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# First-Time Landlord Starter Kit

Treat the rental like a small operating business, not a side quest. The first year is won or lost on underwriting, screening, lease language, deposit handling, and whether you keep enough cash for the next problem before it happens. This guide gives a first-time landlord a practical system for cash flow analysis, tenant screening, lease must-haves, state deposit rules, maintenance reserves, eviction documentation, insurance choices, and Schedule E recordkeeping so the property can produce steady income instead of surprises.

If you only remember one idea, make it this: rent collected is not profit. Profit is what remains after vacancy, repairs, insurance, taxes, legal work, and time. A serious landlord writes the numbers down first, screens consistently, and creates paperwork that holds up when the tenant relationship gets awkward. That is how you protect the asset and your own bandwidth.

## 1. Foundation

A good rental decision starts with underwriting, not optimism. The three metrics that matter most are net operating income, cap rate, and cash-on-cash return. NOI is the annual income left after vacancy, repairs, insurance, taxes, maintenance, and management, but before debt service and income tax. Cap rate equals NOI divided by property value and helps you compare one property to another on an unfinanced basis. Cash-on-cash return measures annual pre-tax cash flow against the actual cash you invested, which tells you how hard your down payment and closing costs are working.

New landlords often make the mistake of looking only at gross rent or the mortgage payment. That misses the real load. A \$2,000 rent check can vanish quickly if the roof needs attention, the tenant turns over, the city adds a licensing fee, or the vacancy lasts six weeks. A better base case includes realistic vacancy, turnover costs, routine maintenance, a reserve for capital work, and a margin for legal and administrative time.

If the deal is still attractive after those items, you have something worth considering. If it only works with perfect occupancy and no repairs, it is not a rental strategy; it is a wish.

Operating the property like a business also means putting legal and insurance basics in writing. Security deposits are governed by state law, not by whatever seems reasonable to you. Lease clauses need to cover rent due dates, grace periods, late fees, utilities, access, pets, guest limits, repairs, subletting, and move-out obligations. You should maintain a monthly reserve of **\$100-\$200 per unit** for routine maintenance alone, then keep separate cash for larger capital items such as appliances, paint, flooring, and exterior systems. Landlord insurance is different from homeowner coverage because it is designed for rental exposure, liability, loss of rent, and vacant periods. Finally, all of the income and allowable expense detail should be organized for Schedule E so tax time does not become a forensic reconstruction project.

## 2. Step-by-Step System

1

### **Build the underwriting snapshot**

Start with the actual numbers: purchase price, down payment, loan terms, interest rate, property taxes, insurance, HOA dues, utilities paid by the owner, vacancy assumption, routine repairs, capital reserve, and any management fee. Then calculate NOI, cap rate, and cash-on-cash return using conservative assumptions. If you do not know the vacancy rate or repair load, assume more pain, not less. A property that still works with a 5% to 8% vacancy assumption and a real maintenance budget is more likely to survive the first year. Write the figures in one place so you can compare the current deal with a different unit or with the same unit after a rent increase.

2

### **Screen tenants the same way every time**

Create a written screening process before you need it. Ask for identity verification, income documentation, employment verification, landlord references, and permission to run the checks you are allowed to run under local law. Use the same standards for every applicant so you do not create a discrimination problem or a fairness problem. A common benchmark is gross household income of about three times monthly rent, but income alone is not enough. Look for payment history, stable employment, sensible communication, consistent addresses, and a complete application. If a file is thin or the story changes from one conversation to the next, treat that as a warning sign. Inconsistent screening is one of the fastest ways to create future eviction work.

3

### **Write a lease that closes the gaps**

Your lease should spell out the financial and behavioral rules you want enforced without ambiguity. Include rent amount, due date, grace period, late fee, returned-check fee, utilities, who handles lawn care or snow removal, pet rules, occupancy limits, guest limits, entry notice, repair reporting, smoke and carbon monoxide compliance, subletting limits, and what counts as unauthorized property damage. Add a clause for move-out condition, key return, and forwarding address. The goal is not to look tough; the goal is to remove guesswork so both sides know the standard before the first problem appears.

4

### Track security deposits under state law

Security deposit rules differ by state on the maximum amount you can collect, where the money must be held, whether interest is owed, how soon you must provide move-in paperwork, and how quickly you must return or itemize the deposit after move-out. Some states require separate escrow treatment or specific written disclosures. That means your deposit workflow should be state-specific, not copied from another landlord. Build a checklist for collection, receipt, account location, deductions, photos, invoices, and final deadline. The safest pattern is to document the condition thoroughly at move-in, inspect promptly at move-out, and itemize deductions with receipts instead of estimates whenever possible.

5

### Budget for maintenance and insurance correctly

Set aside a maintenance reserve of **\$100-\$200 per unit per month** before you get tempted to spend all the rent. That reserve covers the ordinary churn of valves, locks, patches, minor appliance issues, touch-up paint, cleaning, and small emergency calls. Separate that from capital replacement funds for larger items that last more than a year. Then review your insurance line by line. A landlord policy usually covers the rental structure and liability exposures that a homeowner policy does not, and it may include or exclude loss of rent, vandalism, and vacant dwelling protection. If you are self-managing, the difference matters because one serious claim can erase several months of cash flow.

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### **Handle eviction and taxes with records**

Eviction is a legal process, not a shortcut for frustration. Know the notice requirements in your state, keep records of late rent, communications, repair requests, lease violations, and every notice you send. Never do anything that looks like self-help, such as changing locks or cutting utilities, because those actions can create liability. If the case reaches court, your documentation should show the lease, the rent ledger, the notices, and the timeline. At tax time, organize ordinary expenses, repairs, interest, insurance, travel, legal fees, advertising, and depreciation records for Schedule E. A clean ledger makes it easier to defend deductions and easier to see whether the property is truly producing the return you expected.

## **3. Key Worksheets & Checklists**

This section is the working file. Use it to translate the guide into numbers and compliance steps that match your state and your property. The first card gives you a cash-flow worksheet, the second card is your tenant-screening checklist, and the third card keeps deposit, insurance, repair, and tax records in one place so you can answer questions without recreating the file from scratch.

## 1. Cash Flow Worksheet

<b>Gross monthly rent</b>	List the full contract rent before vacancy or concessions.
<b>Vacancy allowance</b>	Use a realistic percentage based on neighborhood turnover and lease length.
<b>Other income</b>	Include pet rent, parking, laundry, or storage if it is recurring and documented.
<b>Operating expenses</b>	Taxes, insurance, HOA, utilities, repairs, lawn care, pest control, licensing, and management.
<b>NOI</b>	Gross income minus operating expenses before debt service.
<b>Cap rate</b>	NOI divided by property value or purchase price.
<b>Cash-on-cash</b>	Annual pre-tax cash flow divided by total cash invested.

- Use one conservative and one normal scenario.
- Separate repairs from capital replacements.
- Check whether the deal still works if rent is flat for a year.
- Record the break-even vacancy rate and the stress-case cash flow.

## 2. Tenant Screening Checklist

- Government ID and a completed application with current contact details.
- Income verification from pay stubs, employer letters, or bank statements.
- Rental history with landlord references and move-out dates.
- Credit report review for payment habits, collections, and large debt load.
- Employment stability and consistency between application and documents.
- Fair housing compliant criteria applied to every applicant the same way.
- Documented adverse-action notice or decline rationale if required by law.

Make the decision using the same standard every time. A system that is clear, documented, and repeatable is safer than one that relies on memory.

## 3. Compliance and Tax Record Sheet

<b>Security deposit law</b>	Maximum amount, holding method, itemization deadline, and return deadline for your state.
<b>Insurance policy</b>	Policy number, named insured, liability limits, loss-of-rent coverage, vacancy rule, and deductibles.
<b>Maintenance log</b>	Date, issue, vendor, cost, whether it was a repair or capital item, and whether photos were saved.
<b>Schedule E categories</b>	Rents, advertising, auto and travel, cleaning, commissions, insurance, legal, management, repairs, supplies, taxes, utilities, and depreciation.
<b>Reserve target</b>	At least \$100-\$200 per unit per month, with a separate balance for larger replacements.

## 4. Common Mistakes

### **Treating gross rent as profit**

Gross rent is only the top line. Vacancy, repairs, taxes, insurance, legal work, and turnover can turn a deal that looks strong on paper into a thin or negative cash-flow property.

### **Using a homeowner policy for a rental**

A standard homeowner policy is not built for tenant risk. If the property is leased out, confirm that the insurance matches the actual use of the building and the liability exposure.

### **Screening differently for each applicant**

If your process changes from person to person, your standards are harder to defend and your results are less predictable. Consistency protects both the business and compliance posture.

### **Ignoring deposit and eviction rules until there is a problem**

State deposit deadlines, notice timing, and eviction procedures matter most when a relationship goes sideways. Learn the rules before you need them, then keep your documentation ready.

## **5. Next Steps**

Take the completed cash-flow worksheet and decide whether this rental clears your minimum return after vacancy, maintenance, and financing. If it does not, revise the purchase price or rent assumption instead of pretending the numbers will improve later. Then confirm your state-specific deposit rules, set the maintenance reserve to at least \$100-\$200 per unit per month, and store lease, insurance, and tax records in one folder. If the property changes your broader budget, run the numbers through your budgeting tools and create a monthly review date so the operation stays disciplined.

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