

When Does Spending Increase Profits?

by Shaya Stauber

Rents are down, vacancies are up and there is no sign the market will get better in the near future. The natural reaction when times are tough is to cut spending, but you need to fight this urge and spend more. Increase spending on things that improve the value of the building, attract new tenants and retain current tenants. This may sound ludicrous in a time when, (rents have dropped in some areas up to 50%,) many owners are barely making their mortgage payment and vacancies are destroying the bottom line, rather just the opposite.

The way to improve the bottom line is through spending. Why do landlords spend money when times are good? Many landlords were willing to throw money around two years ago when money was coming in and rents were at the peak. This was at a time when you had your pick of tenants and a vacancy had multiple applicants. Landlords were spending just because they had it not because it would increase profits or occupancy. If your pipes are working perfectly would you fix them just because you had money in the bank, and if they are broken - not fix them if money was short? There was nothing wrong with spending money when you had it, but to skimp when times are tough is shortsighted.

Spend when you need to - not just when you have extra money. Microsoft didn't have commercials before Apple started doing well and began advertising the MAC. Microsoft was the market leader and had plenty of money to spend, but they waited until it was necessary to start spending. Now they have real competition and they need to spend and even though times are tough, they are spending more.

Especially now, when times are tough – it may be necessary to spend some money marketing your building and keeping your clients (tenants) happy.

Upgrades and Amenities

There are many vacancies on the market so you need to set yourself apart without getting in a price war and lowering the rents. If the rent is dropped too low in a rent controlled building, it might take years to get them back to market. The trick is to set your building apart without lowering the rent.

Accomplish this by making upgrades to the units like new appliances, new paint on the cabinets, granite, new carpet, new landscaping, and other common area upgrades. Some of these items are expensive, but remember these are upgrades to the building, which will increase the value.

It's a numbers game and the more people who see the vacancy, the better the chances are of renting it. Having pictures and a floor plan/virtual tour available online will allow more people to easily view the unit. This is a one-time expense per unit type and it lasts forever. Offer an incentive for anyone who comes to see the unit - like a raffle, with the prize being movie tickets all the way up to a TV.

Once your potential tenants are looking at the apartment, make sure that it stands above the competition. Have amenities to offer for lease or as part of the unit. Some amenities you can offer are a TV, refrigerator or a fully furnished unit. These items may be expensive but they create value and help rent the units quicker and without lowering the price. There are many possible upgrades for the complex and the unit, and each building is unique, so look at your building to see where upgrades can be made. There are also some services you can offer in your building:

- Have a mobile car wash come to the building at night to wash cars;

- Have a local dry cleaner offer pickup and drop off for tenants or
- Add a vending machine.

Be sure to let the tenants know that these are amenities, and that the landlord is not responsible for the product. They should speak to each vendor if there is an issue. Don't let it become a headache but offer as many amenities as possible.

The ideal scenario is to stop a problem before it starts, like going to the dentist for a cleaning to avoid cavities. This is accomplished by retaining your existing tenants. Don't ignore existing tenants with the thinking that "my tenants aren't going anywhere - nobody likes to move". Tenants WILL move! There will then be down time and an avoidable vacancy. Be proactive; don't wait for your tenants to ask for a rent reduction. Tenants know the market, so first try to keep them happy without lowering the rent. The same advice goes for this - perhaps an updated kitchen or some other upgrade that sets you above the rest. Money spent on the building will increase the value if it's spent wisely. (*Always try to get a lease extension in exchange for the work being done.*)

Build Relationships With Your Tenants

Let your tenants know that you care. When a tenant feels like a person and not just a number on a rent roll, they will show more loyalty. A few ways to accomplish this is with holiday cards, a holiday party or some form of raffle for all tenants that pay rent on time. If tenants feel they have a relationship with the landlord, it will be harder for them to leave. Recognize how tough it is financially for most tenants and be as accommodating as possible. Don't have rules across the board that can't be broken; evaluate each tenant individually. If a tenant has a job that pays on the 5th, let him pay on the 7th. As long as the tenant is paying consistently on the same day and the money is not needed for the mortgage, be flexible. Offer credit card payments for rent. There are companies that provide this service and the credit card fee is paid by the tenant. This will allow the tenants to have up to a month to pay the credit card company and alleviate some pressure.

Create a Community

Having a community and not just a building will help retain tenants. If tenants are close to their neighbors and socialize with them, wouldn't they be more likely to stay than tenants who don't know anyone and have no ties to the building? Most interaction today is online, so people crave personal, face to face contact and the landlord needs to create a community to offer this desired interaction. Landlords can create the initial contact since so many tenants are uncomfortable doing it on their own.

- Throw a building party where the tenants can meet neighbors in a relaxed environment
- Start a small craigslist style blog where tenants can sell, buy and barter with each other or share DVD's
- Offer a rent credit to any tenant that refers someone who signs a lease. This will lead to more tenants knowing their neighbors.

There are many other creative and inexpensive ways to get tenants together. Anything that gets tenants interacting in a positive way will help to keep the building occupied.

Know Your Market

The solution for a tenant who is paying significantly above market is to lower the rent. Many landlords won't lower rents or make improvements for existing tenants because they feel it is giving money back that is already in their pockets, but this is wrong. It is tough to convince a tenant to stay if they are paying \$1,700 for an apartment that is worth \$1,200. What will happen if the tenant moves out? What

rent would you get for that unit, what improvements would need to be done and how much down time would there be? If the rent decrease is warranted don't let pride or reluctance to change with the market stop you from making a sound business decision. If you do lower the rent to keep a good tenant, have the tenant sign a confidentiality agreement to avoid conflicts that may arise from having tenants compare their rents.

Landlords need to see their building and their neighboring market from a tenant's perspective. Pretend to be a tenant who keeps hearing how rents are going down everywhere and that "it's a tenant's market out there." Look at other buildings in the area and see the competition; compare market rents and what amenities other buildings are offering. After seeing other buildings, be honest and ask yourself "Would I want to live in my building or in the one down the street?" This will help you determine the current rental value and/or any necessary building upgrades. If it's impossible for you to remain impartial, ask a friend to do it for you. A property manager can be impartial and honest since they are a neutral third party. So the next time a tenant calls for a rent reduction, you will know if it's truly warranted or if the tenant is just fishing.

Summary

The ideal situation is to retain current tenants avoiding costly and timely vacancies. Accomplish this by being accommodating and understanding to the tenant's situation. Assume tenants are looking around and go see firsthand what is on the market, then compare it to your building in both price and quality. Try to offer free or inexpensive amenities for the building to keep tenants happy and to build a community. When necessary, don't be afraid to spend money on the building or lower a tenant's rent. The money is not wasted since it will be improving the quality and value of your property. The key is to survive these trying times and wait until it gets better. Real estate is a long-term investment, don't panic and cut corners. This is merely a bump in the road on a long journey. Do what's necessary to improve your building, occupancy and profits.

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