

Taming Tough Tenants

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At one multifamily property, a tenant subleases his apartment to a rock band that practices into the early morning hours. In another building, good renters are decamping to a nearby complex with lower rents. Several occupants in a high-rise haven't paid their rent for months due to a maintenance dispute.

These common problems plague multifamily property managers across the country, but in soft markets, evicting bad tenants and reducing rents to maintain good tenants may not be the best options. Lower rents obviously affect profitability, but evictions are costly as well, in both monetary terms and time lost, says Paul Daneshrad, chief executive officer of StarPoint Properties in Los Angeles. In addition to the basic turnover costs such as new paint, months of lost rent, marketing expenses and attorney fees for evictions can be exorbitant he says. Also, tenants may vent their anger by damaging the property. For example, one of StarPoint's tenants claimed that his unit needed repairs and refused to pay rent for more than two months, Daneshrad says. When the management company began eviction, the tenant soaked his unit's walls and carpeting with olive oil.

“Use these tips to solve the most common multifamily management issues.”

Although this example is extreme, landlords faced with unhappy tenants need to think creatively to protect their cash flow and their buildings. Expert multifamily property managers who successfully have overcome such problems offer their time-tested tips.

PROBLEM: A BUILDING EXPERIENCES HIGH TENANT TURNOVER

The top reason tenants vacate apartments is repair disputes, Daneshrad says. Thus, ensuring maintenance responses are timely, high quality and professional is the best way to maintain good tenant relationships. To make maintenance requests easy for tenants, “send them around a monthly note or door tag that tenants can simply check off and return to the office to report a problem,” suggests James Verro, CCIM and Vice President of Larkin Commercial Properties in Albany, N.Y.

Also, regularly repairing and upgrading apartments before complaints arise relays the owner's pride in the building and respect for its tenants, says Jeffrey W. Eales, CCIM, CPM and Vice President of asset management and leasing for Birtcher Anderson Properties in Laguna Niguel, California. For example, he has replaced threadbare carpeting and installed new appliances rather than perform band-aid type repairs.

Tenants also often vacate under the perception that they can save money at a different property. To rebut such assumptions, frequently monitoring competing properties' rents and amenities, Verro says. “Gauge the market, know where you are in it and if you see rent decreases coming over the horizon, then drop your rents now,” agree Todd D. Clarke, CCIM, a partner at NM Apartments in Albuquerque, N.M. “This strategy ensures a higher occupancy and minimizes your loss to competitors who compete on price alone.”

Also, negotiate renewals with good tenants three or four months before their leases expire. “Depending upon the market and our occupancy levels at the time, we may offer a discount or incentive for renewal,” says Jeff Siebold, CCIM, MAI, president of Siebold Group Consulting in Little Rock, Ark.

If rent increases are necessary, they “must be accompanied with a letter of thanks and an explanation and must be personally delivered by on-site staff,” says Steve Kewin, CCIM, owner of Steve Kewin & Associates in Guelph, Ontario. Eales suggests modest annual rent increases for long-term tenants. “Though it does take time to get an entire property to market, the savings in

vacancy and turn costs more than make up for it," he says. The strategy works for Eales – none of his apartment tenants have ever left due to regular rent increases.

Another valuable tactic to reduce turnover is creating a sense of community among residents. Hold pool and holiday parties or gardening and decorating contests, or distribute a building newsletter to which tenants can contribute articles and share information, Verro suggests.

PROBLEM: TENANTS AREN'T PAYING RENT

Tenants withhold rent for a variety of reasons, from temporary unemployment or cash-flow shortages to maintenance and repair squabbles. Communication is critically important when confronting this common problem, experts say. "Understand the nature of the problem and the tenant and negotiate", Daneshrad advises.

If the tenant is temporarily unemployed or has other cash-flow problems, the most effective rent-collecting method is structuring payment options. "We recognize that occasionally people struggle with bills, so once a year we will accept partial payments from a resident," says Buck Blessing, CCIM, CPM, chief executive officer of Griffis/Blessing in Colorado Springs, Colo. Prorating the delinquent rent and late fees over the remainder of the lease is a good way to collect, Daneshrad says.

"I've often negotiated partial application of the security deposit and weekly partial payments to help with the tenant's cash flow," Eales says. "But getting a payment date commitment and following up to ensure payment plan compliance will ensure success." Typically, prompt paying tenants with short term financial problems are ideal for flexible payment plans, says Ted W. Dang, CCIM, CPM of Commonwealth Cos. Real Estate in Oakland, California.

If tenants no longer can afford rent, landlords should consider moving them to smaller, lower-cost units or setting them up with roommates, Daneshrad suggests. Landlords who offer such options to tenants typically are rewarded with "residents for life, as many recognize what you have done for them and what other choices were," Clarke says.

However, if communication and negotiation fail to fix the problem, experts suggest convincing the occupant to leave voluntarily. "If the resident is not able to pay, then explaining [eviction's] long term impact on their rental history and credit will convince them to turn over possession," says Marnie Coomes, a regional manager for Fairfield Properties in San Diego who has eight years of on-site multifamily property management experience. "It is far more appealing to them for their future, and the [occupancy] does not end up with legal fees piled on top of bad debt."

PROBLEM: BAD TENANTS SLIP THROUGH THE SCREENING PROCESS

A simple application and credit check may not reveal prior tenants problems sufficiently. Landlords should conduct thorough background screenings involving interviews, credit checks, employment and all rental histories for all prospective tenants.

"The number one problems/solution in my [15 years as a landlord] relates to tenant selection," says Al Kemp, chief executive officer of the Rental Owners and Managers Association of British Columbia. He suggests the following screening techniques.

First, contrary to popular opinion, landlords' main goal during showings is not to sell units; instead, they should use the opportunity to interview applicants and learn why they are moving and what they expect from their new rental community. Also, landlords should have prospective tenants complete the application during the initial showing. Allowing them to return the form later "gives applicants the opportunity to create histories and recruit friends to portray current and previous landlords and employers," Kemp says.

When researching applicants' backgrounds, speak with previous, not current, landlords. "If this is an undesirable tenant, the current landlord may give a glowing reference – hoping to make the tenant your problem," he says. Also, contact prospective tenants' direct supervisors instead of their employers' human resources departments. "A reliable, honest cooperative employee is likely to exhibit the same traits as a tenant," Kemp says.

Yet room for compromise exists. "Someone with bad credit isn't necessarily a bad tenant because people tend to pay housing costs first," Daneshrad says. If only one factor of a prospective tenant's background check is blemished, experts suggest proceeding with caution. "Depending on the severity of the problem, we may offer an applicant residency for a three-month

probationary or trial period with a larger-than-normal security deposit," Siebold says. It's a method to share the risk with the tenant, and often it works out well."

PROBLEM: TENANT'S ACTIVITIES DISRUPT THEIR NEIGHBORS

Although effective screening can eliminate many problems, it may not prevent future disputes between neighbors, a problem Eales knows firsthand.

"I had one tenant who would stay up late and play music well into the morning", he says. "The downstairs tenant would get upset and call me to complain." In another instance, a tenant fed birds from his upstairs balcony and the seeds and shells littered another occupant's garage area. The latter "complained about the about the seeds and the other complained about the crazy lady who complained over a few seed shells," he says.

Eales' solution for such disputes is to suggest tenants solve disagreements between themselves with "a subtle message that if [the property manager] has to get involved, someone won't be too happy with the resolution, and someone might get booted out," he says. In the birdseed case, Eales said he would ban the upstairs neighbor from feeding the birds if he couldn't resolve the problem with his neighbor. "[The disputing tenants] didn't like each other, but they did learn to respect each other and get along, and I never got any more complaint calls regarding the birdseed," he says.

If tenants can't resolve their problems, mediation may be the answer, Coomes says. "If neither party is cooperative, taking a calm approach and explaining the consequences will help in resolution. He residents know the net impact will be on them and not on management," she says.

As added protection, ensure rental agreements contain property rules and regulations, as well as "tight clauses regarding these nuisance issues that management can refer back to later with the troublesome tenant," Verro says.

PROBLEM: A BUILDING HAS A BAD REPUTATION

Whether drug dealers loiter in the entryway or tenants regularly host disruptive parties, apartment buildings can develop unsavory reputations that affect landlords' abilities to attract quality tenants. Tangible measures such as repainting, fixing neglected landscaping, and changing the building's name must be "immediate, so residents see instant changes even if they may be small in the beginning," Blessing says. "The important thing is to see immediate, positive change."

Property managers experienced in multifamily repositionings advise involving the local law enforcement early in the process. Contact the police to find out if particular units generate an above-average number of police calls, says Terry Moore, CCIM director of ACI Commercial in San Diego, who once bought a foreclosure property that had several residents engaged in illegal activities. "With active cooperation of the law enforcement, we removed the bad actors off the property within three months," he says.

StarPoint Properties paid for a police substation in one of its properties' leasing offices; as a result, many problem tenants immediately vacated voluntarily, Daneshrad says. "In the case of real problem tenants, offer free apartments to cops and probation officers," suggests Stuart Silver, CCIM, president of Silver, Silver & Silvers in Ft. Meyers, Fla.

After weeding out bad tenants, institute a system in which the remaining tenants receive cash or partial-month rent credits for referrals, Kewin suggests. Such a referral system should help repopulate a property with good tenants.

Also, don't hesitate to advertise your efforts. "Networking with other property managers and building rapport will help get the word out about the positive things you are doing," Coomes says. After completing the repositioning, "erect road signs announcing the property's new name and management to build community awareness," Kewin adds.

EVICITION: THE ULTIMATE SOLUTION

Multifamily property managers should employ the above strategies when dealing with tenant problems, but in some cases, eviction may be the only resolution.

"Eighty percent of the times I have given a tenant a second chance, it became necessary to give a third chance, a fourth chance, and more chances until the inevitable eviction was done," Silver says. "The result was less rent, more aggravation and wasted time."

“We find that a very public eviction of the tenant with the worst problem sends a message to the balance that you are serious about treating the property with respect and you expect them to do the same,” Clarke says. Since landlords must prove cause for eviction in court, they should keep detailed logs of tenant nuisances as evidence, Dang advises.

Experienced multifamily property managers agree that eviction can be the only resolution in some cases. But to avoid involving lawyers and the court system, landlords must remain visible and available to tenants both before problems arise and after. “The key is to become the person who can offer solutions,” Coomes says.