

12 Steps to Successfully Managing Your Rental Home



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Who am I?

- Owner of East Bay Property Management
- We manage 400 Tri-City Properties
- U.C. Berkeley Grad 1982
- Property Management since 1982
- Grew up in Fremont
- Licensed Broker
- Licensed Appraiser
- Licensed Pastor
- Fellow Landlord



Who are You?

- You are one of 18,000 East Bay Landlords who own a rental home(s)
- About 95% of you own 1 rental property
- 5% own 2 or more rental properties
- You have received little if any training on managing a rental
- You are an investor



Should you stay put or cash out?

Summarized from Bruce Norris' "On Borrowed Time" conference in January 2019



- 40 year California Real Estate Investor
- 2000 Transactions
- Called both the 1989 and 2007 crash, along with the 2012 – present recovery.
- Wonderful trainer and mentor to investors
- Detailed analysis using charts and graphics

- 1) Lending is tight
- 2) Low equity extraction
- 3) Fixed loans at 4.5% - 5%
- 4) High % of cash purchases
- 5) No construction boom
- 6) No crazy loans
- 7) Foreclosures at an all time low

All adds up to no crash... but a minor pullback in 2019.

Strategy:

- 1) Prepare for an extended flat period... 5 – 10 years
- 2) Know your property's cap rate
- 3) If you are going to buy or exchange, make sure the home wins the tie breaker

Step 1: Present
a property that
is at least
slightly above
average



Presentation begins with rehab

Rehab matters

- 1) Paint
- 2) Flooring
- 3) Lights
- 4) Kitchen Counters
- 5) Kitchen Cabinets
- 6) Kitchen Appliances
- 7) Bathroom Vanity
- 8) Shower/Tub
- 9) Bath & Kitchen Fixtures
- 10) Yards/Landscaping



Low irrigation yards



Three Reasons Why Rehab Matters

- For \$1 invested in rehab, You'll get back \$1.50 - \$2 in increased rents
I.E. A \$20,000 rehab (new laminate, new paint, new windows, baseboards, blinds, vanity appliances) can equate to \$350 more per month in rent = \$4,200 more per year
- You will add value back to your property
- You will attract a higher quality tenant

"A great home attracts a great tenant"

Adding back value with rehab

<u>Project Type</u>	<u>Job Cost</u>	<u>Resale Value</u>	<u>Cost Recouped</u>	<u>Job Cost</u>	<u>Resale Value</u>	<u>Cost Recouped</u>
Bathroom remodel	\$24,201	\$29,667	122%	\$19,134	\$13,422	70%
Kitchen remodel	\$26,145	\$38,679	148%	\$21,198	\$17,193	81%
Dual pane windows	\$17,541	\$20,205	115%	\$15,955	\$11,855	74%

Source is Hanley Wood Media
Publishers of Custom home, builder and re-modeling magazine

Presentation = Pre-Move in Checklist

- 32 item checklist
- Including: Re-keying of locks, checking all appliances, spotless toilets, all lightbulbs changed, etc.
- Check box and we will email you ours.





Step 2: Promote it well

- Professional photographs (CirclePix 877-390-6630)
- Strategic ad
- All 25 real estate websites (Zillow, Trulia, Hotpads)
- Video tour on YouTube
- “Potential Tenant” database
- Yard sign
- Referral fee to existing tenant




Step 3: Price strategically

- Start with rental analysis
- Base you price based on “actual” not “asking” rent of comps on Zillow (7 – 10% less)
- Adjust price based on your home’s condition & amenities
- Adjust price based on the season
- Last two digits should be \$90
- Price it 3% below fair market rent (\$100)
- Adjust price down \$50 - \$100 every 10 days



Your rental price has nothing to do with:

Your mortgage

Your expenses

The appreciation of your home

What you hear from a friend or neighbor



It has everything to do with multiple comps of actual leases

Step 4: Pet Negotiable 6 Reasons why:



1. Greater pool of applicants
2. More profit
3. Longer tenancy
4. Small pet (20 pounds or less)
5. Includes a Pet Agreement:
 - Number (1)
 - Breed
 - Behavior
 - Size (Under 20 lbs)
 - Age (no puppies)
 - Shots
6. Happier Tenant

Step 5: Picky (screen, screen, screen)

- Credit score (680 or higher)
- Income
- Criminal background
- Rental history
- Number of people
- Intended length of stay
- Meet face to face
- Obey all fair housing



10 Most common lawsuits against landlords

- Improper tenant screening
- Improper denying of an applicant
- Improper handling of service/comfort animals
- Improper handling of Smoke and CO2 Alarms
- Improper handling of Bedbugs
- Improper handling of Mold Issues (Must include Addendum)
- Improper service of a Rent Increase (Must follow RRIDRO Requirements)
- Improper entry into Home
- Improper Move-Out Procedure
- Improper deposit return

Step 6: Put it all in writing (good lease)

- 12 – 18 months
- Landlord/Tenant responsibilities
- Include gardening
- Renters insurance required
- Use correct addendums (mold, bedbugs, lead paint)
- Damage addendum
- Pet agreement
- Fremont RRIDRO ordinance
- Tenant Handbook
- Go over lease face to face



Fremont's Rental Ordinance R.R.I.D.R.O.

Residential Rental Income Dispute Resolution Ordinance

Effective 1997

These components:

1. One rent increase per year
2. Recommends 90 day notice prior to a rent increase
3. **MUST** include R.R.I.D.R.O. mediation paragraph in all leases and rent increases. If not the rent increase can be deemed invalid.



Step 7: Pay the deposit

- S.F.R. and 2 – 4 units = one month's rent
- More than 5 units = half month's rent
- Credit issues = two month's rent or more
- Furnished (two month's rent)
- Pet fee is not a deposit
- Get a holding fee to take the property off market (50% of rent)
- Never let tenant say during their last month, "Use my deposit for my last month's rent."



Step 8: Prompt with maintenance requests

- Determine responsibility (lease)
- Help over the phone
- Schedule vendor promptly
- Vendor agreement
- Never defer maintenance to Tenant
- Set aside one month's rent each year for repairs, maintenance, rehab



Step 9: Probe regularly (inspect)

- Move-in inspection (Happy Inspector)
- Annual inspection
- Write inspection into lease
- 10 months
- Detectors
- Unauthorized pet
- Unauthorized roommate
- Furnace filter
- Deferred maintenance
- Move out inspection (Happy Inspector)
- See EBPM Website for security deposit return



Step 10: Protect Yourself

- Landlord Policy
- Umbrella Policy (minimum \$1,000,000)
- Renters Insurance
- Convert Ownership to an LLC



Advertising Violations of Fair Housing

- Safe
- Walk to schools
- Master bedroom
- Family community
- Mother in law suite
- Walk in closet
- Near church
- Private community
- Exclusive
- Bachelor apartment
- No 60 year old males of Irish heritage



First time Fair Housing fine averages \$16,000

Step 11: PROFIT is not a dirty word

TAX DEDUCTIONS

- A. Repairs
- B. Insurance
- C. Management fees
- D. Travel expenses
- E. Utilities / H.O.A.
- F. Depreciation
- G. Property taxes
- H. Mortgage interest
- I. Landscaping/Gardening
- J. Advertising
- K. Legal
- L. Home office



Why it might makes sense to consider selling:

1. Your cap rate for your East Bay home is only 2 – 2.5% while cap rates out of the Bay Area can be 6 – 7%
2. You sense a prolonged flat period
3. Geography undesirable
4. Owned with Siblings/Partners
5. No depreciation left
6. You want to increase the size of your rental holdings



How does your current rental home measure up?

No.	Asset class	Location	Current 2019 value	Monthly gross rent	Cap rate (Adjusted for property taxes)	Appreciation 2018 compared to 2017	Risk factor 1 – 5 1 = lowest 5 = highest	Gross Rents over 10 years
1	Single family home	East Bay	\$900,00	\$3,000	2.2%	3%	1.5	\$360,000
2	2 Duplexes	Sacramento	\$900,000	\$6,400	4.5%	7%	2.5	\$768,000
3	Retail strip center	Fresno	\$895,000	\$8,200	6%	6%	3	\$984,000
4	8 S.F.R. homes	Kansas City	\$900,000	\$8,000	6%	9%	2.5	\$960,000
5	5 S.F.R. homes (new)	Central Florida	\$900,000	\$8,000	6%	9%	2.5	\$960,000
6	Four plex (8 bed 4 bath)	San Leandro	\$910,000	\$6,400	4.5%	3%	2.5	\$768,000

Your property is the goose.
What really matters are the golden eggs!



Landlord Real Estate

TOM CONNOLLY

BRE 01422975

(510) 656-7653

- Understands tenants
- Knows rehab
- 1031 Expertise
- Can help identify "Exchange" properties with higher cap rates
- Is a landlord himself (only 5% of all realtors own rental property)



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The last "P"

Property Manager... makes you money

- A. Professionally managed home will **always** make you more gross profit in the long run than managing yourself.
- B. Optimum rent, less vacancy, best vendors, less risk
- C. Simplify your life (70 hours per year)
- D. Let's meet!





WHO SAID MANAGING A PROPERTY MYSELF IS STRESSFUL?

I'M 38 AND I FEEL GREAT!

For Property Management

Call **Mike Connolly** (510) 996-3228

E-mail mike@eastbaypmc.com

Helpful forms and landlord videos can be found at

www.eastbaypmc.com

For real estate sales, investments, 1031 exchange,
CMA of your property

Call Tom Connolly (925) 984-1470

E-mail tcdanville@aol.com



Upcoming Seminars

Saturday, June 8th

10 am – 12 pm

“Should I Hold, Sell or Exchange My Rental Property In 2019?”



Saturday, June 8th

1 pm – 3 pm

“Should I Hold, Sell, or Exchange My Rental Property in 2019?”

Sign up on feedback form