

## **Cashflow is King – How to Profit in Challenging Times** by Patrick S. Simons

Since my previous article, “10 Strategies for Apartment Profits in 2009 and Beyond,” we’ve all experienced a spate of dire economic headlines. Undoubtedly, looking at just about any statistic from unemployment to commercial real estate occupancy levels to government deficits, the numbers don’t look even slightly encouraging for apartment profits either this year or beyond.

So, how do you buck that trend? Start by following the easiest one of my ten strategies - Review Operations.

This year, your success will begin with improving your cash flow. And that stronger cash flow will propel you to further profits in coming years. Yes, *cash flow is king!*

Do the math. Let’s say you’re refinancing. If you’re able to identify an opportunity to either cut expenses by \$50 per unit per month or enhance revenues by the same amount, you can justify another nearly \$7,000 in loan proceeds per unit based on a 6.00% rate, 30-year amortizing, and a 1.20 debt coverage ratio. Or about the same amount based on a 70% loan-to-value and a 6.00% cap rate.

If you’re looking to sell a property, that same \$50 per month per unit would translate into an additional \$10,000 of value per unit at a 6.00% cap rate and, of course, much more if you can achieve a lower cap rate.

Best of all, cash flow is the one thing *you can actually control* in this economic environment. But when is the last time you thoroughly reviewed each line of your monthly operating statements? Or, the last time you got a handle on competitive properties in order to ensure your leasing program was the most effective?

Now, I’m not talking about your property manager reviewing things. Even if you have a great on-site manager and regional manager, it’s hard for them to step back from their responsibilities of leasing, resident satisfaction, and staying on top of maintenance efforts. The most fruitful review of operations will be performed by you, the owner. If you’re not able to perform a thorough review either due to lack of time or expertise, get a review by an independent consultant.

Now that we have covered the “what” and “who,” let’s look at the “how” of improving your operating cash flow.

### **Service Contracts**

A lot of service providers who may have been busy with new construction work the past few years are now very eager to find new work. This is the lowest hanging fruit in your orchard of expense saving! Although you certainly ought to give your current service providers a fair shot at retaining the business, especially if you’re pleased with their work, bid out your contracts to a few others as well. Of course,

when doing this, make sure you evaluate the experience and references of the low bidder.

### **Landscaping**

In addition to reviewing the current landscape maintenance fees, take the time to assess the current state of your property's grounds. Are you wasting money every day on needless irrigation? A few adjustments to the irrigation system can save a lot of water and money. Also, consider replacing high-maintenance plants, those with aggressive growth habits or messy droppings, in order to reduce the ongoing labor and expense involved in caring for the grounds.

### **Pool Service**

If your pool is maintained by a third-party service, estimate the current workload of your maintenance staff. They may be able to take care of your pool internally with negligible impact to their schedules.

### **Maintenance**

Make sure your maintenance staff is ordering replacements from the most cost effective suppliers. As with the service contracts, make sure you assess the quality of the supplier's products before choosing the lowest cost parts. Also, remember to optimize your ongoing expenses, not just the initial cost. As an example, you may find that a certain type of light bulb has a higher marginal cost, but the energy savings when multiplied throughout your property over time will add up.

### **Add Services**

Look at the demographics of your current residents. There may be some additional services that you can provide for a nominal fee. This can range from something as simple as a vending machine near the pool to something as intricate as a full concierge service to assist with dry cleaning, pet care, and other needs.

### **Sub-Meter Water/RUBS System**

Depending on who your accountant is, this may be categorized as either expense reduction or revenue enhancement. Either way, it can be a real windfall if your property isn't individually metered for water. Not only might you be able to offset much of your current water and sewer bill but the system will help the environment by reducing your residents' water consumption.

### **Revenue Enhancement Software**

If your property is large enough, there are some software systems available that take the guess work out of rent pricing by analyzing your historical and current vacancies compared with those at competitive properties. Even if your property isn't large enough to justify the setup cost of formal revenue enhancement software, you can still implement the philosophy at your property by making sure that your manager is regularly checking in with the competition and making pricing adjustments as needed.

### **Redecorating Procedures**

The benefits of optimizing your redecorating procedures are really evident with a larger property. By reducing the down time for each vacant unit, you will incrementally add income one day at a time. And every so often, that day or two might mean the difference between getting a new resident in by the beginning of a particular month or losing that new resident altogether.

### **Short-Term Lease Premiums**

Answers to the following questions may add to your bottom line. Does your property manager routinely get requests for short-term leases? Are you charging as much as competitive properties for short-term leases? While you certainly don't want to have too many short-term leases, some renters need that kind of flexibility, and they're willing to pay for it.

### **Pet Rent Programs**

Man's best friend could be yours too. If you don't accept pets, check in with competitive properties to see how much they charge for dogs and cats. My past experience shows that between 15 and 30% of renters own a cat or dog. If you pursue the pet crowd, remember to collect a large enough deposit as well just in case Fido or Fifi makes a mess of the unit.

### **Applicant Screening**

A guaranteed way to put money in your pocket is to avoid leasing to the wrong applicant. Every eviction you don't need to carry out is money in your pocket. So, although more thorough credit checking and other screening mechanisms may cost you a little more up front, it will pay for itself and then some over time.

These tips will give you a good start toward increasing your cash flow. But remember they're just a start. Depending on your property, there may be many more areas where expenses may be reduced or revenues increased. And every dollar you save now will help you prosper even more when the economy does recover.

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