The Complete Guide to Renting for First-Time Landlords
A Step-by-Step Look at Becoming a Landlord and Managing a Rental Property

LAWDEPOT™
About This Guide

According to the US Census Bureau, approximately 31.5% of US households are occupied by renters.

While there is a risk with any type of investment, rental property is one of the most stable types of assets to have in your portfolio. Between regular cash flow from tenants, real estate appreciation, and tax benefits, obtaining another property is well worth it for its long-term investment potential.

Although owning a rental unit has its benefits, it still requires a great deal of hard work to manage a business. As you will soon find out, there is a considerable amount to learn before taking the leap to become a landlord.

In this guide, you will find information to help you through each stage of renting—from setting up your rental property to signing a Lease Agreement. Keep it on hand during your tenancies and refer to it when needed.

Types of Rental Property

Residential property refers to any dwelling located in a residential area, including single- or multi-family homes. Rental property comes in many shapes and sizes, and may only include a portion of a larger residential property.

The most common types of residential rental property include:

- House
- Apartment
- Condo
- Townhouse
- Mobile Home
- Basement Suite
- Duplex
- Room

When renting out any of the above spaces to a tenant, you may allow them to use the backyard, garage, or parking stall as well. For property located in a shared building, such as a condominium or apartment, the hallways, walkways, entrance ways, laundry room, garbage disposal, and other common areas are shared by all occupants, and aren't owned or rented by one tenant.
Pros and Cons of Owning a Rental Property

The Benefits of Rental Property as an Investment

Investing in a rental property is one of the smartest ways to generate stable, long-term income.

It also offers several other benefits, including:

**Tax perks:** Rental property isn't subject to self-employment tax like other home businesses unless you've formed a corporation, in which case you would file corporate taxes.

Rental properties also benefit from depreciation, which can be deducted from your taxable income from the rental property each year to account for wear and tear to the property. Depreciation reduces the amount of tax you pay on rental income, but may increase your capital gains tax after selling the property.

Along with depreciation, landlords can also claim many deductions for their business, including property insurance, mortgage interest, advertising, property tax, maintenance fees, and much more.

**Property appreciation:** It's generally safe to say that the value of real estate increases over time, meaning that it appreciates. When it comes time to sell, sellers pay taxes on the appreciation, also called capital gains. Although property value depends on supply and demand, real estate purchased in the right location can sell for a decent profit.

**Cash flow:** Renting a property provides a regular cash flow for as long as there is a tenant paying rent. Each month you receive a rental payment and the money you make after paying your mortgage, utilities, and other bills is yours. The income you generate from a rental property is also more predictable than other investments, such as a traditional business, because a rental payment provides consistent cash flow that is higher than a typical dividend.

As you can see, owning a rental property has a high potential for profitability and long-term success. While you won't get rich overnight, it's a wise way to invest in your future.
Renting out your property and managing tenants both require time and a financial investment. Your decision to become a landlord should reflect your future goals, and be informed by market conditions and projected home prices so that you have a solid plan before getting started.

Should I Rent Out My Property?

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The Downsides of Owning an Investment Property

Nothing is without its downsides, and that goes for renting out a property as well. When you purchase an investment property, the initial cost of purchasing the property is high, even without any additional costs to fix up the space for tenants. Because you are paying your mortgage with rental income, unexpected changes, such as low rental demand or unreliable tenants, could affect your ability to make monthly mortgage payments.

Other potential downsides of investing in, and managing, rental property may be:

**Liquidity:** Depending on the market, your rental property can take a long time to sell.

**Lack of diversity:** As an investment, real estate is a concentrated asset, which means if something happens to it, your money is tied up in that one investment, as opposed to several small investments.

**Unpredictable tenants:** As mentioned above, if a tenant suddenly stops paying rent, damages the property, or moves out without notice, you may experience a temporary income loss.

**Time and management:** Managing tenants, communicating with contractors, handling maintenance—this all takes time and energy. While owning rental property may be considered a passive investment, it’s a hands-on job for a landlord.

**Expenses:** Owning property costs more than the purchase price. When you factor in property taxes, insurance, and other fees, such as a Homeowner's Association (HOA) fee or repair costs, your expenses can add up.
Ask yourself these questions to find out if you’d excel as a real estate investor:

- Do I have the time to commit to managing a rental property?
- Am I comfortable dealing with potentially difficult tenants?
- Can I make repairs myself or do I need to hire a professional?
- Am I organized?
- Do I understand my tax obligations?
- Am I familiar with my state’s landlord-tenant laws?

A mentor who is familiar with managing investment property can provide a wealth of information and knowledge to help you develop a strategy to get started in the rental market. Consider asking other real estate investors about their experiences to learn about the business of renting, to see if you would be a good fit for the job, and to maximize your chances of success.

Getting Started as a Landlord

Zoning Laws

Zoning laws can have a significant impact on a landlord and their rental property. In a nutshell, zoning laws keep residential and commercial areas separate from each other, so residents aren’t living in the middle of a noisy industrial area.

Before purchasing a property, it’s important to investigate your local zoning laws to see whether or not they will affect your rental property. An area zoned for one type of land use may later be changed, so be aware of future developments that could affect your property. For example, property in a residential area might be changed from one zone class to another, due to factors such as sprawling, which could impact your property value and your ability to find tenants.
Preparing Your Rental Property for Tenants

Once you have chosen to rent your property, you must take steps to prepare it for tenants. The condition of your rental will affect whether or not it's ready for occupancy.

In order to remain competitive, you'll need to make your rental unit appealing to tenants. This should include fixing any known problems, complying with your local zoning laws, and upgrading the property to make it more enticing, comfortable, or aesthetically pleasing.

From the foundation to the roof, check to make sure everything is working and that your property meets municipal and state housing codes. It's better to tackle renovations before a tenant moves in, both for safety reasons and to avoid coordinating improvements around their schedule.

See the list below for what you should do to get your property rent-ready:

- Check all appliances to make sure they work, including the oven, dishwasher, and washer/dryer
- Test smoke detectors and CO2 detectors
- Repair any problems, such as holes, water leaks, pests, etc.
- Give the walls a facelift with a fresh coat of paint
- Replace or clean flooring
- Upgrade fixtures and/or window treatments
- Clean each room thoroughly, including hard-to-reach spaces, such as cabinets and other storage areas
- If you have steps or stairs in the unit, ensure they are strong and safe to use
- Hire a professional to check that all electricity, heating, and plumbing are working properly
- Ensure that doors, gates, and windows have working locks
- Eliminate any bad odors
- Landscape front and back yards, gardens, etc.

Above all, the rental property must be safe for a tenant. If you are renting a basement suite, you must adhere to specific safety regulations. For more information about setting up a secondary suite, contact your local municipality.
A property manager handles all of these responsibilities and more. They do charge a fee for their services, but depending on your availability, it can be worth the money to avoid daily landlord duties. Whether you choose to hire a property manager will depend on your financial situation and the amount of time you can dedicate to managing your rental.

Although a property manager might not be feasible if you are only renting out one property, landlords with several rental properties find them useful for shouldering a portion of the responsibility.

Other reasons you might hire a property manager:
- You live far away from your rental property
- You’re not interested in managing a rental property
- You don’t have enough experience to successfully manage the property. In that case, a property manager can help ensure you are renting legally.

House Insurance

Insuring a home you reside in is different from insuring a property you use for rental purposes. As a landlord, you may already have homeowners insurance on your rental. While this may provide some protection, a landlord insurance policy may be more aligned with your needs as it may offer coverage for liability on the property or damage by the tenant. Contact your insurance provider to ensure you are getting the correct coverage for your property and that it’s classified as a rental.

Should I Hire a Property Manager?

By now it’s clear that managing a rental property can be hard work. You must be available to your tenants in case of any problems or emergencies, as well as take care of the day-to-day landlord tasks, such as collecting rent and paying property bills. If you think you could use some assistance, consider hiring a property manager.

What is a Property Manager?

A property manager is an individual or firm who is hired to oversee and manage a rental property and its tenants. They are actively involved with the property and perform tasks such as:

- Screening tenants and negotiating lease terms
- Discussing leasing and property rules with a tenant
- Collecting rent or other fees
- Arranging for repairs, maintenance, and upkeep
- Paying bills, assisting with taxes, and managing a budget
- Enforcing rental rules and policies
- Setting rental rates and advertising the property
- Issuing notices
- Handling move-in and move-out inspections
- Record keeping
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### How to Find Tenants

### Staging Your Rental Property

Once your property is up to code, it's time to prepare to show it to tenants. Hopefully, you have fixed any problems and spruced up the property's exterior (if possible) to make a good first impression. It's also best to stage the inside of the suite with neutral colors and fixtures to accommodate a wide array of styles and tastes.

If you need help, enlist a professional cleaner or decorator to set the mood and stage the property. The condition and “feel” of your space will affect its desirability and how fast you will fill the vacancy.

### Advertising Your Rental

Marketing your rental property starts with taking quality photographs of each room in the space. From there, you can begin writing your rental ad.
You will need to determine:

- Your rental price and if it includes utilities
- The square footage of your property
- What you are charging as a security deposit (usually equal to one month's rent)
- Availability and length of the lease term
- Whether you will allow smoking or pets
- If there are any additional incentives, such as parking
- Information about the neighborhood and surrounding areas
- How you wish to be contacted

Write a clear rental advertisement that describes the rental property and covers price, location, length of the lease, and incentives. Picture your ideal renter and target them in your ad. Your goal is to make your property stand out from the others while still communicating everything a potential tenant needs to know to inform their choice.

There are many places you can advertise either free or paid. Some of your options include:

- Online classified ads
- University housing boards
- Word of mouth through family and friends
- Social media
- Renting bulletins or apartment listings
- Newspaper ads
- A rental sign on your property
- Community bulletins, such as at a grocery store or recreation center
- Listing the property with a real estate agent

If you use quality photos, and an engaging headline and rental description, you might start getting calls immediately from potential tenants. How you proceed with the process can depend on the volume of people expressing interest.

Many landlords will schedule appointments and show the property to anyone who is interested. Another option is to hold an open house at a set date and time, where you allow people to come by to view the property.
Screening Applicants Using a Rental Application

Before narrowing down your choice of tenant, it’s important to do your due diligence and collect information about who will be living in your rental property.

A Rental Application allows you to collect a prospective tenant's contact information, as well as:

- Their employment history and income
- Their rental history
- Credit information
- References

Like a job application, you can then review the information they have provided to determine whether they would make suitable renters. Typically, you would assess if they have a stable income and a good credit score to see if they are responsible and earn enough money to pay rent.

Speaking to previous landlords can offer insight into a tenant’s rental history, specifically if they made rental payments on time and if they were a respectful renter. Researching a tenant prior to leasing is a very important step that can save you from issues down the road.

When screening tenants for your property, you are held to the Fair Housing Act, which prohibits you from discriminating against tenants based on age, sex, race, religion, etc. The Americans with Disability Act serves a similar purpose by ensuring that landlords make reasonable accommodations for any tenants with a disability.

After checking the candidate's background and deciding they are a good fit, you can put the wheels in motion to begin your paperwork.
When a Tenant Moves in

Pre-Move in Checklist

You’ve prepped your property, advertised your rental, screened potential tenants, and settled on a renter. What’s next?

The next steps involve nailing down the details of the tenancy and communicating with the tenant to arrange a move-in date and inspection. Before moving day, you have to get a Lease Agreement in place. Use this checklist to make sure you don’t miss anything important.

To do before the move-in date:

- Clean the property
- Create a Lease Agreement, go through the terms, and sign the agreement
- Change the locks and cut an extra set of keys
- Provide your tenant with your contact information
- Collect the first month’s rent, security deposit, and pet deposit or fee, if required
- Conduct a rental inspection with the tenant and sign the report. Provide them with a copy.
- Test lights, appliances, fans, locks, and smoke detectors with the tenant present
- Provide the tenant with bylaws or condo rules, if applicable
- Transfer any utilities to the tenant’s name, if applicable
- Determine the best method of communication for both parties

Your State Landlord-Tenant Laws

Renting a property creates a business relationship between a tenant and a landlord, which is governed by landlord-tenant laws and the Lease Agreement. Each state has its own laws regarding rental property, so it’s important that you review the laws in the state where your property is located or contact a local attorney for advice on your specific renting situation.

By learning about tenant rights and state landlord-tenant laws, you can ensure you are following the best practices to avoid any future legal battles with your tenant.
Your Lease Agreement

A Residential Lease Agreement is a roadmap that will not only guide the relationship between you and your tenant, but also set the rules for your residential tenancy.

A Lease Agreement also:

- Protects you from liability
- Prevents confusion over terms, rules, or situations
- Prevents conflicts or issues that arise from misunderstandings
- Provides a written outline of the tenancy for recordkeeping purposes
- Offers a demonstrated understanding and agreement to the rental terms
- Sets out the procedures for notices and eviction
- Keeps expectations clear
- Protects a tenant’s rights

Need a Lease Agreement for your Rental Property?

Get Started

Types of Lease Terms

The lease term is the length of time that the tenant is expected to rent the property under the terms of the Lease Agreement. There are two types of terms:

A fixed term tenancy is one where there is a set end date for the tenancy. Generally, these types of tenancies last 6 months or 1 year from the time the tenant moves in.

An automatic renewal (or periodic) lease term is one that continues to renew each month or year until one of the parties chooses to terminate the agreement.
Permissions in a Lease Agreement

As a landlord, you get to make decisions about what will and will not be allowed in your rental property. These are called permissions, and commonly address matters such as pets and home improvements.

Consider what you are comfortable allowing in your rental property and ensure you address it in your Lease Agreement.

Some of the different types of permissions include:

- Will you allow all kinds of pets, or only certain pets? Will you charge a pet deposit or fee?
- Will you allow the tenant to make improvements to the rental property, such as painting the walls?
- Will you allow smoking in the rental property?
- Are home businesses permitted in the rental property? (Often, home businesses are a zoning issue, and depending on the size and income of the business, it may or may not be permitted.)
- Will other occupants be allowed to stay in the rental property?
- Will the tenant be allowed to sublet or assign the Lease Agreement?

Determining Your Rental Price

To set a rent price, you will need to figure out your monthly costs to run the rental property. Think about your mortgage payment plus any additional expenses you are covering, as well as condo or HOA fees. Once you have your monthly figure, look at nearby rentals of comparable value to set your price.

When you advertise your rental property, the price will be the main factor in drawing tenants and getting a leg up on your competition. If you wish, you can also leave room to negotiate your price.

Beyond rental price, ask yourself if you will be charging a fee for late rent payments. Some states have restrictions on how much you can charge, but in general, it shouldn't be an unreasonable amount.
Another element of price is utilities, such as electricity and water. Should you include them in the rent price or make them the tenant's responsibility?

The following questions can guide your research when deciding whether to charge for utilities:

- Do rentals in the building or surrounding neighborhood include utilities in their rent?
- Is your rental property in an attractive neighborhood where charging utilities would not affect demand?
- Would charging utilities deter tenants or does it offer them an opportunity to save?
- Are tenants more likely to abuse the utilities if they don't have to pay for them?
- Would making tenants responsible for utilities change their usage?
- Does the building have a master meter or are utilities divided by suite?
- Would installing energy-efficient light bulbs, low-flow toilets, or sealed windows help lower the cost of utilities?

**Landlord and Tenant Rights and Responsibilities**

A Lease Agreement spells out each party’s obligations during the tenancy. There are responsibilities each party must adhere to by law.

Tenants are responsible for:

- Following the terms of the Lease Agreement
- Paying rent on time
- Taking reasonable care and maintaining cleanliness of the rental property
- Not disrupting neighbors
- Complying with building rules
- Properly disposing of trash

Landlords are responsible for:

- Complying with building/housing codes
- Making sure the property is clean, safe, sanitary, and all repairs are conducted in a timely manner
- Following responsibilities laid out in the Lease Agreement, such as maintenance of the structure and the appliances
- Maintaining the infrastructure for plumbing, electrical, heat, water, etc. in the property
- Providing an area to dispose of trash
These are the basic duties for each party and help to define their roles within the tenancy. Depending on the Lease Agreement, the landlord or tenant may have additional responsibilities.

**Signing Your Lease Agreement**

Take these steps to execute your Lease Agreement:

1. Go through the Lease Agreement with your tenant, making note of any important provisions you want stressed during the tenancy, such as rent price or no pets.
2. Ask your tenant if they have any questions and whether they understand their responsibilities.
3. Sign and date the Lease Agreement.
4. Provide a signed copy of the Lease Agreement to your tenant and retain a copy for your records.

**Maintaining Your Rental Property**

After your tenant has moved in, signed the rental contract, and paid you, you are officially in business as a landlord.

Although the tenant occupies the rental unit, it’s still your property and you will have ongoing responsibilities to your tenant and to the property, including repairs and maintenance.

**Maintenance and Repairs**

A tenant must keep the property in clean condition, but it’s generally the landlord’s responsibility to attend to any maintenance and repairs on the property, unless the Lease Agreement states otherwise and it’s allowed by your state’s landlord-tenant laws.
Repairs can include a broken dishwasher, fridge, toilet, and much more. Once a tenant has informed you of a problem that needs fixing, you must take care of it within a reasonable timeframe. If it’s affecting their ability to live comfortably in the property, such as a broken-down furnace, leaky shower, or broken window, you are expected to deal with it quickly.

Outdoor maintenance, such as shoveling walkways, trimming grass, and removing debris from entranceways is important for the safety of your tenants and anyone else in the surrounding area. If you own a home and rent out the basement, it might still be your responsibility to trim the hedges, remove snow, etc. However if you are renting a single-family home, you can pass this responsibility onto your tenant as part of the Lease Agreement.

**Collecting Rent Payments**

Generating cash flow from your rental property is great, but in order to guarantee you receive payments in full and on time, you must have a system in place. This includes keeping a paper trail of your income.

What form of payment do you prefer? Try to accept rent payments in the form of check, money order, email transfer, or debit. These methods allow you to have a written record of the transaction.

You will also need to decide how you collect the rent. Will it be by mail, online, or in person? Or will you collect post-dated checks to cash on the first of every month? Work out an arrangement that suits you and your tenant, and after you receive payment, remember to provide them with a receipt.

**Managing Your Rental Finances**

Remaining organized as a landlord is imperative. Now that you have a small business, you will need to separate your personal finances from your business finances and develop a filing system, such as a spreadsheet, to manage your cash flow. A filing system will allow you to keep a close eye on your income and also plan for any future expenses, such as renovations, repairs, property taxes, insurance, and so on.
Tracking your income and expenses also allows you to oversee how much money is going into your rental property and how much it’s generating. Keep a savings fund for emergencies or to account for unexpected expenses, such as having a vacant property for a couple of months.

Organizing your small business finances will pay off when filing your annual tax return because you will have already kept a detailed breakdown of all your expenses and income throughout the year to report to the government.

Landlord and Tenant Notices

A notice is a form of written communication given from one party to the other, whereas a notice period is an amount of time one party must give to another before performing an action.

While it’s landlords who typically issue notices, tenants can as well. Review the following notices to know which you may need in any given situation:

**Tenant Notices**

- **Notice of Termination**: Provides a landlord with notice that a tenant is going to terminate a tenancy.
- **Notice to Repair**: Notifies a landlord of any repairs that need to be made to the rental property.
- **Intent to Vacate**: Informs a landlord of a tenant’s wish to vacate the rental property once the lease term is over.

**Landlord Notices**

- **Notice to Pay or Quit**: Gives notice to a tenant to pay any outstanding rent payments with the option to evict a tenant if they don’t pay.
- **Notice of Termination**: Notifies a tenant that they won’t be able to renew the tenancy.
- **Notice of Lease Violation**: Warns a tenant of a lease violation. If they don’t remedy the situation, the landlord has the option to evict the tenant.
- **Notice of Rent Increase**: Provides a tenant with notice that their rent will be increasing.
Ready to Create an Eviction Notice?

Get Started

Evicting a Tenant

Not every tenant works out according to plan and there may come a time when you have to end your rental relationship and evict them from the property.

It may be possible to evict a tenant when they:

- Conduct illegal activity on the premises
- Pose a danger to you or to neighbors
- Breach the Lease Agreement
- Continue to make late rent payments, even after receiving written warnings
- Cause significant damage to the property

When issuing an eviction notice, it’s important to ensure that the message has been received by the tenant, either by delivering it in person or using a process server.
When a Tenant Moves Out

Move-Out Inspection

At the end of every tenancy, you and your tenant should complete the move-out portion of your Rental Inspection Checklist. This process allows you to note any damage done to property while the tenant was living there, so you can either return their security deposit or use it to repair the property. Remember, wear and tear doesn't count as damage.

When you are finished with your walk-through, there are a few things to take care of before bidding farewell to your tenant, including:

- Collecting the keys
- Signing the Rental Inspection Report
- Collecting a forwarding address for your tenant to deliver any future mail
- Asking for their feedback about their experience in your rental property, the building, neighbors, property, and more so you can improve aspects of your business for the next tenant
- Offering yourself as a reference for your tenant

What Makes a Good Landlord?

Aside from being a self-starter and having an entrepreneurial drive, a landlord should also be communicative, understanding, honest, and diligent in order to develop an effective and respectful relationship with their tenants.

Those who succeed in managing a rental property are adaptable and handle change with patience. Not everyone has the flexibility to do well in this role, but those who do use the good and the bad as learning tools to improve over time.
Are You Ready to Be a Landlord?

Excelling as a landlord doesn’t happen immediately. In fact, you might have to consistently review your progress in order to make the job more efficient.

Don’t let this deter you from going after your goal of owning an investment property. Anticipating the realities of being a landlord will better equip you for the job itself and you will notice your confidence increase as you become more comfortable with your new position.

By choosing to learn more about renting, you’ve already taken a big step to educate yourself on the risks and rewards of property investment. Now it’s your turn to put the knowledge to use and start your own real estate investment journey.
Rental Glossary

Here is a list of rental terms and definitions you should become familiar with before stepping into a landlord role.

**Landlord**: The party who rents property to a tenant in exchange for a rental payment.

**Tenant(s)**: One or more individuals who are listed on the Lease Agreement who agree to rent the property from the landlord.

**Lease Agreement (also known as Lease, Residential Rental Agreement, and Rental Contract)**: The contract that outlines the rental responsibilities of each party and governs the relationship between a landlord and tenant.

**Lease Term**: How long the tenant is expected to rent the property. It could be a fixed amount of time (1 year) or it could automatically renew each month.

**Rental Property**: The house, apartment, room, or other space that the tenant agrees to reside in and rent from the landlord.

**Occupants**: Individuals who live in the rental property but haven’t signed the Lease Agreement, such as minor children.

**Rent**: The regular rental payment the tenant has agreed to make in exchange for residing in the rental property.

**Security Deposit**: A refundable sum of money paid by the tenant to the landlord in case the tenant fails to pay the rent or fails to perform another obligation.

**Pet Deposit**: A refundable sum of money paid by the tenant to the landlord in case the rental property must be cleaned or repaired because of the tenant’s pets.
**Pet Fee:** A non-refundable sum of money paid by the tenant to the landlord for cleaning and repairing the rental property because of the tenant's pets.

**Late Fee:** A sum of money charged in addition to the rent payment if the tenant doesn't pay the rent on time.

**Notice Period:** A length of time that one party must provide to the other before taking an action. For instance, a landlord may be required to provide at least 24 hours’ notice to the tenant before entering the rental property.

**Utilities:** Refers to the collective charges of electricity, gas, water, etc.

**Maintenance:** General upkeep of the property and its surrounding areas.

**Rental Insurance:** Insurance coverage for damage to a tenant's personal property or for injuries sustained by others on the rental property.

**Improvements:** Any renovations or work done to the property to improve its look or enhance its characteristics.

**Environmental Disclosures:** Information a landlord must give to the tenant prior to moving into the rental property, such as whether the property has (or has a history of) mold, lead-based paint, or asbestos.

**Dispute Resolution:** The process taken to resolve any conflict between the parties, such as mediation or arbitration.

**Assignment:** When a tenant signs over all of their leasing obligations to a third party.

**Sublease:** When a third party agrees to occupy the rental property for the remainder of the lease term, but the original tenant is still responsible for the lease obligations.

**Rental Inspection:** A report indicating the condition of the rental property before a tenant moves in and after they move out. Usually, the landlord and tenant walk through the property together to record any damage.