

Get Real

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Get Real Podcast Episode: 037

“Getting Your Head Straight About Raise Your Rents”

Hosts: Ron Phillips & Angela Thomas

Welcome to The Get Real Podcast, your high-octane boost and in the trenches tell-it-like-it-is reality therapy for personal, business and real estate investing success with your hosts, powerpreneurs Angela and Ron. It's time to *get real!*

Angela: Hey everybody. Welcome to the Get Real Podcast. I'm Angela Thomas and I'm here with Ron. Hey Ron.

Ron: Hey coming at you from sunny, very hot, very humid, South Carolina.

Angela: Nice. Not the time of year. I want to be out there that humidity.

Ron: Although I will say this, I went to the beach yesterday and there were no tourists. It was the most blissful, beautiful thing you've ever experienced in your life. I went to the busiest part of the beach no human beings.

Angela: They already left?

Ron: Yeah, school's starting. So we're almost back to we're almost back to normal.

Angela: I'm pretty excited for school starting too. I just clears everywhere out, man.

Ron: It does the great time to visit Charleston. But please don't come.

Angela: But stay away.

Ron: Please don't come. This is the time when we enjoy our own place here, so don't come.

Angela: All right. All right. Got it. I'll just have to move there if I want to come out. Okay. So, today we're going to talk about, you know, you already owned properties and when is it the right time and how do you know when you should raise your rent? And we're kind of going to talk about, you know, all the different aspects that go into that and what you should be thinking about. And then, you know, leave it up to you guys. Ultimately, obviously if you own the property, it's your decision, but we're just going to talk about all the different, you know, pieces that go into that and different concerns you might have. And...

Ron: And we're going to talk about the good, bad and ugly.

Angela: Yeah. And we're going to get real about it.

Ron: This is The Get Real show. So we're going to get real about it. And you know, this is, this is something, even if you don't own property, you need to consider, right? Because maybe you're buying a property that that needs to be fixed up. And then you know, what happens when you fix it up. Are you going to raise the rents? What do are you going to do, you know? And this is stuff that real estate investors deal with. Real real estate investors deal with all the time, right? A lot of you guys that are out there, you buy properties that are turnkey, that's kind of already been done for you when you first buy, right. Somebody has already done that, so you didn't have to, you didn't have to worry about it. You don't have to deal with it.

Angela: Hopefully somebody has done that. So yeah.

Ron: Yeah. I guess we can't really know.

Angela: I don't know if you're buying it with low rent, you know, and you're not getting a good return then you probably should raise it still. So. But Ron you see this alot...

Ron: Hopefully you just didn't buy a property where you can't raise the rents and the returns still suck. Because that really is, that'll really bite.

Angela: Now what properties can't you raise the rent on?

Ron: Well, ones that it's already too high and you just paid way too much for the property.

Angela: Oh yeah, yeah, yeah.

Ron: Then you got to wait.

Angela: Okay. Yeah, yeah. You can only raise them so high. They have to fit in the market. So, Ron, I mean, most of us out here, like, you know, the properties I buy are already negotiated by our company and the rents already, you know, you're already getting a great return on the money you invest, but you go out there and you look for those big, you know, those apartment deals. And a lot of times you have to raise the rents to even make it to even get a return, right?

Ron: Yeah. I mean, well we try to, we buy properties where we're going to get a decent return anyway, but the idea is to, you know, renovate the properties, increased the rents, decrease the expenses and you know, create a really significant profit margin. And this is just like any other business, right? If you bought, you know, Joe's hamburger shop down the street, the idea is the same, right? You want to lower expenses, you want to try to lower your food costs and you want to try to raise the price of a couple of things, get things that have more of a profit margin so that you can increase the spread between your expenses and your income so that you could have more net. So it's unlike

any other business, there's just different pieces that you have to deal with. One of those pieces is your rent. That's your income, right?

Angela: Anyone out there watch The Prophet? One of my favorite shows ever.

Ron: Oh love that show, love that show. And it's fantastic, you know, for a reality TV show, it's one of the only ones actually out there that that gives you some nuts and bolts of how business works.

Angela: Yeah, it's really fascinating.

Ron: It really is. And different types of businesses. Yeah, I recommended it, I watch it when it's on, I'll watch it sometimes when I'm, you know, wasting time on the treadmill. Not very often.

Angela: And it always gets me thinking. Yeah. Marcus Lamona is, I mean, he's, he's a smart guy and he, it's really cool how they show you how he makes the decisions he does on, you know, cutting down their product line and raising the prices on certain things and all these different things of course, to be profitable. So I just think that's an awesome show. You should check it out if you haven't. Everyone's probably already watching it, but...

Ron: Yeah, absolutely. 100% agree. Definitely check it.

Angela: Yeah. But yeah, this is a business like Ron said, so like when Marcus goes into those businesses, he doesn't, you know, it's just business decisions to him. He keeps the people that are dedicated, the business people are super important to him. But he keeps the products that are profitable and raises the price on things that aren't making money.

Angela: And there's no thought as to, you know, I mean, you're not worried about upsetting anyone with raising the prices because it's a business decision and you're basing it, you know, you have to price it fairly so that people will of course buy it. So it's kind of the same thing here. It's, you're not, you can't think too much about, I mean, I'm sure there's people out there that have properties that aren't making a good return and they're concerned about upsetting their tenants. And you know, you don't want to be a jerk or you know, price it so that, you know, it's out of everyone's range or it's, you know, crazy.

Ron: That would be a bad business decision.

Angela: That would be a bad business decision because then you can't fill it, but...

Ron: Right. So I mean if you, if you raise your rent above what market rent is, it will not rent it, it will sit there for a long time and you will lose money ultimately. And in addition to

that, you know, this is for, from the beginning of this, let's take this as, it's kind of a math, it's a math question, right? This is just does just a numbers question. And people get really worked up about this. Like they don't understand how the math works and it's pretty simple really. You know you're going to have, if you raise the rent and the person that's living in your property moves out, you're likely going to have 30 days with no income, right? So let's say your rent is \$1,000 right? And you want to raise it to \$1,100 the market bears that out. It's worth \$1,100 bucks, right?

Ron: And you're going to have a month worth of vacancy, okay? So that's \$1,000 bucks. And then you're going to release the thing for \$1,100 bucks. But in addition to that, you're probably going to have to do some touch up paint, or you're going to have to paint. You going to have to clean the carpets, you're going to have to do some things to the property to turn the property. So it's not like you're just losing \$1,000 bucks. You're going to lose some more money making the thing ready so that you can rent it for \$1,100. So the math problem is this, you're going to get an extra \$100 dollars a month for 12 months. That's what a typical lease term is. That's \$1,200 right? So, you can, you can raise the rent \$100 that's going to get you another \$1,200 but it's going to cost you the \$1,000 dollars in rent plus that you're going to lose for the 30 days.

Ron: Plus it's going to cost you whatever it's going to take to turn the property. So if those two numbers are equivalent and moving forward, you're going to keep getting \$1,100 well then that's potentially a good deal. If the numbers work out in your favor when you do the math, well then you should probably do it. But if you can raise the rent \$50 and your tenants stays, now all of the sudden the equation changes because now you're getting, you're not getting \$1,200 anymore, you're only getting \$600 more. And that \$600 minus a thousand means you're losing \$400 that year if you increase the rent \$1,100 instead of \$1,050 I don't know if I just lost everybody there, but...

Angela: I got it. So if you're greedy, you could end up losing money here is what you're saying. I mean...

Ron: Right. So if you get too greedy and the person goes, man, screw you. I'm not paying that much. I'm leaving right now. You've got a vacancy, now you're gong to lose income. Plus you've got to turn cost, right? Also, you can make an extra \$1,200 when you could not be so greedy. Raise the rent, \$50 make an additional \$600 and lose \$0 dollars, right?

Angela: Exactly. Yup.

Ron: So you got to be smart about this and this is where, you know, part of where you need to trust in your property management company to tell you what the actual rent is so that you know what the rent could be so that when you make your calculations, you're making them accurate.

Angela: So let's talk about that for a second. Ron, can you, can we talk about like how do you go about figuring out what the market rents are? What's some of the best ways to do that?

Ron: So there's several different sites that you can go to and where they have different rents that you can pull comps but your property manager can do the same thing for you. And then you don't have to do it for yourself. They can pull comps in your area and they can also pull comps in most of the market places, they can pull comps off of the multiple listing service too. So they have an additional one that you actually can't access. They should be pulling comps from all these different places. In addition to that, the thing that they have that you don't have is they're constantly in the market renting these properties. And we know the neighborhoods because you can comp a place and you know, if you go one way, I don't know, 10 blocks and you go the other way, 10 blocks, well the prices could be drastically different.

Angela: Drastically different, yeah.

Ron: Those two neighborhoods, right? Depending on the marketplace. So it's really important that you have somebody locally that you can trust. Now, I'm always a fan of trust, but verify. So if you get some numbers, well you can check them on your own or you can call around and see what other people think about the price and if they're all within the same general amount, you know, like \$25, \$50 a piece spread. Unless there's some kind of a significant difference, then I would trust, unless you have another reason not to trust them, I would trust your property management company.

Angela: All right. Let's just say you're crazy and don't have property management. No offense to, you know, those people...

Ron: There's a twelve step program for you. Go back a few episodes where we talked about that, but yes. Okay.

Angela: So, I actually, sorry, real quick, I had a guy come out, so a golf ball broke one of my windows in my new house the second week I was there. Awesome. That's what I have to pay for that view. But I had a guy come out and do a quote on the window and then he started telling me about how he owned a bunch of properties out in Rose Park, which is not a great part of Utah.

Angela: And how he absolutely loved managing them himself. He loved it. He just, he was great calling up those tenants and I'm like, oh my gosh, I actually met one of these people that we've heard about. So I met him in person.

Ron: I mean listen, they exist. It's not like bigfoot...

Angela: So I know your out there.

Ron: There are people who like this stuff and you can meet them in person, in their own habitat. You can meet them.

Angela: But he was selling windows. So I'm not sure how well his properties were doing, but. Anyway, so what do you do if you own your own properties? You're managing them yourself and you're trying to figure out what the market rent is?

Ron: If you own properties, you're managing them yourself and you don't know how to determine what the rents are. I'm just going to...

Angela: Oh come on there's got to be somebody out there.

Ron: I'm just going to say it again. You probably shouldn't be managing them if you don't know how to do that.

Angela: I shouldn't have known that was coming.

Ron: Okay. Secondly to that, there are several sites, if you do a cursory Google search, you can come up with them. Renta Meter. Zillow has them, although you know, you can trust Zillow about as far as you can throw it.

Angela: You can't really trust those.

Ron: But you should always compare like two or three different sites because then if one is completely wacky, which is probably going to be Zillow then you can throw that one out and you can average them between the other ones, right. Like you get somebody, if you get a whole bunch of people come to your property and everybody's putting a whole bunch of applications in, chances are your rent's too low.

Ron: So I told this to one of the guys who was working on my house one time, the guy was coming in and working on my house and I constantly called him back because he's like half the price of everybody else, half. And I asked him one day, he came in and I said, hey man, do you ever lose a bid? Have you ever lost a bid ever? He goes, no, I don't lose bids.

Angela: I don't lose bids.

Ron: I said, you might want to increase your prices until you lose a bid. Why would I want to do that? I'm like, dude, because you have no idea what everybody else is charging, right. So one of the ways is you put your market, you can market your property and just see what kind of activity it gets.

Angela: Yeah, that's a great way.

Ron: Who says you have to lease it to people. Market it and see what happens and if there's a million people that hit it, odds are you're probably too low on your rent. I would do all of the, you know, the research prior to doing that. But there's nothing wrong with just testing the market and seeing what happens a particular property. But yeah, I mean we,

if you rent your house in two hours, probably you gave some money away, probably left some money on the table, right? You should have to sell a little bit to get somebody in your property.

Angela: Cool. That's awesome. All right. So you know, that's for those people that decided to manage their own property, but for everybody else.

Ron: God help them.

Angela: Yeah. The property management company really helps with this because I mean it's, it's hard to go to your tenants and say, you know, we're raising rent, especially if they've been awesome tenants and they've been with you for awhile. It's one of those difficult conversations that nobody really wants to have or most people don't. So that that buffer between you and the tenant, that property manager is super helpful, but for so many reasons. But this is a huge one because they'll just do it businesslike. They won't be mean about it. They'll just, you know, they'll just tell them this is what we're raising it to based off the market and send them their new, you know, lease to sign. And...

Ron: Yeah, I mean if you own a house in a market, whatever the market is for several years, you've never raised your rent, you might want to just take a look at what the rent appreciation, you can pull rent appreciation charts off of Google as well. Search, rent appreciation and search in your marketplace. And it'll tell you, you know, it's gone up 2% 3% 4% and if you haven't raised it for three years and it's gone up 3% every year, you know, that's 10% and you should raise your rent, right.

Ron: And that means that they can't, there's nothing that they can't go find something less expensive because you're under rented, right. Now there's something to be said for that. Right. If you are just under what the market is, odds are they're not leaving unless they find somewhere to buy because they can't find anywhere as nice as your property because you're under market rent. So this is a business decision. Some people don't want any turnover ever. I would love that personally.

Angela: Turnover's expensive. Why would you spend, yeah?

Ron: Turnover's expensive, right. Yeah. And again, it's a math problem, but if you're just under the market, and when I say just under the market, I don't mean like \$200 a month. I don't mean, I don't mean some massive amount under the market. I mean just under the market where if they actually said, hey, hun our lease is coming up, we should take a look. And they look and they go everywhere is a little bit more expensive than here. And none of them were really that much nicer.

Angela: Yeah. And then why would they want to bother moving?

Ron: Moving's a pain in the butt. Nobody wants to do that. But people will do it once there's enough pain in the price point. Okay, so this is, there's a balancing act here and your,

again, your property management company can help you with the balancing act because you don't want your tenants moving out just because, but you also don't want to leave a whole bunch of money on the table right. Now that's all for a property that you own and it's already got a tenant in place and your, you know, the numbers look good and everything's fine. How much did I raise it a year kind of a thing, right? But what happens if you're looking at a property that's kind of torn up? It's got a tenant in place and it's way under rented, like way under rented, then what do you do? So now, I mean, I have and this is something that there's going to be somebody listening to this who's going to say, yeah, what do you do?

Ron: Because it negatively impacts people to raise rents and they have to move. And especially if you're on the lower end of the rent spectrum, right? Because then it really affects those people. They don't really have enough money to move. They don't have, I mean, many of them don't have enough money barely to pay the rent. And so, you know, if you, if you increase the rents, it negatively impacts people. So if we're getting real on the show when I buy an apartment and I go in and put \$1 million worth of rehab into that apartment necessarily, some people in that apartment are going to have to move and go find somewhere else to live because they're not going to be able to afford it, right?

Ron: So does that make me a bad evil person that I'm buying a place where these people have been renting and they, they necessarily need to move now? I don't know. Some people say that say that I am, right.

Angela: I would say you're a business owner. So, you know.

Ron: You know, sometimes I feel really bad. But here's, here's the other thing. I was just doing due diligence on an apartment building last week. And I walked through this apartment building, literally could not believe that the people who owned it hadn't been sued. It was so bad where these people were living. And so, you know, we're going to buy that apartment building and we're going to put a couple of million dollars into it to, you know, make it a nice place and a safe place for people to live. Which it is not right now. No one should live in what they are living in currently, right? So am I a bad, horrible person? I don't know. I mean, I guess you could say that I'm somebody who is paying \$350 to \$400 in rent, you know, where do they go and pay \$350 to \$400 in rent?

Ron: I don't know. They probably should go see section eight and get a voucher. That's what I'm guessing they should go see section eight and get a voucher because at least section eight is going to force some responsibility of the ownership where they're living in a place that they have air conditioning and they're living in a place where, you know, there aren't roaches all over the place and they're living in a place where the windows aren't broken out and are boarded up while people live in them. And I mean you guys, you guys wouldn't even believe this, right? The sewers were backing up into the downstairs units and flooding the floors and they would literally, they come in and then squeegee them out and mop them up and didn't fix the problem.

Angela: Alight, nobody should be living in that.

Ron: I mean the roof's leaking and nobody does anything. They go in and they repaint the ceiling so it looks, and they don't fix the roof. So I don't know. I think, you know, I think there's a misconception out there that people who go in and do this and displace folks because the reality is situation is there's going to be a lot of people in that apartment building going to be displaced. Hopefully when they leave and we, you know, give them the address to go get a voucher from section eight, they can go find a place to live that's actually suitable for human being.

Ron: Because the place I walked through wasn't, and we're going to make it that way. So in order for us to do that, when we put a couple of million dollars into that property, we have to raise the rents, right. And they are way under rented and they're horribly mismanaged to the point where I, again, I can't believe that they haven't been sued. Or at least they haven't even been on the news, right. Nobody's even called.

Angela: Not that we've seen.

Ron: And the only reason I can figure that they haven't, it's probably because some of the people who were living in the building are, you know, not the greatest of human beings. I'm assuming that many of them, based on some of the reports have some trouble with the law and they probably aren't the first people who are going to call an attorney and they're probably the not the first people who are going to want to go get on the news either, right? So is it a horrible thing to raise rent on people and they have to move? I guess it depends, you know, for just raising rent to raise rent and, you know, a lot of people are going to have to move out then, you know, maybe that's a judgment call on you.

Angela: Yeah. Yeah. We'd love to hear what you guys think, you know about this topic and obviously the ultimate decision is up to you as the, as the owner of the property, but you know, you didn't buy the property as a charity, at least most people. So, yeah, like Ron said, I mean I believe it's better to increase the quality of living for the people that can stay there. And to not let people live like that. That's horrible. So.

Ron: It was, yeah, it was brutal. And you guys, I mean if you're in the real estate business, you see that stuff all the time. You can't believe people actually live in certain places.

Angela: In these houses. Yeah.

Ron: And I can't believe that are actually, I mean, if you want to buy a place and live in it and continue to live in it like that and it's your own place, that's fine. But if there's some slum lord who has taken every cent out of a property and has never put any money into it, those people I have a pretty big problem with because they're just sucking money out of property and they don't fix anything for their tenants. Now that said, a rant over raising rent is not a bad thing. This is a business. It's the same as if you run a business

and someone who is working for you is just not working out. Sometimes you just got to let them go. And does that impact their life? Does it impact their livelihood that they've lost their job?

Angela: Hey, I love that comparison. That's great.

Ron: Yeah, it does. But the reality situation is that the tenants are quote your employees. They're the people are paying their the income from the generators from the business, right. And if either they can't pay or they're not paying enough because the business has to make a profit, otherwise it gets foreclosed on and then everybody gets kicked out. You know, you have to make money. You have to be profitable. So please will you do whatever you want to do. I don't feel bad about raising rents to market rate. The market dictates what we can get. And the properties that I own are nice. So I don't have any problems charging that much money.

Angela: Yeah. So to recap, you know, just remember that your relationship with tenants is a business relationship and you know, at least consider having a property management company to help you with these kind of issues so that it doesn't have to be such a headache and emotional drain on you. So.

Ron: Yeah, because it doesn't have to be at all if you let them do it.

Angela: Yeah, it doesn't.

Ron: So we're raising the rent of this. Could you please do that? Yes.

Angela: Yeah, exactly. You don't even, you're just here if they accepted it or not. So yeah. All right, well, that's all we got to say on that. We'd love to hear what you guys have to say. Please leave us a comment and reach out to us. You can go to GetRealEstateSuccess.com and let us know what you think. Shoot us a message, leave us a comment. You can also subscribe to our podcast and also check out, Get Real Podcasts on Facebook and Instagram. So yeah, we'll see you next time.

Ron: Raise those rents people, raise those rents.

Angela: Okay, thanks Ron.

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