CDARPO

Capital District Association of Rental Property Owners

Newsletter September 2015

Please submit your photos and descriptions to Engels Rojas (engelsrojas82@gmail.com) or Ray Koloski (rayhats@gmail.com)

Next Meeting

@ Best Western plus Franklin Square Inn
(Across from Dinosaur BBQ)

Thursday, September 10th

Featured Speaker(s):

TBA

Speak-Up

Networking around the
Refreshment and Resource Tables

5 Legitimate Reasons to Allow a Tenant to Break Their Lease
By: Kevin Perk

As landlords, we want some amount of tenant stability; after all, tenant turnover is a cashflow killer. Very rarely will we sign a lease for a term of less than one year or allow tenants to break a lease without a very good reason. We just want the general comfort of knowing that we likely will not have to worry about that particular unit for at least a year. Sometimes, however, tenants want to break their lease. By "break" I mean move out before the lease term is expired. The reasons for this are often quite varied and range from "I just don't like it here anymore" to "I lost my job." With the first example, we have to get our tenants to face the hard reality of the lease by explaining to them again that they have signed a contract which we expect them to uphold. We make them understand we really cannot force them to stay, but that there will be penalties if they do not get the OK from us to break their lease.

The second example, however, is a different matter. There are times when we will let a tenant out of their lease, and job loss is one of those potential reasons. I explain why below and also provide you with four other reasons we allow a tenant to break their lease.

5 Legitimate Reasons to Allow a Tenant to Break Their Lease

They Are Active or Reserve Military
Active and reserve military personnel can be transferred or activated very quickly. If they have to go, there is really nothing you can do, as Federal (and often State and local) laws allow these tenants to break any lease. In fact, you might even be required to hold their property for them so it will be there when they return. Be sure you understand the potential ins and outs of these laws.

They Get a Job Transfer
A job transfer is not the tenant's fault, and it can often be a good thing for them. Many times they have very little control over where the particular company they work for sends them (unless they just up and quit), so there really is no reason trying to enforce your contract here. It is very unlikely that any sitting judge would actually allow you do so anyway. As a cautionary measure, it is wise to place a clause in your lease that allows for the lease to be broken due to a job transfer so long as the transfer is over 50 or so miles away. After all you don't want them to move if they are just transferring to another local branch.

They Lose Their Job
If a tenant loses their job and generally has no prospects of finding replacement income in the near future, we have found that it is best to generally let them move on. After all, you are not going to get blood from a stone. If a tenant has lost their income, their relationship with you is likely to become more and more strained as time goes on and resources dry up. Best to sever the relationship early, get your property back and move on down the road.

They Encounter Extraordinary Circumstances
Unfortunately, bad things happen to good tenants. We have had tenants get divorced, get diagnosed with cancer or suffer some other type of misfortune. These types of circumstances can cause radical shifts in income and outlook on life in general. Suddenly the rent is not that big of a deal if you are fighting for your life or trying to survive a bitter breakup. It is best to have a bit of sympathy here and let folks move on and focus on whatever they might need to focus on. (Continued on page 6…)

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7 Productive Actions to Take While Searching For Your Next Property

By: Mindy Jensen

A recent conversation with a new investor got me thinking about starting out. It has been a long time since I was a newbie, and while things have changed a whole lot, some things will always be the same. If you aren't going to do the rehab work yourself, you will need to find a contractor. This is only slightly easier than finding Jimmy Hoffa. Unless you have a pile of cash sitting around, you will need to secure funding. Finding a property can take a long time in this market. But there are lots of things that you can work on while you're looking for your next deal.

1. Find an investor-friendly agent.
A residential real estate agent is typically working with retail buyers. They may not understand your focus or your criteria. Finding an investor-friendly agent can help you build your business because they may have a network of clients who are investors and are always looking for the next deal. An investor-friendly agent will build a reputation of being able to sell properties that others can't and may even be able to help connect you to another client for things like joint ventures. …

2. Drive for dollars.
When you are first starting out, having a small, specific area to target can help you get a grasp of what is going on in that market. Rather than learning all the neighborhoods of your town/county/state, you can focus on one area and really learn the ins and outs. One of the best ways to get started is to "drive for dollars," or drive around and look at the houses in your target area. Even better than driving is getting out of your car and walking. Yes, it takes longer to walk a neighborhood, but you get a more in-depth understanding of the properties and their location. Talking to the neighbors can yield an enormous amount of information. Look for things like tall weeds or grass, weathered door hangers, and stickers on the door informing of code violations or utilities that have been turned off. Check out the status of the roof, siding and window panes. Old windows, metal siding and curling shingles can indicate a lack of interest in the property.

3. Write an amazing yellow letter.
Driving for dollars is a technique you can use to identify properties that may fit your criteria. But what do you do once you find a property you like? You send them a letter, telling them you want to buy their house. Do you have an amazing letter that conveys your interest? I have seen recommendations all over the Forums for yellow letters. Some people take an offensive approach: "Your property is ugly and outdated. Here is a list of all the things wrong with it, and you should sell it to me at 60% of its value." I don't recommend this approach or use it myself. I have a disconnect to real estate — I have never lived in one home for more than 5 years in my entire life. A house is just a place to sleep. But there are people who have lived in one house their entire lives, and it is hard for them to sell.….

4. Build up your credit score.
Like I said earlier, unless you have a giant pile of cash sitting around, you will probably need a loan. Lenders are happy to give you a loan, provided they feel you will pay it back on time. Your credit score is built on your past financial experiences, and the higher your score, the more confident a lender is that you will give them their money back. When was the last time you looked at your credit score? You are entitled to one free copy of your credit report every calendar year from each of the three credit reporting agencies. They are required by law to give this to you and have set up a website to comply with this law. You can choose to get the reports from all three agencies at once, or space them out every 4 months to continually monitor your credit. Either way, it is a good idea to comb through the report, making sure all information is correct. If there is any incorrect information, dispute it immediately. …

5. Establish relationships with lenders.
Most mortgages are sold as investment vehicles called mortgage-backed securities. Every mortgage that is sold has to comply with Fannie Mae/Freddie Mac regulations. But not all mortgages are sold. Sometimes a smaller lender will keep a loan in-house, known as a portfolio loan. Portfolio loans have different criteria — pretty much anything the lender wants. Having a relationship with a local lender who offers portfolio loans can be a huge asset to your business, but that relationship doesn't happen overnight. Start by opening a simple account with the lender…

6. Find a contractor/property manager.
If you are purchasing properties that need to be renovated, start looking now for a good contractor. Tell absolutely everyone you come across what you are looking for. There are good contractors out there who do good work, don't cut corners and deliver what they say they will deliver. They are just very difficult to find…

7. Join a local REI group or meet up.
Nothing can replace the personal connections you make at a face-to-face meeting. Find a local real estate investment group, and attend a meeting or two. Network with other investors in your area. They may have recommendations for you regarding agents, contractors, title companies, etc. There are many steps that are transaction-specific and cannot be done until you are under contract on a property. But there are lots of things you can do while you are looking for your next deal.

Source: http://www.biggerpockets.com/renewsblog/2015/07/14/work-searching-property/

4 Rehabbing Materials That Are Always Worth Spending a Little More On

By: Nathan Brooks

We had another open house for a property yesterday, and it went very well. We had a dozen or so people through the doors, multiple applications for rent—and lots of nice people I enjoyed meeting. This is one of dozens of houses we have prepped, rehabbed, cleaned up, and made awesome just this year. I am continually learning through trial and error and listening to other investors all the things that cost me money, time, or frustration. I want to find ways to alleviate them. In previous posts I've talked about how we use the same palate for our rental properties. It's the same colors, the same carpet, the same vinyl flooring. When they are searching for a property to rent, tenants know it's one of ours when they see pictures of our properties. There are a few things I think a lot of us go cheaper on that I will NOT be doing anymore. 4 Rehabbing Materials Worth Spending a Little More On

1. HVAC - This has bitten me more than once this summer. We tried to eek more years out of really old units, and it just hasn't gone well for me. In one instance, we replaced one property with a used unit that wasn't very old. I ended up spending nearly half what the new one would have been to replace it, and then it died 2 months later.
AWESOME.
Another one had some leaks, so we had to replace the a-coil, etc. If we are on the fence with putting SOME money into something like this (other than a bit of coolant or a normal service), I will just end up replacing it. It's not worth my hassle, frustration, or the added cost. I always end up thinking that we should have just done it the "right way" the first time.
bathroom-renovation

2. Faucets and Bath Manifold - We've gone through a lot of different kinds of fixtures for the bathtub, the kitchen faucet, and the bathrooms, and there are a lot of brands out there that offer significant (cheap) value. However, after examining the cost of each, how long they last, and how much I pay to fix them—I've decided to pretty much only use the basic all metal Delta … they've been lasting well, wearing well, and causing no issues so far. They're worth a few extra bucks on the front end. It doesn't mean you need to go crazy either. Just because it's expensive doesn't mean it will last. Ask the guys at the local hardware store what they put in their houses or their rentals—or what other investors are buying with good success.

3. Toilets - Like with the plumbing fixtures, we've also started buying the nicer toilets. Why not spend an extra $50 bucks and get the low flow, simple mechanics of the new toilets? We have had awesome luck with them in our properties. Tenants love having the nice ones because they use less water and don't break. I love them because my phone doesn't ring, and I am not spending money to fix or replace them all the time.

4. Vinyl Flooring - We've started using the thicker vinyl for the flooring—and not just the cheapest samples we could get. We do the full pieces, or rolls, as well, instead of the peel and stick. Yes, peel and stick tiles are easy, but I have found they just don't stay down that well, and we are always going back to fix them. I do realize that if you get a tear in one of your single tiles, you can just replace them versus having the large piece of vinyl. But I've also found I have significantly fewer issues when it is larger, nicer, and thicker material to start with. The more often we run into the problems or maintenance issues within the units, the more we are moving in the direction of finding, correcting, and fixing the issue prior to having a tenant occupy the property. Once you have a tenant occupying it, everything is more complicated with scheduling the work and can be a nuisance to you and your tenant.
Plenty of times if I would have just completed the work or installed a new item the first time, I would have saved myself the hassle (and the phone call). I know of many investors who do not spend much money on new plumbing lines, or a low flow toilet with the newer flushing system, or whatever the case may be. But in the end, what is the cost of that single maintenance issue with your plumber, handyman, or whoever you have to call? A plumber or electrician may cost you $50-$75 just to show up.
That toilet doesn't seem so expensive now, does it?
Once again, if you just do the fixes the first time, you will likely save money in the long run instead of trying to limp something along. Plus you control your costs more (knowing what it costs to install new and to maintain it correctly) on the front end of any problem.
Just go through your checklist of items that could cause issue, and especially on the easy and cheaper ones, consider doing them every time in your properties:

- Bathroom(s): Toilet, Faucet, water lines, and shut off valves
- Manifold for bath/shower
- Kitchen: Water lines, faucet, and shut off valves
- Hot water heater
- Running the main sewer line for tree roots and debris

The time and money spent on the front end will definitely be worth the lack of headache after the tenant is moved in, and you'll create a more controlled environment over your costs. What else do you do for your properties to have fewer calls, less maintenance costs, and happier tenants?

Source: http://www.biggerpockets.com/renewsblog/2015/08/27/couple-awesome-money-saving-tips-rental-lastphone-silent/

Can Buy & Hold Real Estate Fund a Comfortable Retirement? Check Out the Numbers!

I LOVE spreadsheets—lots of information, details flying around everywhere, on everything from expenses to profits. I love detail. The more, the better. We as investors spend a ton of time pouring over P/L sheets and rent rolls for our current and future deals, and we have to.

However, I had an interesting conversation with a real estate broker a few weeks back over lunch, and while chatting about a potential real estate deal, he said something very interesting. After we spent some time dissecting a few different scenarios on a couple of different deals, such as the locations, the neighborhoods, and our plans with the units, etc., he asked us, "How long do you plan to keep the units?" There are lots of specific questions in understanding the in-depth numbers and the specifics on cap rate, etc., if you really want to grasp the whole deal and know what you're getting into.

The next thing out of his mouth caught my attention.

He said something to the effect of, "I know guys who can say they've owned the building for 20 years—they're the ones making money." I sat back in my chair—and it really made me ponder.

On the day to day it's easy to get tied up with the little things, like service calls and repairs, or an over-texting tenant, and it's easy to lose sight of what the end goal is—and for us, that is holding properties for long term cash flow, which then equates to long term wealth.

An Example

Let's say you buy a single family rental for $100k and put your $20k down, and you own in a traditional type of financing scenario. You get a long term mortgage note on it for 30 years at 4%, and the property rents for $1,100.

- Mortgage: $381
- Expenses (taxes, insurance, repairs, cap ex—45% of rent): $495
- Cash Flow: $224

This is obviously very general, but for simplicity's sake, you have $224 cash flow after expenses. Not to mention you are now depreciating your property, and the tenants are paying down your principal balance. You're off to a great start.

Now, if you look at the 5, 10, 15, and 20-year marks for this property, what would you still owe on it?

- September 2020: $72,217.27
- September 2025: $62,855.33
- September 2030: $51,424.42
- September 2035: $37,467.33

So the tenants have beaten up the house a number of times, and you probably put a new water heater in at some point, along with some windows and maybe even a roof. You cleaned it every few years, or maybe you got lucky with some amazing tenants who stayed for years with little vacancy. Either way, looking at the 20-year mark with this mortgage payment and amortization, you have a house that you bought for $100k, renting for $1,100 (which, who knows what it would be in 20 years, but presumably more), and you now owe less than half of what the property is worth.

The $100k house is now worth, say, $125k.
– $20k you originally put down
– $37,467.33 (remaining mortgage balance)
= $67,532.67 in equity

That's pretty awesome, right? Not to mention all the cash flow you have earned over the years—if you made your $224 monthly, that's:

$224 x 12 months x 20 years = $53,760 in net cash flow

Can you say AWESOME? #winningwithcashflow

Yeah, I think so. With an asset you now own with less than 30% loan to value, you can now do a few different things.

1. Sell & Take Your Gains
You will need to work out with your accountant what kind of tax burden you have and whether or not you want to 1031 exchange, but either way, you sell for the $125k the property is worth.
Sales Price: $125k
Mortgage Balance: $37,467.33
Realtor Fees (6%): $7,500
Closing Costs (1.5%): $1,875
Net: $78,157.67

2. Do Nothing, Keep Paying, & Keep Renting…..
…What if You Bought 10 Properties?...

Source: http://www.biggerpockets.com/renewsblog/2015/08/30/20-year-reason-buy-long-term-hold/

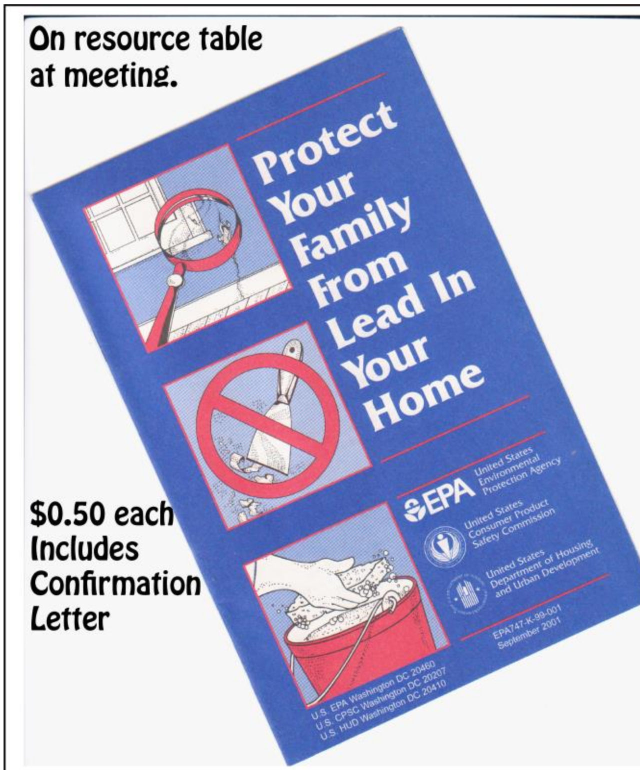
5 Legitimate Reasons to Allow a Tenant to Break Their Lease
Continue from page 2…

They're Simply a Pain in the Neck
Some tenants just end up being a pain in the neck. They seemed like a good fit during the application process, but once they move in, nothing is ever right for them. Nothing can ever be fixed properly, they complain constantly, they are late with the rent and other payments. They are just a pain in the neck and sometimes enough is enough. When is that point reached? It is hard to say, but sometimes it is best to just say something like, "I do not think this is the home you are looking for, as I cannot seem to meet your needs. I will be happy to let you out of your lease so you can find something that better fits your needs." They will either move and you will be rid of the problem, or they will tone themselves down. Either way, hopefully your problem is solved. Sometimes it is just better to get out of a bad tenant relationship.

Conclusion
In sum, we try not to let our tenants break their lease for foolish reasons, but we do understand that sometimes it is a necessity due to circumstances that may be beyond their control or for us to get some peace of mind. How and when you decide to allow your tenants to break their leases will be up to your local laws and your own personal opinions and business practices. Whatever you decide, keep the lines of communication open and try to maintain a good rapport with your tenants. Let them know that they can come to you if they need to discuss any situation. Don't get angry. Keep everything professional and business like. After all, sometime breaking a lease is good for both sides.

Now it's your turn to weigh in: Have you been forced to break leases with tenants? If so, what were the reasons and were you happy with your decision?

Source: http://www.biggerpockets.com/renewsblog/2015/01/05/tenant-break-lease-legitimate-reasons/



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CDARPO members represent the entire Capital District –
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½ Page	$ 300	$ 500	$ 800

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Display Size	3 mos	6 mos	1 year
Business Card	$ 68	$ 132	$ 200
¼ Page	**$ 120**	**$ 225**	**$ 345**
½ Page	$ 225	$ 375	$ 600

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CDARPO can help.

We offer 10 newsletters each year, general meetings with professional speakers, and members with years of experience.

Next Meeting

Thursday, September 10th

Best Western plus Franklin Square Inn
(Across from Dinosaur BBQ)
Troy/Albany
7:00pm – 9:00pm

1 4th Street
Troy, NY 12180

Meetings are held on the 2nd Thursday of each month September – June.

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