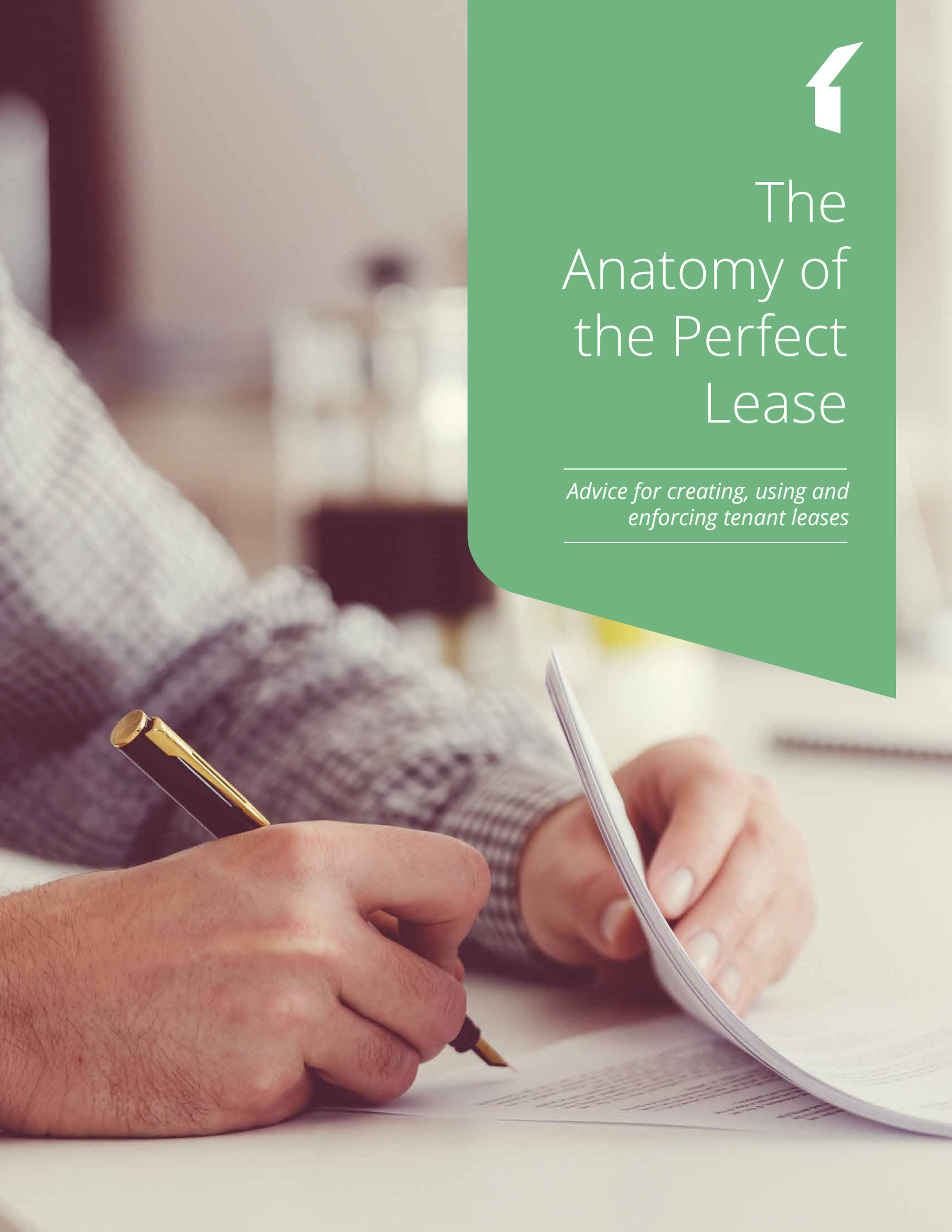




The Anatomy of the Perfect Lease

*Advice for creating, using and
enforcing tenant leases*





Your lease is the most important business document you have. A strong, well-crafted lease will help you avoid liability, protect you against damage and fraud, and can actually help you to be more efficient and profitable in your business.

But writing a strong lease can also be confusing. Most of us aren't lawyers, and leases can be complex and long. What must be included? What is okay to leave out? What aren't you adding that you should think about? How can you make sure you create a lease that will be enforceable and binding?

On the following pages we will break down all the components of a good lease, and we will unpack the six key qualities to consider as you design your own.

Please note that this guide will not offer a specific template for a lease, though those are available in our Buildium solution. It is more of a checklist for elements and qualities. It is also intended as a general guide and not a substitute for legal advice.

WHAT IS A LEASE?

Whether you use a lease template you got online or you crafted your own, it's probably no secret that you need a lease of some kind when you rent your properties.



LEASES ARE CONTRACTS THAT LAY OUT EXPECTATIONS SUCH AS:

- The length of the time the lease will apply for
- How many people will live on the property
- The amount of rent and deposits and fees tenant will pay
- Who pays for utilities and services
- The penalties and fines tenants must pay for violations
- Whether the tenant may have pets or smoke on premises, etc
- Responsibility or permissions for improvements and maintenance
- Whether the tenant may sublet or rent the property short-term
- Who pays attorney or court fees if there is a lawsuit regarding the lease
- The terms of landlord or property manager's access to the property



Rental Agreements vs. Leases

What's the difference between a rental agreement and a lease? A rental agreement is for short term tenants (often 30 days). It is usually automatically renewed at the end of the period unless either the renter or landlord ends it with written notice. These are month-to-month rentals, and the landlord can change the terms with notice. By contrast, a lease is a contract that grants a renter the right to occupy a rental unit for a specific period of time (often 6 months, or a year) as long as the tenant complies with the terms. The landlord cannot raise the rent or change those terms unless the tenant agrees.





THE ANATOMY OF A GOOD LEASE

THE BASICS

Here are seven basic components that should be in every lease:

1. Identity of the property manager
2. Address of property
3. Description of property (parking, storage etc)
4. Additional facilities included (pool, gym, etc)
5. Names of all tenants
6. Limits on occupancy (tenants and minor children)
7. Note that lease contract represents entire agreement

TERMS

Here are four critical elements to ensure terms are set and rent is paid in full and on time.

1. Amount of rent due
2. Day of the month rent is due
3. Conditions of future rent increases
4. Provisions for lease renewal
5. Length of the lease
6. Term type (see sidebar)

LEASE TYPES

- **Fixed Leases** are leases that have specific start and end dates.
- **Fixed with Rollover Leases** are fixed leases that will move to At Will lease upon expiry.
- **At-Will Leases** (aka Month-to-Month) have start dates but no end dates and can be cancelled by either party with agreed-upon notice.

LEASE

BASIC RENTAL AGREEMENT OR RESIDENTIAL LEASE

This Rental Agreement or Residential Lease shall evidence the complete agreement between the undersigned parties, who have agreed, Landlord/Lessor/Agent, _____, referred to as "OWNER" and Tenant(s)/Lessee(s), _____, referred to as "RESIDENT."

As consideration for this agreement, OWNER agrees to rent _____ to RESIDENT for use solely as a private residence, located at _____ in the city of _____.

1. **TERMS:** RESIDENT agrees to pay in advance \$_____ per month on _____ agreement shall commence on _____ and continue, (check one):
A. _____ as a tenancy for years. Thereafter it shall become a tenancy at will from the expiration of this time period; he shall not be a tenant for years if the expiration of this time period is not a day of the month. RESIDENT agrees to pay OWNER the sum of \$_____ per month for the term of this agreement.

B. _____ as a month-to-month tenancy until _____ giving a written notice of intention to terminate at least 30 days prior to the expiration of this agreement.

2. **PAYMENTS:** Rent and/or other charges are to be paid at each place or _____ All payments are to be made in cash or by check payable to _____ OWNER acknowledges receipt of the First Month's rent of \$_____, and additional charges for _____ All payments are to be made payable to _____

3. **SECURITY DEPOSIT:** The total of the above deposits shall secure this agreement and shall be refunded to RESIDENT within _____ days of the expiration of this agreement, less any amount necessary to pay OWNER, as may appear on a written statement of damages to premises and/or contents upon move-out. A written accounting of damages to premises and/or contents shall be provided to RESIDENT within _____ days of move-out. If deposits do not cover such damages, RESIDENT shall immediately pay said additional costs for damages to OWNER.

4. **LATE CHARGE:** A late fee of \$_____, (not to exceed _____ % of the monthly rent) shall be assessed if rent is not paid on or before the _____ of the month. Any balance due shall be subject to an additional fee of \$_____.

5. **UTILITIES:** RESIDENT agrees to pay all utilities and/or services for _____

6. **DEFAULT:** Guest(s) staying over 14 days without the written consent of this agreement. ONLY the following individuals and/or animals, AND no other animals, shall be allowed to stay on the premises for more than 14 days without the expressed written consent of OWNER: _____

7. **PETS:** No animal, bird, fish, reptile, and/or pet of any kind shall be kept on the premises, without obtaining the prior written consent and meeting the requirements of this agreement. OWNER's option upon giving a 30-day written notice is granted to have a pet and/or animal of any kind, on condition that the pet and/or animal shall be registered along with additional monthly rent of \$_____ along with the Agreement. RESIDENT also agrees to carry insurance against damages that may be caused by such animals.

OBLIGATIONS

Include these sections to clarify who is responsible for what on the property.

1. Responsibility for utilities and services
2. Details about services (trash, recycling, landscaping)
3. Responsibility for preventative maintenance
4. Responsibility for minor or major repairs
5. Joint and individual liability for tenants

RULES & REQUIREMENTS

Conditions of a continued lease should account for behavior and help limit your liability.

1. Occupancy or guest limitations
2. Restrictions on smoking
3. Restrictions on illegal behavior
4. Definition and restrictions on disruptive behavior
5. Conditions of alterations (painting, construction)

LEASE

BASIC RENTAL AGREEMENT OR RES

This Rental Agreement or Residential Lease shall evidence the complete agreement between the undersigned parties, whose signatures appear below have agreed. Landlord/Lessor/Agent, _____, referred to as "OWNER" and Tenant(s)/Lessee(s), _____, referred to as "RESIDENT."

As consideration for this agreement, OWNER agrees to lease to RESIDENT the premises located at _____, in the city of _____, State of _____.

1. **TERMS:** RESIDENT agrees to pay in advance \$_____ per month. This agreement shall commence on _____ and continue, (check one)
 A. _____ as a tenancy at will. Thereafter it shall become a month-to-month tenancy from the expiration of this time period, he shall not be liable for the premises prior to the expiration of this time period, he shall not be liable for the premises prior to the expiration of this time period, he shall not be liable for the premises prior to the expiration of this time period.

B. _____ on a month-to-month tenancy until _____, giving a written notice of termination to terminate at least 30 days prior to the expiration of this time period.

2. **PAYMENTS:** Rent and/or other charges are to be paid at each place of business _____, All payments are to be made in cash or by check, OWNER acknowledges receipt of the First Month's rent of \$_____, and additional charges for _____, All payments are to be made payable to _____.

3. **SECURITY DEPOSIT:** The total of the above deposits shall remain in escrow with OWNER until the expiration of this agreement and shall be refunded to RESIDENT within _____ days of the expiration of this agreement, less any amount necessary to pay OWNER, or any unpaid rent, or cost for repair of damages to premises and/or contents, or any other charges legally allowable under the terms of this agreement. A written accounting of the deposit shall be provided to RESIDENT within _____ days of move-out. If deposits do not cover cost of damages, RESIDENT shall immediately pay said additional costs for damages to OWNER.

4. **LATE CHARGE:** A late fee of \$_____, (not to exceed _____% of the monthly rent) shall be assessed if the rent is not paid within _____ days of the due date. Any delinquency shall be subject to an additional fee of \$_____.

5. **UTILITIES:** RESIDENT agrees to pay all utilities and/or services for _____.

6. **OCCUPANCY:** Guest(s) staying over 14 days without the written consent of this agreement. ONLY the following individuals and/or animals, AND no more than 14 days without the expressed written consent of OWNER: _____.

7. **PETS:** No animal, bird, fish, reptile, and/or pet of any kind shall be kept on the premises, without obtaining the prior written consent and meeting the requirements of this agreement. ONLY the following individuals and/or animals, AND no more than 14 days without the expressed written consent of OWNER: _____.

COMPLIANCE

Ensure that your lease complies with local, state and federal laws.

1. Additional clauses to account for local or state ordinances
2. Right of entry conditions
3. Legal disclosures (e.g. lead, bed bug and mold provisions)
4. Early termination clause (both parties provide in writing)
5. Triggers for lease default by tenant
6. Severability clause (one aspect being illegal, the rest of the lease is still binding)

CHARGES

Be sure to clearly lay out all financial obligations or penalties.

1. Amount of security deposit
2. Terms for handling and return of security deposit
3. Conditions for forfeiture of security deposit
4. Handling of first/last rent
5. Charges for late rent
6. Fees and fines

ADDENDA & CLAUSES

1. Subleasing addendum (subletting, Airbnb etc)
2. Pet addendum
3. House rules addendum
4. Renter's insurance addendum
5. Furniture addendum
6. Incentives addendum (referrals, recycling etc)
7. Surrender of premises clause for move-out

LEASE

BASIC RENTAL AGREEMENT OR RES

This Rental Agreement or Residential Lease shall evidence the complete agreement between the parties whose signatures appear below have agreed. Landlord/Lessor/Agent, _____ referred to as "OWNER" and Tenant(s)/Lessee, _____

"RESIDENT." As consideration for this agreement, OWNER agrees to _____ agree to rent lease from OWNER for use solely as a private residence, _____ in the city of _____

1. **TERMS:** RESIDENT agrees to pay in advance \$ _____ per month on agreement shall commence on _____ and continue (check one) A. _____ as a household. Thereafter it shall become a month-to-month tenancy from the expiration of this time period, he shall that the Residence is occupied by an OWNER approved paying RESIDENT's residence is located.

B. _____ on a month-to-month tenancy until giving a written notice of intention to terminate at least 30 days prior to the

2. **PAYMENTS:** Rent and/or other charges are to be paid at each place on _____ All payments are to be made in cash or by check. OWNER acknowledges receipt of the First Month's rent of \$ _____ and additional charges for \$ _____ All payments are to be made payable to _____

3. **SECURITY DEPOSIT:** The total of the above deposits shall secure this agreement and shall be collected to RESIDENT within _____ days of execution here any amount necessary to pay OWNER, or any unpaid rent, or cost for repair of damages to premises and/or contents same above collect legally allowable under the terms of this agreement. A written accounting RESIDENT within _____ days of move-out. If deposits do not cover cost immediately pay said additional costs for damages to OWNER.

4. **LATE CHARGE:** A late fee of \$ _____, (not to exceed _____ % of the payment of rent) shall be collected after the _____ of the month. Any balance due and subject to an additional fee of \$ _____

5. **UTILITIES:** RESIDENT agrees to pay all utilities and/or services for _____

6. **OCCUPANCY:** Guest(s) staying over 10 days without the written consent of this agreement. ONLY the following individuals and/or animals, AND residence for more than 10 days unless the expressed written consent of OWNER.

7. **PETS:** No animal, bird, fish, reptile, and/or pet of any kind shall be kept on premises, without obtaining the prior written consent and meeting the requirements, shall be acceptable at OWNER'S option upon giving a 30-day notice. Permission is granted to have a pet and/or animal of any kind, on condition shall be required along with additional monthly rent of \$ _____ along with Agreement. RESIDENT also agrees to carry insurance against appropriate damages that may be caused by such animals.

6 KEY QUALITIES OF A GREAT LEASE

There is more to a great lease than simply language. It's as important to set up consistent, bullet-proof processes around leasing and communicate them to your employees.



Here are six qualities every leasing process should possess:

1

ACCESSIBLE

If your lease process is convoluted and difficult to access, it will slow you down and be hard to enforce. Consider taking these measures to ensure accessibility.

- **Paperless leasing** - Use an end-to-end online leasing process, (such as the one included in the Buildium solution) that lets you write, share, sign and store leases with information on each property, and which will help you to screen tenants, track violations and flag lease renewals.
- **Understandable language** - Just because your lease is a legal document doesn't mean it should be written in complicated legalese. Using plain and clear language will help tenants to understand it, and make them less likely to violate it, unintentionally.
- **Store and make available** - Archive copies of signed applications, leases and any addenda in your property management software, and be sure those stored leases are shared with and accessible to tenants, if they need to reference them.



2

CONSISTENT

Establishing and practicing consistency in leasing practices will not only protect you legally, it will also help your staff to be more efficient and potentially profitable. You will create routines that allow you to batch processes and you will also minimize exceptions that slow down staffers and require signoff. Here are some things to consider.

- **Templates** - Use lease templates and a pre-written set of potential addenda for all of your leases so staff will always know what policies are. Migrate existing leases to these templates. Every variation from the norm is a tax on your time.
- **Exceptions** - There will always be certain exceptions, but if you anticipate and write out policy for those exceptions, and charge convenience fees where applicable, you will empower staff to make quick decisions and to respond accurately.
- **Dates** - Make all rents due on the same day of the month. This will reduce confusion in collecting late fees, and will enable staff to batch process and save time.
- **Keep leases up to date** - If your leases are old, be sure you periodically review to be sure they still adhere to the law and work with your tenants and clients to push to a standard set of documents.



3

TRANSPARENT

Another important quality to have in leasing, both for efficiency and to avoid legal trouble, is transparency. Here are a few ways to ensure that your leases stay clear and transparent to all.

- **Rent payment options** - Make sure your tenants are given clear options for paying rent. Studies show that ever-increasing numbers of clients are looking to pay rent online or via credit/debit card. If you provide this option on your tenant portal, you can not only take the confusion out of payments and ensure more timely deposits, but you might be able to charge minimal transaction fees that enable you to pay for your property management software.
- **Fees and charges** - Be sure your lease includes any fees or charges for services or facilities. You don't want to confuse or sour tenants by implementing extra fees later which will be difficult to enforce or track.
- **First and last month's rent** - Be sure that if you charge first or last month's rent, or a security deposit your lease spells out the conditions of those payments. How much notice is given to invoke last month's rent? How will those monies be managed and banked, according to law? Spell it all out for tenants so there can be no confusion.
- **Rent receipts** - If you will be providing rent receipts, be sure to say so, in your lease. Providing such receipts is a good practice and easy to do automatically if you are using a property management software solution, such as Buildium.
- **Violations** - Finally, your lease should spell out the exact repercussions of violations, whether that be a violation fine or something as serious as eviction. You don't want to find yourself in a legal battle with a weak lease, or in a position where you are trying to enforce fines you have not previously communicated. Likewise, if you have a fine in your lease, it is critical that you collect that fine consistently. An unenforced lease is a weakened lease.



4

PROFITABLE

There is no shortage of altruism in the housing and real estate industry, but even the biggest-hearted of property management firms will admit the need to operate efficiently. But most leases are not written in ways that help us to be as efficient and profitable as they could be. Here are a few things to consider.

- **Fees and fines** - Establish a consistent set of fees across all your properties and then enforce them with no exceptions. This will help you to clean up accounting, leave you less open to legal action, and help pay back the time and effort that violations can cause. Consider:
 - Application fees
 - Late payment fees
 - Pet fees
 - Electronic payment surcharges
- **Clarify fees** - Check with local regulations, but things such as pets can be more advantageous to charge as monthly fees, rather than one-time deposits which may need returning. This is especially true if you sustain monthly costs to maintain things such as smoking areas or dog parks.
- **Bundle leasing fees** - Most property managers offer optional services to fill vacancies, and charge a per-vacancy fee when they fill the unit. Typical fees range from 50-100% of one month's rent, and any application fees are separate. Consider bundling a low leasing fee of a few more percentage points of rent into your management fee. This will ensure regular revenue for you, and reassure owner clients that you will be working to find the best, most stable long-term tenants, rather than being incented to turn property over annually.



5

SECURE

- **Be compliant** - This cannot be overstated: Be sure you are compliant with local, state and federal law, or you put yourself at risk and may invalidate your lease. In case of accidental oversight be sure to include a statement in your lease that will serve as a severability clause. This will state that if one aspect of the lease is deemed illegal, the rest of the lease is still binding and cannot be invalidated.
- **Clarify termination conditions** - Be sure your lease spells out what actions will result in a breach of the contract on the part of the tenant, and also under what circumstances and with what repercussions tenants might terminate the lease.
- **Screen carefully** - Manage risk from new residents by ALWAYS screening tenants using all three data types: criminal record, former evictions and credit score.
- **Rescreen on renewal** - When it comes time to renew, consider rescreening your tenants. Tenants' circumstances may have changed since initial lease signing and rescreening (with renewal screening fee) is a safe way to ensure they are still a good bet.
- **Automatic renewals and alerts** - Ensure that renewals are easy and frictionless for you and your staff by investing in a property management solution (such as Buildium) that will alert you when leases are coming up for renewal, and handle the heavy lifting of documentation, screening and storage.
- **Require renter's insurance** - See next page.



RENTER'S INSURANCE

Renter's insurance is mandatory in some states, but even if it is not mandatory in yours, you might consider making it a condition of your leases. Here are five reasons:


1. **It protects you from lawsuits.** Tenants with insurance are less likely to seek damages from landlords.
2. **It limits your responsibility.** When you are dealing with your own damage, this gives tenants a way to recoup losses.
3. **It helps screen tenants.** If a tenant refuses to sign up for insurance, this could be a red flag that they cannot afford the rent.
4. **It may extend to cover your deductible.** Renter's insurance is typically far lower a threshold than homeowners insurance.
5. **It reduces bickering and bad blood.** Having a responsible third party will put you and your tenants together as allies if something should befall you.

6

ETHICAL

Finally, you want to be sure that your lease is fully ethical and follows fair practices, ultimately making you and your tenants and owners feel good about the contract, and increasing trust. Here are a few final words on that.

- **Tenant rights/Fair Housing** - Be sure you get legal advice on your lease to ensure you are following fair housing laws and being respectful of tenant's rights.
- **Security deposits and escrow** - Be sure you spell out in your lease how money will be handled. Follow not only the letter but the spirit of the law, when it comes to escrow accounts and fiduciary responsibility, and when handling tenants' money.
- **Practice trust accounting** - Do not co-mingle funds and always maintain separate bank accounts and ledgers.



Leasing and writing leases can feel like a complex business, but if you keep in mind these guidelines and lean on experienced legal advisors and technology partners, you can be sure that your leasing process is fast, efficient and secure.

To learn more about how leasing works within the Buildium solution, please contact our customer success team. If you are new to Buildium, give us a call today at 877-396-7876. We'd be happy to show you how it works!

ABOUT BUILDIUM

At Buildium, we understand property management because we are property managers. That's why we're trusted by more than 15,000 property and association managers worldwide, with over 1 million units under management. When you're ready to take your business to the next level, we're here to help with intuitive software and relentless support.

Attract and keep tenants with the best services possible. Try Buildium FREE.

Give us a call today at 877-396-7876 or visit our website to [schedule a demo](#).

SIGN UP



REQUEST A DEMO
www.buildium.com/contact-sales



READ OUR BLOG
www.buildium.com/blog



VISIT OUR WEBSITE
www.buildium.com/



CONTACT US
877.396.7876 or sales@buildium.com



SIGN UP FOR A FREE TRIAL
www.buildium.com/free-trial/



Buildium®
Property Managed.



© 2018 Buildium LLC | 5.18