you also want it to be realistic.

Here is an example. Let’s say my profit on a property was $4,800 three years ago, two years ago it was $4,900, and last year was $5,000. This year is humming right along as well, and I think I may have the opportunity to raise the rent next year. Even better, I see no evidence that my expenses will go up at all next year compared to this year. Based on this, I create a pro-forma budget where I plan to make a $5100 profit on this property next year. I still have to execute this plan, of course, but I find the process incredibly motivating and confidence-boosting.

Keep in mind, we keep score by look backward and comparing our current performance to where we were in the past. We make a plan based on what is possible in the future. Base your plan on past reality.

Mindset Number Seven Build a Self-Managing Team

This is the aspiration:

You have a team of professionals at your disposal looking after your properties as if they owned them. You are free from day to day tasks.

We don't start there. We start at stage one.

Stage One

If you find yourself in stage one:

You have given up and would sell everything if you thought you could pay off the mortgages. Real estate investing was a big mistake.

It’s not impossible to run a real estate empire or business as a solo operator. Still, it is impossible to do it successfully for the long haul and not negatively impact other areas of your life.

Suppose your reason for investing in real estate is to diversify your portfolio because you’re generating excess money in your real job. In that case, you absolutely should have a team to help you from the beginning.

If your real job is going that well, the last thing you want to do is jeopardize that income. You can’t afford to be distracted from what you do for a living.

I want our landlord clients to do what they do best and get help from people like us, who do what we do best.

If you’re a dentist with a thriving practice generating excess cash to invest, please consider doing us all this favor. Be the absolute best dentist you can be and find yourself the absolute best property manager you can find. Your property manager can’t work on teeth, and I guarantee you’re not nearly as good at managing your properties as they will be.

If you want to automate your rent collection and get on with your life, surround yourself with professionals who manage the property for a living.

Stage Two

If you are in stage two, you find that:

You misjudged the amount of personal time, and effort investing in residential property requires. Your quality of life is slipping away.

We see this all the time.

The most rewarding thing about our job is seeing the relief and, in some cases, the sheer joy in the eyes of one of our investor clients who realizes they just got their life back.

Stage Three

Moving on to stage three of mindset seven:

You muscle through each month and try to keep a brave face. You hope that appreciation will make it all worthwhile, but you have doubts.

Here we're back to muscling through the month to break even. The bills and the mortgages are paid, but there's no positive cash flow to build a cushion, much less to build wealth with over time.

In stage three, the bleeding has stopped, but there is no hope that the situation will get better. Breaking even is the status quo, and the hope is that one day you can sell the property for more than you paid for it.

There's nothing wrong with hoping for, or even planning for, appreciation. Nobody wants to plan to take a 'loss' on a future sale. However, I want my clients to make money every month. I want to make sure their return on investment comes from the monthly rent, less expenses first, and that appreciation on a future sale is a bonus.

I believe that Mailbox Money is where it's at. If we make more money in the future because we are able to sell at a nice high price versus what we paid for it, then that's gravy. That's a bonus.

Stage Four

Here is the dream:

You have a team of professionals at your disposal looking after your properties as if they owned them. You are free from day to day tasks.

Professional property management is the best investment a landlord can make to ensure long-term profitability and growth for their portfolio.

Your relationship with your property management team needs to be so good that you never think of it as a cost. You think of it as an ongoing investment in building wealth for the future.

Find a licensed team of brokers and agents who specialize in management and do it full time. Watch out for agents or brokers who manage part time or 'on the side'. Find a team that loves what they do and is passionate about the work they do for their landlords.

That’s the easiest path to automating your rent collection and getting on with your life.

Mindset Number Eight
Keep Your Why in Mind

Your ultimate goal is an annuity you can count on in good times and bad. Real estate is essential to your diversified portfolio.

Getting rich is never easy and seldom quick, so we start at stage one.

Stage One

Maybe your 'Why' started in stage one:

You watched a late-night infomercial on TV and jumped into investing with both feet. It seemed like a great way to get rich quick.

My 'why' started like this.

Twenty years ago, as I was thinking about transitioning from the corporate world to being an entrepreneur, I read the book ***Rich Dad Poor Dad*** by Robert Kiyosaki. This book made real estate investing sound easy to me. So easy, in fact, that when I quit my retail management job on Long Island and moved back home to Ohio, I expected to quickly create monthly income by investing in rental property.

I jumped in with both feet and failed miserably. It took me 10 years to figure out how to do right. I learned the hard way that profiting from being a landlord is infinitely harder than the late-night infomercials on cable tv would have us believe.

There are few shortcuts to success. Investing in real estate is no different. Fortunately, we real estate investors have time on our side. In many cases, what seemed like a bad buy soon after purchase, can become a pillar of your portfolio a few years down the road.

Stage Two

If you score yourself in stage two:

You thought your rental properties would supplement your income today. That was why you got into this in the first place.

Unless you own your rental properties free and clear, it's highly unlikely you're going to enjoy any real mailbox money out of the gate. You have to understand and plan for ALL of the expenses you will incur. You have to do the math and trust the numbers over your gut instincts.

And always remember and never forget:

The bank gets paid first.

Stage Three

Here is stage three:

You heard about someone just like you making a killing in real estate. You didn't want to miss out. Fortunately, your primary income keeps you afloat.

FOMO (Fear Of Missing Out) is the worst reason to invest in anything - real estate included. Investors in stage three usually eagerly jumped in and soon found out they made a mistake. Fortunately, they have the resources and time to turn it around.

People in stage three are not in any immediate danger of losing their property, but they had little real world rationale for buying it in the first place. They saw other people buying real estate, and seemingly successfully, so they thought they would give it a try.

They were not clear on their "why' when they got started. Just because you can afford something does not mean you should buy it. This type of complacency can put your long term financial security at risk no matter how well off you are today.

Stage Four

Here we are at stage four, the ultimate goal.

Your ultimate goal is an annuity you can count on in good times and bad. Real estate is essential to your diversified portfolio.

I love the idea of an annuity I can count on forever. My ‘why’ has always been Mailbox Money.

I’ve been through many highs and lows in my real estate investing career, but at this point, I am confident that my portfolio will get me to my ‘why’. I love being able to help our investor clients realize their ‘why’ as well.

Here is a quick summary of ideas that will keep you aligned with your ‘why’:

- Watch your numbers and be realistic about what is possible and how long it will take. Anything is possible with enough time.
- Be prepared to do a lot of small things right every single month. We are not building rockets here, but execution is critical.
- You will be much happier and make more money if you invest in a team of professionals that will look after your properties as if they were their own.
- Focus on what you do best. For most of our clients, investing in real estate is about diversification, not about a new career. Don’t jeopardize your ability to excel in your chosen profession.

My wish for you is Mailbox Money without lifting a finger. I want you to automate your property management and get on with my life.

Final Thoughts

If you’re an experienced real estate investor, I hope this book reignites your excitement for creating wealth over time. If you’re new to the game, I hope this book gives you some food for thought about the potential downsides.

Real estate investing can negatively impact other areas of your life if you let it. Sometimes I forget how complicated this business can be because we’re fortunate to have property managers in our company who make it look so easy.

They make it look easy because they are doing what they do best. Doing what they do best allows you and me to do what we do best, both personally and professionally.

To anybody who reads this book, I wish you the ability to move confidently forward on your path to financial independence and a full and happy life.

What To Do Next…

Now that you have learned the eight profitability plays you need to run your real estate business and get on with your life, your only decision is to continue on the path you're on now; or explore a better way forward.

ROOST Real Estate Co. can be your better way forward.

Step 1:
Download our free worksheet 'Is Professional Property Management For Me?' at **www.IsPM4Me.com** to review which areas of the business you enjoy and which are a chore.

Step 2: Visit **www.ProfitabilityPlaybookScorecard.com** to complete your Landlord Profitability Playbook Score online, and learn how Chris and his team approach rent collection, structure property management teams, and the Start As Day One monthly mindset.

Step 3:
Schedule a free Portfolio Review with one of our local property managers to understand just how much stress professional property management can take off your plate. Visit
www.PMPortfolioReview.com
to get started.

Real estate investors often think of professional management as an expense they can't or just don't want to afford. The truth is professional property management is an investment that frees you up to build even greater wealth.

Scoring Your Mindsets

Now it’s your turn to complete your scorecard.

The guidance below reinforces the descriptions within each chapter.

While looking at each of the mindsets, see which of the options resonates with you, then, within that option, pick a score that represents how developed you feel.

A 1,4,7,10 would indicate your weakest acknowledgement of this option, and a 3,6,9 would mean you are almost at the next stage, and it is easy to see where you can make the transition.

The scorecard offers a subjective assessment of your development. If you are at point 12, you are completely focused on that mindset, whereas if you are at point 10, there is room for improvement.

By scoring yourself on a quarterly basis, you can make improvements in the quarter. You can assess your position and then set your objectives and focus for the next quarter.

If you have any questions about your scorecard, our process, or the ways we can help you, please call Chris at **844-806-6577** or email **Chris@ROOSTRealEstateCo.com**.

Mindset One: Automate Your Rent Collection	
You spend too much time chasing tenants and personally collecting the rent. You hear new excuses every month and could write a book.	1
	2
	3
You have learned much since you bought your first property. If you could find the space to start over, you know you could make it all work.	4
	5
	6
You strong arm and harass your tenants every month until they pay. You don't like playing the heavy, but you've gotten used to it.	7
	8
	9
You set proper expectations for yourself and your tenants upfront. Your systems are so good your properties seem to manage themselves.	10
	11
	12
Score:	
Goal:	

Mindset Two: Start as Day One	
Your cash flow is so tight that you accept partial rent every month. Your tenants will never get current, but you can't afford to evict them.	1 2 3
You feel like Bill Murray in Groundhog Day the first week of every month - but it's not as funny. You know there has to be a better way.	4 5 6
You do the best you can with the time you have. You could do better, but you don't have the resources you need to simplify the job.	7 8 9
You approach every month as a fresh start. Your team collects your rent, posts notices, creates punch lists and files your evictions.	10 11 12
Score:	
Goal:	

<table>
<tr><th colspan="2">Mindset Three:
Rehab to the Neighborhood Standard</th></tr>
<tr><td rowspan="3">You do as little as you can get away with when it comes to repairs and maintenance. You know your tenants won't appreciate it anyway.</td><td>1</td></tr>
<tr><td>2</td></tr>
<tr><td>3</td></tr>
<tr><td rowspan="3">You really don't know how much things cost or how to evaluate a bid. You are at the mercy of every contractor you call. You hate this part.</td><td>4</td></tr>
<tr><td>5</td></tr>
<tr><td>6</td></tr>
<tr><td rowspan="3">You feel the only way to avoid getting ripped off is to do the work yourself. You have a great relationship with the cashiers at Home Depot.</td><td>7</td></tr>
<tr><td>8</td></tr>
<tr><td>9</td></tr>
<tr><td rowspan="3">You collect and evaluate at least two bids for every rehab project you undertake. You separate labor quotes from materials.</td><td>10</td></tr>
<tr><td>11</td></tr>
<tr><td>12</td></tr>
<tr><td>Score:</td><td></td></tr>
<tr><td>Goal:</td><td></td></tr>
</table>

Mindset Four: Market Purposefully	
Your marketing strategy is to put a sign in the yard and place an ad on Craigslist. Your phone rings so often you stop answering.	1
	2
	3
You want to attract better applicants, but you don't know where to begin. You need a system that cuts marketing time and costs.	4
	5
	6
You are unsure of the market-rate rent in your neighborhood, but as long as you have cash coming in, you feel fine.	7
	8
	9
You benchmark your marketing and advertising against the most successful investors, you know. Your systems are fool-proof.	10
	11
	12
Score:	
Goal:	

Mindset Five: Select Applicants Strategically	
You rent to any applicant that shows up with enough cash to move in.	1
	2
	3
Your tenants never finish out their lease and never leave the property ready for the next tenant. This was supposed to be easier.	4
	5
	6
Your properties are vacant longer than you would like because you have learned the hard way that you have to wait for the right tenant.	7
	8
	9
You have systems in place to 'screen-in' those applicants most likely to pay their rent on time without running afoul of fair housing laws.	10
	11
	12
Score:	
Goal:	

Mindset Six: Track Your Numbers	
Your rent is often paid in cash, and your income and expense records are incomplete. You may be a good credit risk, but you cannot prove it.	1
	2
	3
You have the information you need to file your tax returns accurately, but you have no idea what your true return on investment (ROI) is.	4
	5
	6
You are confident that your books and records are in order, and you are receiving all benefits due to you at tax time.	7
	8
	9
You receive an income statement with detail by property each month. You measure the profitability of each property against your plan.	10
	11
	12
Score:	
Goal:	

<table>
<tr><th colspan="2">Mindset Seven:
Build a Self-Managing Team</th></tr>
<tr><td rowspan="3">You have given up and would sell everything if you thought you could pay off the mortgages. Real estate investing was a big mistake.</td><td>1</td></tr>
<tr><td>2</td></tr>
<tr><td>3</td></tr>
<tr><td rowspan="3">You misjudged the amount of personal time and effort investing in residential property requires. Your quality of life is slipping away.</td><td>4</td></tr>
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<tr><td>12</td></tr>
<tr><td>Score:</td><td></td></tr>
<tr><td>Goal:</td><td></td></tr>
</table>

Mindset Eight: Keep Your Why in Mind	
You watched a late-night infomercial on TV and jumped into investing with both feet. It seemed like a great way to get rich quick.	1
	2
	3
You thought your rental properties would supplement your income today. That was why you got into this in the first place.	4
	5
	6
You heard about people just like you making a killing in real estate. You didn't want to miss out. Your primary income keeps you afloat.	7
	8
	9
Your ultimate goal is an annuity you can count on in good times and bad. Real estate is essential to your diversified portfolio.	10
	11
	12
Score:	
Goal:	

Your Profitability Scorecard

	Score	Goal
Automate Your Rent Collection		
Start as Day One		
Rehab to the Neighborhood Standard		
Market Purposefully		
Select Applicants Strategically		
Track Your Numbers		
Build a Self-Managing Team		
Keep Your Why in Mind		

Total:		
Date:		

About the Author

Chris McAllister is a licensed real estate broker in Ohio, Florida, and Tennessee. He is the founder of ROOST Real Estate Co. a full service residential real estate sales and property management company.

Chris's passion is creating and coaching business opportunities and strategies that support and add value to real estate investors.

Chris is the author of several books on the real estate brokerage business and real estate investing. Check out Chris's Amazon.com author page at **CMcAllisterAmazon.com**.

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