

Dave Poletti & Associates Presents

The Seattle Landlord Report

A Monthly Publication to Keep Our Clients Informed

RENTS—DO THE MATH

January 2011

It is natural to want to obtain the highest rent possible when your property is vacant. A long vacancy can cause frustration, anxiety, and anger. However, holding out for more money can be more costly than you think.

When this situation occurs, it is better to use a mathematical approach. Write down the expenditures for your investment and this can indicate to you if it is worth the risk. Consider everything it takes to support the property for one month. It can be mortgage payments, taxes, homeowner association dues, insurance, repairs, gardening, and any other expense required to maintain the unit. Even if the mortgage is low or non-existent, can it really pay for a rental price that is not attracting a tenant? If the property is in a negative position, the picture can be worse.

Here is an example of the expenditures of an investment property and determining the rent.

Mortgage	845
Taxes & Insurance	145
Management cost	100
Gardening	50
Repairs	50
Total	1190

The above property has been on the market while occupied for thirty days and now vacant for two weeks. The asking rent is \$1200, the property is in good condition, and it is in a good neighborhood but there are no applications. The Property Manager calls and requests the owner approve a rent reduction of \$100 because of the competition and the slower economy. This property will cost \$1160 for a month of vacancy. Already, the two-week vacancy has a loss of \$580. If it is vacant for six weeks, it will be \$1740; two months would be \$2320

If the price lowers and the property rents within 2 weeks, the loss will only be \$1160. Now that you have seen the math on this property, is it worth it to keep the higher rent if the activity is non-existent? There are no guarantees that the right tenant will apply even with the lower rent, but the odds are greater.

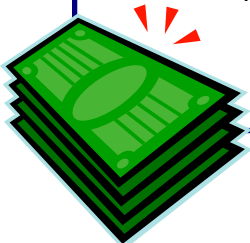
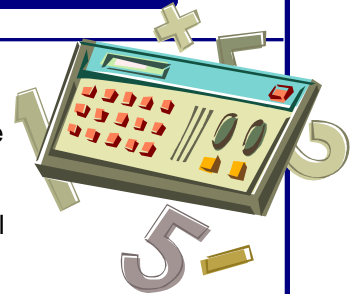
Now it is time to apply a reverse example of this same math. The owner of the above property will not lower the rent and the property remains vacant. The rental now has been vacant for six weeks so there is already a loss of \$1740.00. Prospective tenants apply but their rental record and credit is not good. This is a tempting situation but not a good one.

Although there has already been a loss, a destructive tenant can

create a greater loss than that of the vacancy. Generally, a poor tenant will not pay the rent. More money is lost if attorney fees are needed to evict the tenant. This is often major damages when tenants default. The impulse is to give in and rent to the unqualified tenant to stop the rental losses. It is NOT worth the price.

The smarter choice - lower the rent and attract the right tenant. Qualified tenants know the rental market.

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They will simply ignore those asking too much and rent a comparable property for less. There is still no guarantee that the property will rent but picking the wrong tenant is still the wrong choice.

It cannot hurt to try a higher rent if the market indicates properties are renting quickly. However, if the property is still vacant, it is time to think about doing the math and reducing your liability.

In The Clouds with Appfolio

We have been making upgrades to our internal systems and computers systems getting ready for our debut partnership with Appfolio software beginning January 1, 2011.

After researching the property management software market for the past two years and finally came to the conclusion that Appfolio is by far the best product out there.

Appfolio is based in Goleta California and has quickly become the leader in the property management software industry for homes, condos and apartments. Appfolio is a cloud based format which is how most software will be hosted in the future for added safety and security. Our previous software company was great for many years but we felt they shifted their efforts to larger portfolio type management companies. We wanted to ensure our tenant/owner/property information and communications were solid moving forward.

Our property owners will see a vast improvement in the look and feel of the monthly statements and reports. There are some new features coming in the near future as well.

Tenants will be able to go online in a portal to see their current balance. They will also be able to make an ach online rent payment with no fees. Currently there is a small convenience fee to pay online. We want to eliminate this third party fee altogether for our residents altogether.



Happy New Year!