

Are Your Rents Too Low?

By Nick Sidoti, R.A.M.

Q. Dear Nick, I recently had a conversation with another landlord from my area. He tells me that I am missing the boat. I am currently getting \$325 for a two-bedroom apartment and he is getting \$345 - \$350. I've checked other rents and mine are slightly below market, just where I want them. Do you think I am really losing? J. P., Buffalo, NY

A. Dear J. P., Your fellow landlord obviously thinks you are passing up \$240-\$300 per year, per apartment by setting your rents where you have them. However, there are quite a few benefits that can be derived from setting your rents slightly below market. These may more than compensate you for the "lost rent",

If your rents are slightly below market, your tenants will be more likely to stay long term. Most tenants check out the market occasionally by reading ads, or looking at other rentals. If they feel that they are getting a good deal in your place, they will not feel the need to move.

The goal with these folks should be to keep them as long as possible, and rents that look like a good deal will help you do that.

As landlords, we all know that there are several expenses associated with tenant turnover. We are all looking for long term tenants and ways to keep the ones we have. Turnovers will cost you advertising money, your time to show the apartment and screen potential applicants, lost rent during vacancies, more frequent fix-ups, utilities, etc. These costs add up fast. It is not all that unusual to lose and/or spend far more than one month's rent when an apartment turns over.

From a purely financial standpoint, you can fairly easily justify setting your rents slightly below market. But there are other benefits as well that can make your life as a landlord much easier. It is especially annoying to lose good tenants. This is why you will find some landlords setting their rents below market for tenants that follow all the rules, pay their rent on time, and qualify as ideal tenants. The goal with these folks should be to keep them as long as possible, and rents that look like a good deal will help you do that.

If you set your rents slightly below market when you advertise your apartments, you frequently will be able to set your standards higher and rent to better tenants. You will always have more applicants to choose from. You will also have shorter vacancies, and may have your current tenants recommending new ones. This can help you save on advertising costs and vacancies,

Tenants who feel that they are getting a good deal on the rent are more appreciative of your efforts. They treat you better. They are less demanding. When things go wrong, they don't insist on instantaneous solutions. They may even fix the small things themselves, and clean up after themselves in the laundry room, parking lot, and yard.

The benefits of setting your rents slightly below market can far outweigh the extra monthly income from pushing for maximum rents. It is certainly a strategy that has enough merit that you should consider it. If you are going to be in the business long-term, you need to be concerned with how much rent you actually get to keep, not how much you are scheduled to collect.

Nick Sidoti, R.A.M. is a registered apartment manager, licensed real estate agent, investor, lecturer, author of several real estate courses and President of the Western NY Real Estate Investors. For information on his courses or to submit questions for Nick's column, please email drcashflow@adelphia.net or visit www.drcashflow.net.