

Landlord Strategies for a Slower Economy **by Robert L. Cain**

Layoffs, furloughs, cutbacks of hours: they are coming to your tenants. The phone calls: they will be coming to you, if they haven't already. "I just got laid off and don't have money for the rent right now." Then will come silence. We'll discuss how to fill that silence later on.

We'll also look at things you can do to head these situations off and counteract them, so you get the rent you are owed. Then we'll look at how to keep good tenants from being lured to other landlords' properties by promises of streets paved with gold, free satellite TV, no move-in costs and rent discounts.

Finally, we'll examine how to avoid walking right into problems with a tenant from day one.

Budgeting For Rent Payments

Housing costs are the most important debt you have. Mortgage companies aren't understanding at all if you tell them that you didn't get enough rent this month, so you don't have the money to make the payment on your rental property.

In order to get the rent on time so you can make your mortgage payments easily, you have to make sure that your tenants also believe that paying for housing is the number one financial obligation.

How do people decide who gets paid and who doesn't? It's a two-question process. The first question is "will it go on my credit report if I pay late?" The second question is, "will they hassle me if I don't pay this month?" So they lay their bills out on a table and look at them one at a time.

Gas bill - will they put a late payment on my credit report? No. Will they hassle me? Not for a few months, especially in the winter if the law says they can't shut off. Let that one go.

Visa bill - will they put a late payment on my credit report? You bet. Will they hassle me? Ditto. In fact I won't be able to charge anything more if I don't pay them for a month. Pay it.

Phone bill - why, that's like the gas bill. But, it didn't get paid last month, so I have to pay it this month.

And so they go down the pile until they get to. . .

The rent - will they put a late payment on my credit report? Nah. Will they hassle me? Nah, again. "In fact, if I call up and whine, beg, cajole and wheedle, I might get a couple of breaks out of my sap of a landlord. If I work it right, I might even get them to let the

rent go this month because I'm having so much trouble right now. My landlord's really sensitive to being made out to be a bad guy. Besides, he's rich, anyway. He doesn't need the rent money."

Which brings me to Rule #4: Landlords can always afford to wait. This is part of my speech "The Rules." Why? Because we're all rich and the rent is too high, anyway. That begs the question, why do tenants believe that? Because we encourage it. We don't want to be perceived as bad guys, the villains of the old melodramas, tying beautiful young maidens to the railroad tracks demanding the rent.

Another reason is that in order to talk to us they don't have to go through voice-mail hell, only to eventually reach a clerk who can't make a decision anyway. When they dial the phone they get a real person, someone who is able to make a decision, and will, if pushed.

Of course, there's at all nothing wrong with that. It's only when we let our availability become our Achilles Heel that it can cost us money and cause us grief. Because they can reach us easily, they can also whine, beg, cajole and wheedle easily too. And if they call often enough and wear us down, they might even get at least part of what they want to reduce and/or delay their rent payment. Oh, the glory of being a landlord!

You counteract that by encouraging, nay, demanding, budgeting for the rent from your tenants. You have to believe deep within your landlord psyche that the rent comes first. You don't care if their Visa bill gets paid, you don't care if their car payment gets made, you don't care if they can't take a vacation to Fiji this year; the rent comes first.

If you begin with that attitude, all the begging from tenants takes on a different meaning. You are thinking all during the whining, "No, you're going to pay the rent, and I don't care how, or you're going to move." You may soften some from that initial attitude, but if you don't start with it, your softening will less likely result in your getting the rent in full and close to on time.

Don't Be the Bank

Do you have a big sign outside your home or office that says Landlord National Bank? No? I don't either. If you work for a bank in your real job, I'll bet the bank you work for is strict about loaning money. You have to fill out forms and get credit reports, pay interest, and make the payments on time- or else. Yet, when we allow a tenant to pay the rent late, you are loaning money, but without the credit report, forms, interest and consequences.

Think about it. What if your tenant called you and asked for a loan of \$750 - just for two weeks, and she'll pay it back? Oh, and by the way, interest free. Would you do it?

If you would loan her the money, put your rental properties on the market today—all of them. Then take the money and put it in a money market fund (not a mutual fund until the stock market gets straightened out some). You have no business being a landlord.

Yet, when a tenant asks you to wait for the rent, isn't that exactly what you are going, loaning them money? Interest free? You have to take the cash out of your reserves to make the mortgage payment. What's the difference, except in the process, between that and writing the tenant a check for the amount of the rent, then having the tenant write you a check for the rent?

They want a nice place to live, and you can't provide it unless you have enough money to keep the place up - the rent comes first.

Okay, Bob, you say. That's all fine in a perfect world, but sometimes tenants just don't have the money, and they've been good tenants for a couple of years. They truly did fall on hard times, but they are good, resourceful people and will pull out of it soon. So what do I really do?

What if they can't pay, but "will be able to soon"? Two approaches work here to get your rent.

Promissory Notes

Have your tenant sign a promissory note for the rent. Understand the implications here, though. If the tenant signs the note, that is the rent.

If the tenant does not redeem the note, you cannot evict for nonpayment of rent. To get your money you have to either sue the tenant for the money or send the note to a collection agency. Chances are you would have no trouble getting a judgment on the note in court.

That can be an advantage to you, since the tenant will have none of the defenses in the landlord-tenant law to avoid paying the rent. So the tenant can't go to court and say the heat doesn't work right and, besides, there's a crack in the upstairs window, so I'm not paying the note. The judge would probably throw out that argument and rule in your favor (but, you can never be sure with landlord-hating judges).

Plus Interest

If you are loaning money with a Promissory Note, think about adding interest of, say, one-and-a-half or two percent a month, similar to what credit card interest is. After all, it is an unsecured note, meaning you can't repossess a car or anything to get your money.

One-Time Late Payment Form

Okay, so they can't pay the rent now, but they will be able to as soon as the first unemployment check arrives, in two weeks ("the state promised"). They have been good tenants for two-and-a half years and you sincerely believe that they are good for it. So you say okay, pay in two weeks.

In order to protect yourself, though, you have them sign a one-time late payment form. Why bother with all that extra paperwork? A couple of excellent reasons. First and

foremost, it doesn't set a precedent. One of the 16 ways that landlords commonly lose evictions is called "lulling." Here's how it works.

Suppose this terrific tenant has a change of attitude or fortune. You let them pay late one month, but from that day forward the rent is two weeks late every month. Their reasoning goes like this: here it is the first, why it's only two weeks since I paid the rent, and I can't pay the rent every two weeks, the landlord will just have to wait until the 15th. Same thing next month and the month after.

You don't say anything and you don't even demand a late fee. After all, they're having a hard time tight now. Finally, you've had enough.

The rent doesn't arrive by the fifth of the month, so you send a three-day notice to pay up or get out. The rent doesn't arrive by the eighth of the month and you file the eviction. About the 15th of the month the tenant brings the rent over and you turn it down. "Too late," you tell him, "you're out of here." The judge doesn't agree.

The tenant claims when you go to court that he thought it was all right to pay the rent late, since you'd always accepted it late before. What's the big deal this time? The judge rules that you had "lulled" the tenant into thinking it was okay to pay late. You have to accept the rent this time. Your one consolation is that from now on the rent had better be on time, because next time the court will not accept "lulling" as a defense for late rent.

It's businesslike and the tenant knows it's only one time.

Something interesting happens when two parties sign an agreement. First, there is no misunderstanding, if it's drawn properly, since it's all written out, right there. Second, it is businesslike. The more businesslike you are, the more your tenants will treat you as if you are in business, and not just the good old landlord whom you can always count on to accept rent late or "help out" some other way.

Don't Volunteer Anything

At the beginning of the article we described a ringing phone and a tenant saying "I just got laid off and don't have money for the rent right now." Then there was dead silence.

It is important at that point that you say nothing except "and?" or "so?"

Make the tenant ask for something specific, don't you volunteer anything.

A natural reaction for too many landlords is "well, I think I could let it slide for a couple of weeks."

Say that and you will almost be able to see right through the cord on the phone the tenant jumping up and down for joy saying to himself, "I only wanted two days."

Don't volunteer to work with tenants on rent payment arrangements, make them ask, and ask specifically. If you volunteer anything you are bargaining from weakness. In fact, don't even agree to anything right away. Your best reply is "I have to mull it over and run some numbers to see if it will work out." Then tell them you'll call them back the next day.

Meantime, the tenant is stewing about it, wondering if indeed he or she will get a break. If he or she thinks about it enough, he or she will become convinced that it's no deal and go looking for the rent money from someone else (or not). But it's more likely to happen if you don't give an answer immediately.

There's an old saying, "the first one who mentions money loses." Don't you be first to give anything away; make the tenant ask.

Keep Your Good Tenants

In slow times there isn't the turnover there is when the economy is booming. In order to get good tenants some apartment complexes will be offering a multitude of "move-in specials" to try to get tenants to switch. To keep good tenants you need to plan some counter attacks to thank the tenants you want to keep for making your properties their homes. It could be any number of things ranging from a gift basket to a free month's rent to the return of their security deposit.

Often the return of the security deposit is an excellent way to keep tenants from moving. (Mind you, do it only for good, long-term tenants.) What will the tenants do with the security deposit money when they get it? Stick it in the bank or spend it?

Chances are they'll spend it. Then, if they decide they want to move, where's the security deposit for their new place going to come from? It makes it financially more difficult to move if they have to borrow the money, doesn't it?

Vacancies

You have to look with extra vigilance at the people who want to rent your properties during a slow economy. Prospective tenants may have had to leave their previous home under fire. It could be they couldn't pay the rent at their old digs and have to leave in a hurry, or maybe they had their old home foreclosed. Lucky you - they come your way.

With any new applicants thoroughly check **their** job, last landlord, and credit references. You don't want to get stuck with someone else's trouble. Also, require if at all possible all rent and deposits before they take possession: no first month's rent now and the deposit in two easy payments. If you get all the money now, you are off on the right foot. They at least have enough cash to move in properly. Then, if you don't get the rent the next month, you have the deposit to cover it after you boot them out. Remember, better no tenant than a bad tenant.

Maybe the economy is slowing down; maybe there will be layoffs; maybe some tenants will have a harder time paying the rent. But if you handle it properly, you will keep the wear and tear on your bank account and nerves to a minimum.

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