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Volume 30 | December 2014 | Number 11

Next Meeting

TUESDAY DECEMBER 2, 2014

The 5th Annual R.E.I.A

CHRISTMAS PARTY

Held at Crystal Gardens
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INSTEAD OF OUR MEETING AT THE RED LOBSTER

STARTS AT 6:00pm

with an hour and a half of Hors d'Ouvers,

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Mickey Gilhool
Holloway
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John O'Neill
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Lovette More Jr.
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New Member ( )   Renewal ( )

ANNUAL DUES **Family — $125.00** - *(One Address — 2 People)*

Single meeting fee for non-members is $20.00 per person, which will be applied to the annual dues <u>if you join the next month.</u>

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NEXT MEETINGS

MONTHLY MEETING

- *Tuesday December 2, 2014*

Christmas Party!

BOARD OF DIRECTORS

- *Tuesday December 9, 2014*
- *Tuesday January 13, 2015*

3rd Tuesday

Investor Get-Together — December 16th

Meeting Starts at 6:00pm

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5 ways to improve cash flow on your rental properties

by Larry Arth

The timing was perfect.
Just as I was preparing to make an offer to buy a fourplex, I overheard my wife, who does business turnaround consulting, talking to her client about the SIBKIS rule for making decisions.

When I asked her what the rule she was always preaching meant, she explained SIBKIS is an acronym for ***See It Big, Keep It Simple.***

It means always looking at the big picture and not making things overly complicated. I plan to use it every day in my business to avoid getting wrapped up in complex solutions that cost a great deal of management and money to implement.

This fourplex that I really wanted to add to my portfolio was definitely nicer than anything I have ever owned before. I saw great potential in it and it was a building that I thought was not being properly managed and I felt the rents should be much higher.

Here is one side of the duplex where you can see separate garages and separate entrances.

The property was not for sale, but was owned by a fellow investor I knew quite well. It was general small talk with him where I learned all the details of the property: He bought it new 17 years earlier on a 15-year loan. The property was paid for, so with a 17-year old price tag and no debt any money he was making represented huge returns.

This gentlemen owned lots of real estate, was making huge monthly residual income, and recently started buying larger 20-, 30- and 40- unit complexes. As he was more motivated by his larger complexes, I knew I had to make a move, but first I had to figure out what the true potential was for this property.

I saw much more potential than the property was generating. So, I put this SIBKIS rule to work.

I wanted more cash flow and larger returns than the property was currently generating. I began to think about how I could make the changes and keep it simple.

This is the other side of the nice fourplex which is on a corner lot.

First, I knew I had to run a competitive analysis and understand this micro-market thoroughly, so I visited nearby 3-bedroom, 2-bath rental units. What I found was that the property I wanted to buy was different than a normal fourplex building, and it should be managed differently as well.

This property had a separate entrance for each unit, and it had a garage for each unit, making it feel more like a condo/villa than a fourplex. Surely, I thought, this should bring in higher rents than a typical rental.

During my investigation on the purchase of this property, I found 5 simple ways to increase cash flow on this building, and these 5 principles apply to every property I have evaluated since. Here are 5 ways I found to increase cash flow:

NO 1 – FAIR MARKET RENTS

I know sounds simple, right? What are competitive fair market rents in the area? To get a clear vision compare both the inside and the outside of the units and make sure you are renting to its best capabilities. Comparing your rental property to competition often can yield higher rents or give you clues as to the little tweaks you can make to justify higher rents.

When doing personal visits, I learned rents varied widely from $1,000 to $1,600 per month. Current rents for this subject property were between $900 and $950. There indeed was a large spread in the prices of units on the market. Based on my visits, I figured I could rent each of my units for at least $250 more each, as they were more like the villas and condos that brought higher rents than a conventional fourplex. With four units I could easily bring up the cash flow by $1,000 per month.

NO. 2 – RENT TO BEST DEMOGRAPHICS

Often, demographics can change in an area over time. When you are buying property in the path of progress, a property that was once renting to lower-priced paying tenant can often be upgraded to a more affluent tenant. This was the case here. During my visits to neighboring properties it became obvious that my potential property purchase was much more than a typical fourplex. However, it has been marketed in the past as a fouplex, and as a result it attracted tenants who were willing to live in a building typically with a main entrance and a common hallway. This building was like the villas and condos that attracted more affluent tenants.

NO. 3 – GET A TWO- OR THREE-YEAR LEASE

The largest cash- flow drain a property owner has is a lease renewal. You have to clean, paint, maybe do some carpet repair or replace. Perhaps you will even have a tenant placement fee. I have found that when you use a two- or three year lease, you can find tenants who are looking for a long-term tenancy and are eager to sign a multiple year lease.

I have used escalator clauses where rents always increase by “X” number of dollars per year. I always wanted to get my tenants in the habit of expecting a rent increase, even if it was just $5 per month. When they expect a rent increase coming on their anniversary day they were not disappointed by it.

NO. 4 – DO LEASE-OPTIONS

Lease-options tend to be more of a psychological benefit to a tenant. Tenants who want to own a home, but for a variety of reasons do not believe they can buy one, love lease-options. These tenants take better care of the property, reducing your repair costs. Lease-option tenants will typically pay more money for rent as they aspire to own the property. Additionally, a lease-option tenant will pay a lease-option fee, which is not a refundable fee, increasing your cash flow. It is actually rare that a tenant will execute a lease-option for a variety of reasons, but the lease-option is very effective. This was a strategy I intended to use for this property. But first I needed to own it, and then I needed to do highest and best use conversion of this property giving it a condo classification. That is a story for a later blog post.

NO. 5 – GIVE REPAIR EXPENSES TO TENANTS AND ALWAYS REPAIR TO VALUE, NOT TO PRICE

With lease-option tenants in single-family type properties, it is easy to have leases signed where the tenant is responsible for the small-ticket repairs, which will definitely help your cash flow. When you place tenants who are cool with these leases, you know you have a better tenant. When you do repairs, cheap is seldom better. Always repair for best value. Putting inexpensive Band-Aids on a repair will only come back at you time and time again for the same repair and may label you as a slum lord. Always look for the best value and fix things permanently. It will save money in the long run and will make for happier tenants.

See It Big, Keep It Simple

Understanding this simple philosophy made it so easy to look at the big picture and establish what to do. In this case, I wanted to increase cash flow. Visiting my competition helped me to quickly see opportunities that this fourplex property was not capitalizing on. These five simple things allowed me to increase monthly revenue, as well as reduce expenses, which all contributed to increased cash flow.

The outcome? I bought the property and increased the total monthly cash flow by more than $1,000 per month and reduced my management challenges with long-term leases.

In my next blog post, I will talk about how to increase the value of the property and go after the value play.

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HOW CAN YOU ENCOURAGE TENANTS TO HELP IMPROVE THE COMMUNITY?

As real estate investors, we all have a vested interest in making our communities better places to live.

So do the families who reside in our rentals. Like anyone would, they want to live in safe, well-kept neighborhoods with thriving schools and other public-sector organizations. I'm lucky to have tenants who donate their time and energy to groups that are making a difference.

To reward those tenants who are doing good work—and incentivize others to pitch in—I've started offering a discount on rent to people who volunteer and make other contributions to the community.

IDENTIFY BEHAVIORS

Businesses in other industries are intimately familiar with providing incentives to encourage people's behavior. Airlines charge special fees for bringing extra luggage onboard. Coffee shops offer loyalty rewards to repeat customers. In each case, the goal is to either incentivize or discourage a specific behavior.

You as a landlord can do the same thing. For example, we may want tenants to:

- **Maintain an acceptable yard**
- **Maintain the cleanliness within and outside of the house**
- **Actively participate in the community—such as volunteering with local schools or nonprofits**

A word of advice about community participation: This type of incentive works best if your community has established organizations where people can easily volunteer. By working with a well-run group, your tenants' contributions will have an even greater impact.

QUANTIFY VALUE

The next step is determining a value to assign to these behaviors. How much of a discount should you offer? In my case, I made an estimate that seemed reasonable.

Tenants who are active in the community receive $25 off their monthly rent. The discounts for keeping the property clean and not smoking are another $10 to $25 each. (Keep in mind, you could structure these incentives as disincentives and charge extra for someone who smokes.)

I include the discounts and their specific value in each lease. Fortunately, the value never has to be set in stone. It can be a guess with the first attempt, and a better educated guess with the next. In addition, offering discounts does not have to result in decreased profits. You will probably find that tenants will be more willing to pay above the market average if they know you as the landlord have a high level of engagement, resulting in a higher base rent.

And, by encouraging tenants to take better care of their units, you'll receive a better long-term value when you eventually sell the property. That could help make up for the discount you offered them during the operations of the rental.

Even if the tenants aren't interested in claiming a discount, at least they know about your interest in the ongoing care of the home and the community.

REALIZE RESULTS

Of the four properties I own in the neighborhood, the residents at two have taken up my offer of a discount.

However, the tenants at all four properties are aware of my interest in improving the community. Simply having these discussions with my tenants has clearly shown them what my expectations are. That might help explain why I haven't had any turnover.

My tenants aren't the only ones in on the conversation. I've talked about incentives with other residents and stakeholders in the community. Starting a dialogue on this topic helps others realize the impact that we can have as individuals in improving our communities.

Advancing our communities takes many actions. We can all play a part, including in our roles as landlords and tenants.

Jenny Casler grew up near Lansing, Mich., and now returns regularly to visit family, work on her rental properties, and look for additional investment opportunities.

Article Compliments of Community Investor magazine

- See more at: http://www.communitybuyinggroup.com/blog

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For More Info: Bobbi (734) 946-6280 or Bill 734-934-9091

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My top 7 landlord mistakes

by Larry Arth

As any investor knows, if you have not made any investment mistakes you probably have not made any investments.

Learning from these mistakes so you can master your investment business is the key to your success.

You can learn from other people's mistakes, so I would like to share mistakes that I have either personally made or have watched investor-clients make.

1. Being too quick to fill a vacancy

I often see new investors fall prey to this one. I, too, many years ago made these bad judgment calls (never again). It is easy to drop your standards when a unit is about to become vacant. Emotions take over and a prospect comes to you waving cash at you. Sure, they do not represent the perfect tenants and their income is lower than I require but they are nice people and they have the cash for the deposit and first month's rent. Besides, I will start negative cash flow next week if I do not rent to them. Three months later, I struggle to collect rent and month after month is a fight to get paid. I tell myself, "I wish I held out for better tenants." Like so many others, I have learned it is far better to have a few weeks of vacancy while finding the best tenant than to hurry and rent to a bad apple.

2. Treating tenants as an income source instead of valued customers

Having an investment property business is no different than any other business. We need to work hard to obtain customers and treat them well so they will return. I was a landlord at the age of 18 and to me then, tenants were my income source. I since learned this valuable lesson that indeed they are an integral part of the business and need to be treated as valued customers. I do continue to see investors treat tenants as an income source instead of a valued customer. Tenants needs to be nurtured so they feel like valued customers and are willing to return at time of lease renewal.

3. Failing to clearly define rules and boundaries

I have learned that the first week or two of tenancy, boundaries automatically are set. The big question is, "Who is setting the boundaries?"

My experience tells me that when you give them a chance, many tenants will immediately push the boundaries to see what they can get away with. So either you are setting precedents to the rules, or they are.

I create a list of expectations that is given to them at move-in when you do the walk through inspection. This list should outline the parts from the lease on policy and procedures which includes what they

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do as a tenant and what you do as a landlord.

4. Trying to become friends with their tenants

I do see a lot of landlords try to be friends with their tenants. You want to like and trust each other but you are in a business relationship and it should stay that way. Developing a close relationship makes it difficult to manage from a logical business person's perspective. Emotional-based decisions have very little place in running an effective business.

5. Failing to keep property maintained

Looking at hundreds of properties each year, I continue to see a large number in disrepair. When talking with sellers the common theme is they want to increase cash flow and do so by ignoring repairs or simply doing inexpensive "bandages" on a property. In reality it creates unhappy tenants who move frequently, which actually results in lower cash flow. The repairs themselves that get ignored devalue the property. My experience tells me that to maintain maximum cash flow you want to maintain a property in great condition.

6. Missing opportunities on multiple-year leases

As investors, you all know that tenant turnover is the single largest expense we encounter. You do not have to continue to carry that burden. This is an expense you want to address and fix not just accept it. I have found great success in offering two- and three-year leases. It immediately goes to identify tenants who want to stay long-term. I have even used escalators to increase rental rates each year. Both ways your cash flow will be more consistent and your tenants who desire to stay will know what the future has in store for them as opposed to wondering what is going to happen on their move-in anniversary. You also want to treat these tenants well so they continue to renew leases. See how I kept tenants renewing their leases.

7. Being a landlord instead of being an investor

This one may be subjective but it comes from my experiences working with hundreds of investors. I find a common denominator separates the most successful investors from the ones who struggle to advance. The most successful investors spend their time investing instead of being landlords. As a licensed real estate broker, I am always asked if I will manage my client's property. I always state that managing property is a full-time position. To be effective at it, you need to devote full-time attention to it. Perhaps one of the biggest mistakes is trying to be effective as a part-time landlord.

"To achieve your dreams you must embrace adversity and make failure a regular part of your life. If you're not failing, you're probably not really moving forward." This is my favorite quote from the book, "Failing Forward: Turning Mistakes into Stepping Stones for Success" by John Maxwell.

Reprinted from Personal Real Estate Investor Magazine

Water Heaters and Code Compliance

By John Potter
Landlord, Investor, Licensed Real Estate Professional and RPOA Board Member

With single family rental properties now being inspected in Grand Rapids, many landlords are realizing that water heaters are getting more attention by inspectors these days. Mechanical inspectors are now specifically looking for installation permits on all recently installed water heaters. If for some reason one of your water heaters does not have an approved permit pulled on it, your mechanical inspector will not approve its inspection (which, of course, is needed for your rental certification).

This may not sound like a big concern at first--just get your plumber or HVAC contractor to pull a new permit. But changes in codes over the years may complicate the approval of your water heater that is currently performing just fine, i.e.: pipe sizing, shut-off valves, pressure relief piping, etc. But the issue that may cause significant financial stress to your wallet is proper ventilation. Though your water heater may be in the same location it has been in for years, with the same exhaust piping that was inspected and approved in years past, changes in the codes may cause it to not be in compliance now. Items like chimney liners, insulated (b-vent) piping, proper slope and distance of exhaust pipe, etc., may not be currently up to code. And the costliest item in this list is the lack of a chimney liner. If you don't currently have one, you will need one installed.

A basic chimney liner installation can cost between $275 and $350. But some chimneys won't allow easy installs. If your chimney flue is too narrow for the proper size liner or it has one or more bends, as some chimneys do or is extremely tall or steep, installation may jump to well over $ 1000 and require interior walls to be opened or repairs be made to the structural integrity of the chimney. That is a nasty surprise for a water heater you thought was in fine shape.

If you're told you need to install a new liner what are your options? You can change your current water heater to a power-vented model (which eliminates the need for the chimney), but will cost around $800 for the unit (with the basic six year warranty), plus installation. A less expensive option may be to install an electric water heater, which can be purchased for around $350. But you may need to bring new power to the unit, which will add some cost (and need to be included in the inspection). Another option would be to install a "tankless" in-line water heater, which is more

efficient than electric (no hot water sitting and waiting to be used) and also doesn't require a chimney. But this type of unit is also quite expensive.

So, if you run into the expensive chimney liner problem, you do have some options. But keep in mind that any other appliances currently venting into that chimney (such as a furnace or another water heater in a multi-unit) will require the installation of a chimney liner when one of these eventually needs replacement. So if you decide to take your water heater off the chimney, you should also plan on doing so at some point for any other appliances venting into that chimney.

Another item to consider when installing a chimney liner: There is talk that conventional gas-fired hot water heaters venting into a chimney in multi-unit buildings may soon be banned by the code (due to greenhouse gas emissions). This may make your new chimney liner obsolete somewhere down the road (and makes electric types seem a safer bet). So weigh your options and make your best choice.

Reprinted from Michigan Landlord _ RPOA Magazine
& submitted by Wayde Koehler, Pres, R.E.I.A. of Wayne County

Latest on Dodd-Frank and Land Contracts in Michigan

Since January 2014, the Dodd-Frank Act and SAFE Act have thrown a wrench into the common use of land contracts. Land contracts have often been used as an unconventional financing mechanism for buyers that cannot get financing through conventional means, i.e. banks.

How did Dodd-Frank and SAFE Act change that? The Acts, in a nutshell, make three huge changes related to land contacts. The Michigan Department of Financial and Insurance Services is responsible for how the Act is applied in Michigan:

1. Due to the changes required within the Act, the Michigan Department of Financial and Insurance Services invoked a new requirement that certain individuals offering mortgages/land contracts and/ or qualifying buyers for mortgages/land contracts must be licensed mortgage loan originators-if they execute more than three (3) land contracts per year for residential /owner-occu pied housing. So, if you're using land contracts as the mechanism to sell your real estate, you're very limited on how many deals you can do each year without becoming a licensed mortgage loan originator.

2. Due to the Act, the Department also stipulated new rules for qualifying buyers. Basically, the new rules make it impossible for a seller to sell a land contact to someone that doesn't already qualify for conventional bank financing. This significantly limits the pool of potential buyers. And, frankly, is bad news for those that can't qualify for conventional financing.

3. The Department also ruled that balloon payments could not be less than six (6) years, Under many land contacts in the past, a three or five year balloon payment was put in place so that the buyers could pay off the contract sooner and become conventional home buyers. This also enabled the investor to do more deals. The move to six or more years makes land contracts less, desirable for many investors.

Even though the Act doesn't specifically say that land contracts are included, HUD, the regulating agency for the Act, says that land contract deals are includedeven though they aren't mortgages. (But, wait a minute; I thought a land contract wasn't a mortgage? HUD decided-after the Act passed and the rules were prom ulgated-that they meant to include land contacts. Unfortunately, it's going to take a legislative change or court ruling to counter HUD's opinion. Organizations across the country, including the RPOA, are trying to get the law changed! If you get a chance, contact your Congressman.)

What if you don't comply? Under Dodd-Frank, the buyer can cancel the transaction and has the option to get his or her money back.

Note: The new laws do not apply to land contracts or other seller financing sales to other investors.

Download a Free Copy of Our Michigan Land Contract Form
http://rpoaonline.org/lease-forms-more/real-estate-investor-forms/

Reprinted from Michigan Landlord _ RPOA Magazine & submitted by Wayde Koehler, Pres, R.E.I.A. of Wayne County

— WEB SITE CORNER —

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http://apps.michigan.gov/ichat/home.aspx .... Criminal History Check (ICHAT)
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www.mipsor.state.mi.us/ .... Michigan Sex Offender: (PSOR)

Are You Looking For Houses To Buy???

www.realtor.com
www.buyowner.com
www.fsbo.com
www.hud.org
www.historicproperties.com

Are you looking for comps?

www.homeradar.com
www.realestate.yahoo.com/realestate/homevalues

Need to find someone?

www.555-1212.com
www.anysho.com

Lead Base Paint Pamphlets?

www.hud.gov.lea

Need to E-mail any questions or articles or anything for us?? Our web address is ApPrint1©aol.com Send us your email for meeting reminders and to get your newsletter sent to you. Or fax your email address to us at 313-386-7600 or reiawaynecounty.org or

24hr recording (313) 437-2945

— MEETING AGENDA —

RED LOBSTER ON EUREKA • SOUTHGATE

Next to 7-11, near Trenton Rd.

6:00 - 7:15 ... Dinner and Networking

7:30 - .... Meeting — **($20.^{00} FOR GUESTS)**