

How to Make Your Real Estate Investment More Successful

by Clifford A. Hockley, CPM

For years we have been hearing about the real estate mantra, “location, location, location,” but is that really what drives the success of an investment?

I agree with the pundits that you can charge more rent at a better location and potentially have more return. Perhaps your vacancies will turn faster because you have a better location. There are still areas in all towns where potential commercial or residential tenants will pay a significant amount more and will even allow themselves to be involved in an auction for a space. But those areas or opportunities are not the norm.

So what is it in addition to location that makes a real estate investment successful? In my opinion there are many variables. Consider the care of the property. If you take good care of a property – it looks good, smells good and it has good exterior and interior appeal, tenants will love it.

Personality

This means it pays to keep it modern and cutting edge. Update your sconces, install flags, redo your landscaping. Give the property personality and color, something other than battleship grey with white trim. Ask a decorator and a landscape architect to help you. That \$2,000 investment will pay off every day with higher rents and longer term tenants.

Consider investment in one major project a year. Hallway carpeting, an updated conference room, phased exterior painting projects. The options are endless and so is the payoff.

Emotions

Tenants (both residential and commercial) are emotionally driven in their decision making. Commercial tenants want their businesses to be placed in central locations, retailers want visibility. Residential tenants want to be located close to friends, family or work. All tenants want to be proud of their surroundings. They want their friends and business associates to visit them and be impressed.

The owner of the property has a responsibility to help fill that emotional need by keeping a property in first class condition: wash the windows, clean the common areas, paint the hallways, stripe the parking lot and remove the weeds in the landscaping.

Customer Service

In addition to the physical attributes of a property, make it easy to solve problems. Customer service is a huge added value. Think of it this way, the better a tenant feels about a property, the happier they are going to be. Have a yearly holiday party. Give the tenants an opportunity to feel like they belong to the community. Of course not everyone wants to belong, so don't be pushy, just create options. Bring in pizza once a year to all tenants so they know they are appreciated and they will not mind the yearly rent increases as much.

Property Condition

At the same time as that you make the property look great, do not forget the fundamentals. Don't let the roof leak, don't let lights burn out, don't allow potholes in the parking lot and make sure the common area restrooms are clean, in great condition and nicely decorated. In addition, you want to insure there are enough parking spaces. I will pass on buying a property if there are not enough parking spaces. (There might be an exception to the rule in a downtown environment where tenants use public transportation to get to work or get around.)

Tenant Mix

Another component to the happiness of landlords and tenants is considering your tenant mix. Many years ago, I had the opportunity to prepare a 10 year lease for a friend of mine in a business park. He owns a telephone distribution company (with a ratio of 70% office and 30% warehouse), and had over 80 employees. We found a cost-efficient location for him and the space next door was vacant which we considered as possible room for him to expand into. About a year after he moved in, a new tenant moved in next door. They were a metal bending company. Their machines went "bang, kaching, kapow", all day long! And the floor now vibrated. All of the employees along the shared wall (over 100 feet long) had to move. They could not work and use the telephone while the neighbor was working bending steel.

The same is true in a retail environment where putting a church next to a tattoo parlor does not work very well.

In a residential environment, we prescreen all of the tenants. They all have a good income, they pass credit and criminal checks because we want a good tenant mix.

Understanding the Finances

Part of your successful investment is understanding your income and expenses. Compare your income to that of properties that are similar in your general area. Do the same with expenses. BOMA (Building Owners and Managers Association) and IREM (Institute for Real Estate Management) publish annual books that summarize income and expenses in all categories of investment from warehouses to office buildings, apartments and condominium associations in all areas of the United States.

Use these resources and your own natural curiosity to compare/contrast and keep your property in the front row of available properties.

It is all about motivating a tenant to choose your property. The fewer vacant days you have, the more income your property will generate. The happier your tenants are, the longer they will stay. When the economy turns down, they will be motivated to stay – even as other building owners attempt to woo them away.

A Successful Property

A final example might help you understand. We took over a 50 unit apartment property from another management company. The property was in an excellent location, but was losing money. We convinced the owner to invest \$75,000 (he had to borrow on a 2nd on his home) and proceeded to paint the property, redo the landscape, train the onsite manager and make the property look appealing.

We then increased the rents by \$100 per unit. Today, we are making payments on the first and the second. The owner gets a nice monthly check (which he had not been

receiving with the other company) and we have a waiting list of tenants wanting to move in.

Afterword

A successful property will provide higher rents and a higher net operating income and therefore a higher sales price. That is why you need to take the steps that will make and keep your property successful.

Clifford A. Hockley is the President of Bluestone & Hockley Real Estate Services, which is one of the larger brokerage and property management companies in Portland and is a Certified Property Manager. Bluestone & Hockley is an Accredited Management Organization (AMO) by the Institute of Real Estate Management. Reprinted with thanks and permission.