

**HOW TO BE A LANDLORD  
IN A TENANT'S MARKET**

Ten Strategies for Survival  
in a Weak Rental Market.

**PHILLIP W. STORMS  
WESTMONT COMPANIES, INC.**

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Phillip W. Storms

## **How to Be a Landlord in a Tenant's Market**

### **Ten Strategies for Survival in a Weak Rental Market.**

The strategies described in this booklet are mainly for apartment owners; however, they also apply to other property types. If you own industrial, office or retail properties you need to use judgment as to whether or not these strategies are applicable to your situation.

**Strategy 1. Know Your Market.** In a landlord's market, just about any pricing strategy will keep your building occupied; however, in a Tenant's market, you need some basic facts to determine the best pricing strategy. First, you need to have a good handle on the overall vacancy rate in your neighborhood. If vacancies are above 8%, there is a high probability that rental rates are decreasing. If they haven't dropped already, they are quite likely going to. You can get vacancy data from your local apartment association. If you are not a member, you might consider joining or you might want to contact them regarding purchasing a copy of their most recent report. Since rental demand varies by location, it is much better to have a detailed report that gives vacancy rate by region than one giving the vacancy rate over a large metropolitan area. The Denver-Metro Apartment Association not only gives vacancy rate by sector but also includes average rental rates for each sector.

You can get more specific information by looking at ads in the newspaper or by calling for rent signs on properties similar to yours. You might want to make a list of similar properties in your area in order to exchange information with other owners. If you are not comfortable doing this, you might hire an agent to conduct a survey for you.

It is also helpful to know something about the state of the single-family home market. In markets with ample properties for sale compared to the rate in which properties are being sold, prospective tenants will have numerous buying opportunities and many will prefer to own a single-family home as opposed to renting your unit. In the Denver area, a strong single-family home market is one in which there is less than 4 months supply of properties available. When the supply exceeds 6-7 months, the market is one in which buyers and renters may have the upper hand.

**Strategy 2. Keep Your Property in Top Condition.** You might think this is a common sense statement and it should be; however, many owners and management companies are reluctant to take care of minor maintenance problems if occupancy levels are high and rental rates are satisfactory. Sometimes this strategy works to keep cash flow high and operating expenses low. Actually, it works until it doesn't. You will keep your worst tenants and lose your best ones. Periodic inspections and discussions with tenants followed by taking care of minor maintenance items will keep your occupancy high along with

your tenant quality. When a property that has been poorly maintained becomes vacant, you will have a choice as to whether to do the repairs and upgrading necessary to bring the property into above average or average condition or to try to rent it “as is.” While you may be able to rent a run-down unit, it will almost always stay vacant longer and bring lower rent. Even worse, the type of tenant you attract will be one that no one else wants. They are forced to accept lower quality units or, even worse, they don’t mind living in those conditions and you will almost assuredly get your unit back in even worse condition than it was when the lease was signed. In the worst case, some of your higher quality tenants may leave because they don’t want to live in a facility in which others residents don’t care for their own units. Keep a close eye on your property. Telltale signs such as oil or grease stains in the parking area, loose trash around the dumpster, or disabled vehicles are indicators that one or more of the residents is not motivated to care for the property. Investigate the situation and correct it as soon as possible.

**Strategy 3. Make Sure You Have a Good Lease Form.** A short-form lease from a stationary store will usually not offer sufficient protection for either the landlord or tenant. The local apartment association may have a form that offers sufficient protection, although you may have to customize it to fit your particular situation. Most real estate attorneys have residential lease forms that you can usually add clauses to in order to offer you more protection. As part of the package, you also need a good tenant application form. This form should inquire as to current landlord, place of employment, and monthly income. The form, once executed by the applicant, should give you permission to do a background check and obtain a credit report. It should also require a deposit and state the conditions under which the deposit can be retained. Most applications refund all of the deposit to the tenant minus a nominal credit report charge if the landlord does not accept the tenant.

In order to determine the clauses you may want to add to your lease form, consult a good attorney or property management firm. While attorney fees are not inconsequential, once you have a satisfactory form, it can be used each time you have to execute a new lease. When spread over several lease signings, the cost per use drops significantly. Make sure the lease spells out charges for rents received late and insufficient funds checks. A check received late which subsequently is returned can result in considerable inconvenience to the landlord, including insufficient checks in the landlord’s account. Serious penalties will help compensate the landlord for these inconveniences and deter reoccurrence.

**Strategy 4. Line Up a Good Eviction Attorney.** It’s a good idea to have an attorney specializing in evictions on your team. Some landlords prefer to file the documents themselves to save fees. This can save money but it can also cost you money if not done properly. It will also require a considerable amount of time

and energy. Since attorney fees for eviction vary widely, it is best to shop for an attorney before you need one. Check with other landlords, property management firms, or the apartment association for leads as to attorneys who are able to represent you in a cost-effective manner.

**Strategy 5. Add Amenities.** If you have several competing properties in your area, prospective tenants soon learn to play the game of running back and forth between owners to negotiate the best deal. If you tire of that game, another strategy might be to add amenities that appeal to tenants more than your competitors' lower price. Decks, patios, and covered parking may not get you a higher price from your current tenants but they will get you out of the game of competing on price alone. Obviously, you have to weigh the costs versus the benefits but there are very few costs that exceed that of a chronic high vacancy rate. Lowering rents to compete with competitive landlords lowers the market value of your units. Adding amenities raises your value. Think about it. I have given you a few suggestions as to how to improve your property to add tenant appeal. There is undoubtedly a whole list of other improvements you can make. What works best for you?

**Strategy 6. Lower Your Operating Costs.** While it may seem contradictory to suggest lowering operating costs right after suggesting you add amenities to increase the tenant appeal of your units, the two suggestions can exist in the same overall strategy. The trick is to look at those operating costs you can lower without reducing tenant appeal. For example, tenants have little incentive to help the owner reduce utility costs. In the current market, it appears that natural gas and water bills are bound to increase. In a tenant's market, it is virtually impossible to pass these costs to tenants in the form of increased rents. It is, however, possible to reduce these costs by checking the operation of heating and cooling units. Dirty filters, poor insulation, and cracks around windows and doors can be repaired at nominal cost. We have also revamped entire heating/cooling systems and recovered our costs in one year via reduced utility bills. Plumbing leaks can be very costly and, believe it or not, some tenants ignore a toilet that runs constantly or a severe bathtub leak. Regular inspections should be conducted to determine if these leaks exist. You may get clues as to potential problems by careful monitoring of your utility bills but there is no substitute for a good inspection to look for ways to lower your costs. Reducing operating expenses by \$100 a month may not sound like much but the \$1,200 annual savings increases the value of your property by \$12,000.

**Strategy 7. Lower Your Borrowing Costs.** It is not an overstatement to say that the greatest opportunity in the real estate market over the past two years has been the availability of cheap money. This gives you an opportunity to enhance your overall rate of return by collecting rents at 2003 rates and making payments at 1960's rates. Many investors have yet to take full advantage of these opportunities. Make sure you aren't one of them. In addition to increasing your cash flow (or decreasing your negative cash flow), lower mortgage payments

reduce your risks. You can pull out cash to add amenities as described in strategy 5 or to reduce other, higher cost debt. We always advise our clients considering a refinance to consider all of their debt and financial goals with the objective of restructuring debt in such a manner as to accomplish those goals.

**Strategy 8. Consider Hiring Professional Management.** Using professional management adds an additional expense; however, it may result in an overall expense reduction if the management company is able to save you money via increased occupancy and higher rents. If you aren't willing to spend the time to become thoroughly familiar with the market, make periodic inspections, and tend to tenant problems promptly, you should probably consider using professional management. The other benefit from professional management is that it gives you more free time to earn money at the things you do best or even to spend time with your family. (What's that worth?) Not all management companies are equal so you need to make sure the company you hire is up to the task. You need a management company that knows the management job is more than transferring a check from a tenant to an escrow account and then to you. If they don't know that their most important task is to maximize your cash flow, and ultimately your property value, you need to look elsewhere.

**Strategy 9. Sell Your Property.** There is an old adage in the investment business that says "*Cut your losses and let your profits run.*" This is a cliché that is easier to say than to follow; however, we occasionally encounter real estate investors that should never have invested in real estate. The stress of managing the property and making the decisions necessary to protect the investment may be too unpleasant. If you dread hearing the phone ring because you fear it is a tenant informing you that another toilet is plugged or your property manager telling you that a tenant has moved out leaving a cracked engine block from a 1973 Ford on the kitchen floor, you probably need to consider another, more passive, real estate investment strategy. Don't hang onto an investment (real estate or any other) just because you don't want to admit you made a mistake in buying it in the first place. Life is too short to continue beating yourself over the head because you picked the wrong investment.

**Strategy 10. Buy Another.** If you are making an acceptable return and like the fact that you can influence the value of your investment, you might want to consider buying another property, perhaps from a seller like the one described in Strategy 9. Real estate is an excellent wealth builder, particularly for higher tax bracket investors. It should always be considered as part of an overall diversified portfolio. You may want to consider adding another property or trading the property you have for a larger property. If you sell one stock to buy another, you must pay any taxes on the gain from the stock being sold, leaving you with a reduced sum to reinvest. You can change real estate investments with no tax obligation, allowing you to build wealth with money that would normally have gone to taxes.

**Who Is Westmont.** Westmont Companies is a family-owned company, founded

by Phillip Storms, CFP, CCIM in 1988. Our mission is to help our clients make effective real estate decisions. We have worked with clients in a variety of real estate endeavors from acquiring a personal residence to buying an office-warehouse. Susan Storms is in charge of our mortgage operation and qualified to help you make decisions as to the most suitable financing instrument for your home or 2-4 family residential property. James Gerhart is in charge of our real estate and property management company and is a registered appraiser. He can help you determine the value of residential properties you are considering buying or selling. Phillip Storms serves in a consulting capacity to all these operations and specializes in the acquisition, disposition, or financing of commercial-investment properties.

*This publication was provided by Westmont Companies, Inc. Feel free to contact us regarding any of the information contained in this booklet.*

*Our mission is to help you make informed real estate decisions. These may range from simple decisions involving refinancing or purchasing a home to complex investment decisions such as constructing a real estate investment portfolio.*

*For a copy of our semi-monthly newsletter also written by Phil Storms please contact us by phone or email to be added to our mailing list. Keep an eye on our website at [www.WestmontCompanies.com](http://www.WestmontCompanies.com) for frequent financial tips, market commentary, FAQ's and dates and times for other seminars or speaking appearances.*

*Of course, if you have any questions about the issues raised in this publication or any general real estate questions feel free to call us at 720/449-0200.*