

BUYING PROPERTY WITH TENANTS INCLUDED  
CAVEAT EMPTOR  
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You have just written an agreement of sale to buy a great duplex (or bigger), and it is fully rented. Is that better than having to renovate and rent it out? Of course, it can be, since you have no up-front renovation costs, and income the first of the month. But there are several important things to watch for.

First, your agreement of sale should include a requirement that you obtain copies of all leases and a rent roll including a history of rent payments for each tenant and the balance of each security deposit. Make sure the tenants pay, the security deposits are held and the leases used are plain language leases. If the leases are not, have the seller change over to your plain language lease before you buy.

Next, make sure all tenants in buildings built prior to 1978 have gotten the lead paint disclosure and pamphlet, or have the seller do that and get you proof before closing.

Next, think about when you want to close. The end of the month is easiest for prorations, but that means the seller is going to get most of your rent checks for the next month. Think about closing on the 15th. You get ½ a month's rent from the seller, you get 2 weeks to get notice to tenants before they have to send another rent check, and probably 45 days until your first mortgage payment is due.

Also ask the seller if they have tenant information, like phone numbers, employment and emergency contact information for existing tenants. If not, get that, social security numbers and authorization to pull credit on all existing tenants.

Another important issue is utilities. Sometimes, it can take a week or more to approve a commercial gas or electric account. You want a smooth transition, so work on these things early.

You can also verify the budget or actual payments and see if they match the seller's expense records or don't match, changing your profit margin.

Next, make sure you know all contracts for grass cutting, snow removal, on site coin laundry, heating and air conditioning service and similar things before you take over, and which you will continue or cancel. This avoids confusion.

Your "takeover" letter to tenants should confirm rent and security deposits, tell them where to send rent payments, and where to call for maintenance and other issues.

If you do all of these things, takeover of 2 or 20 tenants can be relatively smooth. If you don't, "CAVEAT EMPTOR", Buyer Beware.