

Mind Your Business – Tia’s Tips for Better Rental Management

By Tia Politi, Lane ROA President

Minding Your Business means Minding your Budget

Does your household have a budget, or at least a reasonable idea of what your expenses are relative to your income and needs? Do you have a savings account? An emergency fund? Hope so, but if not, you can comfort yourself with the knowledge that, if misery loves company, you’re not alone. Most people don’t have those things. They tend to spend more than they make, carry loads of credit card debt, and live paycheck to paycheck. But if you’re a rental owner, haphazard financial planning will impact your ability to succeed. You must plan and set aside money for regular maintenance and periodic replacement of larger components of your housing units. Your property will require it, and your success depends on it.

When my husband and I bought our first rental property, I learned that the lender would only consider 65% of the rent as income for calculating our debt-to-income ratio because they were factoring in the costs of maintenance, overhead, vacancy loss, insurance and taxes. They expected that on average, we would have to spend 35 cents of every dollar we received to cover those things. And that’s a pretty good estimate for an average property over time.

When you’re performing a needs assessment for any property, you need to factor in the age of the property along with the age of the components like HVAC systems, roof, siding, windows, paint, light fixtures, faucets, and the list goes on. Many times when I managed property in the private sector, owners would tell me they couldn’t afford this or that repair or replacement, and either their property would continue to degrade from deferred maintenance or the repair was required and they would have to take on debt to pay the bill. Neither of these options is viable for the long term investor. If you can’t afford to maintain your property, you might want to consider that you made a bad investment and divest yourself.

The benefits of solid financial planning include a well-maintained property with happy tenants who stay for a long time, no financial surprises that stress you out and over-spend your economic resources, and a property that is ready to sell at any time with few or no upgrades needed.

Penny-Wise, Pound Foolish – How to spend more by trying to spend less

A lot of rental owners get a shock when they see the hourly costs of hiring a licensed contractor and instead find an unlicensed handyman for much less. But tempting fate is a poor choice. What are the risks? There is always the joyful possibility of blackmail by the tenant who threatens to turn you in to building officials for violating the law; lawsuits by tenants or neighbors, and agency fines for improper handling of hazardous materials like lead-based paint or asbestos; or substandard work that results in damage to your property – and maybe liability for damage to someone else’s property.

I took over management of a historic home in downtown Eugene, and when the owner and I went to look at it, we were surprised to note that the historic property next door was in the midst of exterior painting. It was clear that the painters were amateurs without the proper training or licensing, because

they had pressure washed the exterior of the home, spewing paint chips that contained lead far and wide, including on my client's property. Once the EPA got involved, not only did the job come to a screeching halt, but the owner was fined thousands of dollars by the agency, he had to spend thousands more to abate the lead chips and dust that had spread to neighboring properties as well as his own, and he had to hire a lead-based paint certified painter anyway to finish the job. It was a stupid choice that cost him far more than hiring a certified painter would have charged to do the job right the first time, and he wouldn't have had upset neighbors.

Another way working on the cheap can cost you more is when you choose to have tenants perform repairs. An acquaintance of mine had some older homes that needed work and no money, she said, to hire pros to do the job so she repeatedly worked out deals with tenants – you fix up the place and you get to stay for free until the work is done. Every time she did this, that I'm aware of, she ended up in court, because once the work was done, the tenants didn't want to start paying rent, and when she tired of their threats to report her to the city and sued them in eviction court for non-payment, they had numerous defenses.

She would eventually get her property back through negotiation, but only after losing months of rent, and paying substantial costs for travel to defend her suits. In almost every case, the coups de grace would come when the tenants turned her in to the city for the unpermitted work they had done, costing her double the initial permit fees, and requiring that she tear out and redo much of the work the tenants had done. Not only did she not save money, she caused herself an incredible amount of stress.

I'm sure there are notable examples of residents performing excellent work and happy rental owners all around, but like going into business with family it carries inordinate risk of damage to the relationship, creating undercurrents of tension in what otherwise would be a pleasant business exchange. The tenant feels underpaid, the landlord feels cheated by poor quality, whatever. It doesn't usually turn out well.

Using cheap materials is almost always a poor choice – landlords end up paying more while thinking they're paying less, both in the short and long term. Quality products and materials will reward a long-term investor in a number of ways. The first are happier tenants, but even if looking at self-interest alone, better materials mean longer lifespan, fewer repairs, higher rents and a higher value if or when you refinance or sell. In my experience, a quality home attracts quality tenants, and quality tenants are a blessing unto their landlords.

Another way landlords shortchange themselves is by insisting on doing all the work themselves. One man I know prides himself on doing everything on his own with used or free materials whenever possible, never hiring out the work. As an intelligent man in so many areas, I can't understand why he didn't see that although he saved a great deal of money on the upgrades themselves, he wasn't factoring in the cost of the lost rent he could have gotten had he hired out at least some of the work. One project that could have been done in three to six months, ended up taking almost two years at more than \$1200 per month in lost rent. He worked himself to exhaustion and cost himself money overall, not a wise choice. He also ended up with a home that was terribly mismatched with different cabinets, doors, carpeting, etc., effectively setting himself up for either short-term tenancies or marginal tenants, and most certainly lower rent.

Watch the pennies and the dollars will take care of themselves – It's not bad to be frugal

While it's important to know when to go ahead and spend for repairs, keeping a tight rein on your budget is equally important. There are very creative ways to save money, whether you are a do-it-yourself type or not, and getting the maximum lifespan out of all of your components will reward you over the long term. Good roof care can limp a marginal roof along for years. My husband and I bought a small rental near our home that we thought would need a new roof within no more than five years, but with detailed cleaning and moss treatment, and occasional shingle repairs, we got 12 years out of that roof, seven more than anyone would have thought. It gave us more time to save for a replacement.

The same is true of fences. At a cost of \$14-\$21 or more per linear foot, new fences can be quite costly, but with some extra love and support, that fence can limp along for years. With rotted posts, you can sink a buddy post right behind the old one, and bind them together with earthquake straps. Rotted stringers or broken fence boards can also be replaced, helping you get the maximum life possible.

Damaged sections of siding can be replaced using strategically placed Z-flashing and touch-up paint. Cabinets can be stripped and restored, decks can be limped along with replacement of rotting boards and regular application of preservative, bathtubs can be resurfaced at one-third the cost of new, and a spring rod with a nice curtain costs way less than new closet doors, and they don't keep falling off the tracks. Flooring remnants can save you hundreds of dollars if you're willing to have more limited choices. Old Formica countertops can be made like new with creative new paint coatings that look like granite. Some thrift stores sell recycled paint that is 25 percent of the price of new.

Overstock sections at home improvement stores are a great place to find replacement items at bargain prices, as are places like the Habitat for Humanity Restore. I once got several large quality beveled mirrors there for \$35 each that had been pulled out of the Hilton Hotel when they were remodeling, and made my rental units look extra fancy. When I needed a new double-sink bath vanity for a rental, I found a cool antique sideboard at a second-hand store that I refinished, drilled holes for the sinks and plumbing, and tiled the top, all for about \$500, including installation and plumbing. It did require more time on my part than purchasing a ready-made set, so sometimes the question is, what do you have more of: time or money? At that point in my life I had more time than money so it made sense; now I would have to make a different choice.

Preventative maintenance – A stitch in time saves nine

When you're looking to manage your budget, preventative maintenance is crucial. Caulking is one of the cheapest preventative maintenance tools, but one of the most expensive when ignored. Spend a few dollars to keep things sealed up or you could be spending hundreds or thousands to repair water damage.

Keeping your roofs and gutters clean and downspouts clear will dramatically extend their lifespan as will replacing damaged shingles right away. Rot spreads very quickly in the rainy Pacific Northwest, so don't put off dealing with it or you'll be faced with a much bigger project. Watch for rot in your subfloors, especially the bathrooms and you can stop a problem in its tracks. Seeping leaks at the toilet flange can be almost unnoticeable until they are a big problem so look for discolored vinyl around your toilet, it can

be an indication that there's a problem developing. Once rot gets under the tub, you're in for a lot of trouble, so install splash guards and keep up on your inspections. Act at the first sign of softness in your walls or flooring, and make sure your tub surrounds are solid.

The lifespan of degraded concrete walkways can be extended dramatically with good patching, and many lifted sections of concrete can be ground down, providing the maximum life possible. Sealing tile or granite on a regular basis keeps the stone looking good, and keeps water from seeping through your older grout, and a gallon of sealant only costs about \$17.00.

Lipstick on a pig – When is it smart to do the bare minimum on the cheap?

There are times when a focus on cost alone is the intelligent choice. I once managed for an owner who knew his triplex was a dump, but he rightly discerned that the value of the property was not in the old decrepit building, but in the land, so he did the bare minimum to keep the premises habitable, knowing down the road that the building would be razed and re-developed. That wasn't a terrible strategy for him, but was quite a burden on the management company as we were constantly scrambling to patch things together, and the low rents reflected the low quality of the units. When I drive by, the building is still limping along, but he will likely make a great profit when he sells or develops the land into a different use, and he won't have spent a fortune on upgrades.

When my dad needed to sell his 70's era single-wide trailer in a 55-and-older park, some strategic effort and a few thousand well-placed dollars made it sell quickly and for a decent price. I had some brownish paint left from another rental project and painted the interiors of all of the metal windows, hiding the discolored metal frames. We had some inexpensive vinyl installed in the kitchen and entry, fixed the dry rot in the subfloor, cleaned the carpets, painted the kitchen and bathroom cabinets with other leftover paint, installed used knobs from another project, painted the mirror frames and glued on decorative trim inside the frame to hide the ugly gap, cleaned the unit very well, had the heat pump serviced and the ducts cleaned, pressure washed the exterior siding and concrete, and spruced up the yard. It worked and didn't break the budget. Without that effort, it might not have sold at all, so it was a good return on a nominal investment.

The vacancy factor – Planning for lost rent

While most of us seek long-term tenancies, over time tenants come and go. Aside from low-priced pig sties rented to marginal-at-best tenants, a mid-priced family home in a good school district usually results in the longest-term tenancies. College rentals turn every year or two, and high-end homes are often just stopping places along the way to a home purchase. Whatever your market niche, remember that vacancy loss is another factor to consider when planning your budget.

Too many rental owners forget this part and when one month's rent is lost prepping for a new tenant, they remember they still have to pay the mortgage and start freaking out. The wise landlord has a savings account for such things. Lost rent can also hit hard when the tenant loses a job and doesn't pay. Then, not only is there lost rent to consider, but the costs of eviction, and don't forget the turn itself. In any household budget, there needs to be an emergency fund of three to six months' living expenses, and the same is true of rental properties...better start saving.

Depreciation schedules and maintenance reserves

When you're planning for replacement of larger items, there are various sources of information. I have compiled lists from HUD and a random insurance company that you can access on the ROA website under the headings: **DEPRECIATION SCHEDULE FOR HOUSING COMPONENTS** and **HUD DEPRECIATION SCHEDULE**. Armed with the knowledge of how long something should be expected to last and the likely age of that component, you should be able to identify pending projects, and get estimates for the cost so you know what's coming. You can then plan ahead and increase your maintenance reserves to cover the bill.

The takeaway – Planning for repairs is essential to your success

You need a budget. And an emergency fund. Don't go to ridiculous extremes to try to save money – it won't work. Preventative maintenance is best. Be intelligently frugal. Know when it's okay to put lipstick on a pig. Understand your market and your product so you know what to expect. Make a plan and save for it.

This column offers general suggestions only and is no substitute for professional legal counsel. Please consult an attorney for advice related to your specific situation.