



THE PROPERTY INVESTOR

The Publication of the Joliet Regional Landlords Association

From the Desk of the President:

January - February 2009

What are We Wishing For?

All the change and upheaval in the real estate market these days, and constant barrage of bad news headlines probably has a lot of investors wishing better times. There is an old saying that all real estate is local. While many areas of the country are experiencing a crushing contraction, our local market here in the Joliet/Will County area is seeing a much milder contraction.

For many of the same reasons that we did not experience a massive building boom and hyper expansion of real estate values, we are not seeing such a precipitous drop either. While this is not 2005, it's certainly not 1930.

If you could design the perfect environment for real estate investing, what would it look like? It would probably contain:

General Meetings

Kipling Estates Clubhouse
850 Wynstone Dr., Shorewood IL

2/11//2009 @ 6:30General

4/8/2009 @ 6:30General

6/10/2009@ 6:30General

JRLA

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- 1) Plenty of Low priced properties ideal for rentals
- 2) Rising rents
- 3) Low cost financing
- 4) Strong rental demand
- 5) Diverse job market
- 6) Low risk of future competition
- 7) Cooperative local government
- 8) Stable or increasing property values

Looking at our local market strictly through the eyes of an investor, it doesn't look too far different from our list. While we don't have everything on the list in our market, we have most of the items.

Currently the market is filled with low priced properties that will produce a positive cash flow with a small down payment. There are foreclosures and short sale deals everywhere allowing the investor to buy even lower.

Examining our rent surveys covering 2004 – 2008 and scanning the current newspaper ads, shows that rents are stable and rising in some areas (particularly in the west and far west areas). This period covers the time when renters were moving from renting to purchasing and our current situation.

While money is cheap now, the major flaw in our market is the availability of low cost financing and favorable terms for investors.

Board Meetings - Members Welcome

3 /25 /2009 @ 7:00 Board

5/27/2009 @ 7:00 Board

8/26/2009 @ 7:00 Board

At The Lockport Library - 121 E. 8th St.

Demand for rental units remains strong. The number of "For Rent" ads is way down from 2006 and 2007 levels. Rising rental rates in this market speaks to the good demand.

The job market in the Joliet and Will County area has not been dominated by any one company or industry for a long time. This diversity not only dampens the effect of a slow economy, but also means that we are not susceptible to an economic tsunami when one large employer has a major lay off or moves out of town.

Due to our friendly local government, we have small worry of a new major apartment complex being built. On the contrary, apartment buildings have been discouraged or outright banned. The city has been down zoning and tearing down marginal structures while a number of apartment buildings have been going condo. The city's rental inspection program, while at times can cause some headaches, keeps low cost/low rent properties off the market. Overall it helps in stabilizing some areas and protecting the value of existing properties. While we would like our local government to be more sympathetic to our concerns, many other towns have been downright hostile to landlords. Outright rental bans in certain areas and rental inspection upon every turnover of a unit exist in other towns.

Finally we would like property values to rise however this is a double edged sword. We have seen this ourselves as values rose faster than rents in 2005 & 2006 making it extremely hard to find new properties to invest in that would give a positive cash flow.

The whole point of this exercise is to take a calm, more rational evaluation of exactly where we stand today to better allow us to plan for the future.

A lot of our market fundamentals probably explain why we are not seeing the same contraction of property values as many other cities. Many of these cities are also seeing a decline in rents as properties are being dumped onto the rental market in desperation.

I would love for investor money to be more available while the deals are still plentiful. Since we have not contracted that much and don't have the same size of backlog of properties on the market as many other areas, I believe prices will firm quickly once the financial industry stabilizes and confidence returns to the economy and to home buyers. When will this happen? I don't know. I do know we will pull out of it sooner rather than later unlike many other parts of the country that will be working off this hangover (southern California, Miami) for many years to come. Some cities such as Detroit may never come back.

- **Bob Ruda**

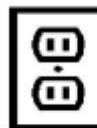
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J R L A - A d v a n t a g e s o f M e m b e r s h i p

Being a member of JRLA gives you valuable tools for being a landlord. Your membership includes the following * free information on all aspects of property investing * vendor discounts * networking and sympathy - We've been there, done that. * information packed membership book, newsletters and operational forms * educational and fun meetings * legislative updates on landlord bills * website with free downloads * membership in the statewide organization of organizations called IRPOA (Illinois Rental Property Owners Association) with great bi-annual landlord convention * discount collection accounts * free membership with NTN for instant credit checks for \$9, and much, much more...Membership is \$65 per year.

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Mrlandlord.com Tips On Management

START PRACTICING YOUR "SORRY TO HEAR THAT, BUT..." SPEECH

In the next few months, more and more landlords will be hearing various versions of resident stories of how they are facing tough times, for example: A landlord recently shared on the popular MrLandlord.com Q&A Forum how he has a good tenant of approximately 3 years. The tenant hasn't been laid off, but hasn't been working much either lately due to the economy. He has said he will be late with October rent and can't pay any of it right now. He is working on a couple of options. 1. Interviewing 2. Help from his church. 3. Trying to get his vacation released/paid off early. I know going by the book says to start the eviction process, but I just wanted to get others' thoughts. I really don't want to lose this guy and feel he will pay up when he can. How long that is, I don't know. Your suggestions are appreciated.

As one landlord advised, it's time to give the SORRY TO HEAR THAT, BUT.... speech - Sit down on the front steps and level with this guy. "Yup, sorry to hear that. Sure isn't fair ... You've been a good tenant and I hope you can recover from this.. but... If you can't pay all the rent by xx/xx/xx, I'd like you to move out voluntarily. No hard feelings. Will you do that?" Instead of going the eviction route (takes time and money), see if you can get him to move voluntarily if he can't pay the rent. Folks, we better start practicing this "sorry to hear that, but..." speech (or some form of it) because landlords are going to see a lot of tenants like this example.

DO NOT DIRECT RENTAL APPLICANTS AWAY!

There are some landlords who really prefer not to rent to families with children for many reasons including possibly greater wear and tear on the property, teenagers attracting other teenagers, or more potential noise or other problems. Thus, some landlords when approached by rental applicants with children try to kindly suggest or direct those applicants to consider other homes or apartments where the children would "better fit in" or where there are other children the same age.

Regardless of whatever reason a landlord may not want children or teens in their particular home or apartment, to even 'kindly' suggest or direct families with children to other buildings or neighborhoods is considered 'steering' and this is illegal. Even if a landlord honestly thinks that their home is not ideal for children (for whatever reason), the landlord must leave it up to the applicant to make the decision that a home is or is not suited for them. For a landlord to not give an applicant the opportunity to rent a home and direct them elsewhere can be a very costly mistake, should that applicant contact fair housing officials. The moral of the story - Treat everyone the same, no matter the number of children and definitely do not try to direct or steer applicants to other units and not allow them to apply to your property.

A LANDLORD'S CAUTIONARY TALE

One of my tenants had ME arrested recently, for rescuing what appeared to be an (unauthorized) abandoned dog from their apartment . Two 20-something sisters have been renting from me since last September., and things were fine, but 6 months in to the rental term conditions gradually deteriorated - with late rent, sleep over "guests", a new baby out-of-wedlock, increasingly poor housekeeping, and finally a dog that appeared without prior permission or a pet deposit.

Then no rent for September or October - so I began calling and visiting regularly - hoping to avoid an eviction. At some point they stopped responding to my calls completely . Meanwhile there are three other good tenants in this quad, and for their sakes, I needed to monitor what was happening . After several failed attempts to find the sisters at home, I opened their door attempting to see what was going on. Small signs of packing, heaps of "stuff" everywhere, major population of roaches, two huge areas of rotten smelly food garbage - both inside and outside the front door, and a urine smell. And the dog was there alone - obviously using the carpet for it's relief. It seemed no one had been there since I'd checked a couple days prior.

I returned armed with bags and rubber gloves, and cleaned up the trash, along with a large amount of cooking oil that had oozed out of one bag all over the kitchen floor - lovely ! As I was getting ready to leave, I checked the dog's food bowl. The dry food had live roaches in it - and the water contained several dead floaters. It was obviously not being touched by the dog.

Being an animal lover, I realized that if I returned again and found the dog dead I would never be able to live with myself. It was late, I was exhausted, and so at the last minute, I decided to take the dog with me. My mistake here - is I should have called the police myself first. Instead, I brought the dog home, gave her a bath to wash her urine soaked butt, and went to bed.

I live 16 miles. from the quad. Apparently somebody had returned there after I left. At 12:30 am - a flashlight shone in my bedroom window - and I was "escorted" - with the dog - to return it to the owner - their Mother. She was all friendly as she took the dog - then the officer said he wanted to speak with her, and closed the patrol car door - locking me in. As he got back in - he said he tried to talk her out of pressing charges (which I didn't believe), and off I went to jail. Not a fun experience - nor a cheap one .

I know I had no business going into the apartment - but too late for such musings. Now I'm forbidden to contact them until after the arraignment next month. So I've no idea what's going on. I've always treated my tenants well, and with respect - so my remaining three like me very much. At least I can look in the mirror and feel good about who I am. But be careful - tenants can turn ugly real fast Editor's note: Reminder that most state laws prohibit landlords from going into your resident's home or apartment without first giving proper notice!

The above tips are shared by landlords on mrlandlord.com or contributors to the Mr. Landlord newsletter and reprinted with permission from MR. LANDLORD. For a free sample newsletter, call toll-free, 1-800-950-2250, or visit their informative web site at mrlandlord.com to register to win a free landlording book.

"The budget should be balanced, the Treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed lest Rome becomes bankrupt. People must again learn to work, instead of living on public assistance."

-- Cicero , 55 BC

A t O u r N e x t J R L A M e e t i n g

February 11, 2009 - Tom Athey - A Brite Company

Water, fire, smoke, mold & smoke remediation.

Also carpet cleaning and other maintenance tips
and disclosure laws.

April 8, 2008 - Mel Metts - Lake County Property Owners Association

Personal safety for landlords presentation adapted from
Arlington Heights Police department.

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1. From I55 and Rt 52 intersection, take Rt 52 west to River road.
2. Turn south on River road 1 mile to Beith / Seil Rd. Intersection.
3. West on Beith Rd. 0.4 miles to Wynstone Dr.
4. South on Wynstone Dr. 0.2 miles to the Kipling Estates clubhouse

Need a Map?

Check out the map to Kipling estates at our website JRLA.ORG

Joliet Regional Landlords Association

P.O. Box 2603

Joliet, IL 60434-2603

CORRECTED ADDRESS REQUESTED

Which Property Improvements Give the Best Pay back?

If you're thinking about remodeling the kitchen, or finishing the basement, you probably want to get your investment back when you sell your property. But when it comes to payback value of home improvements, some are definitely more profitable than others. As a general rule, kitchen and bathroom projects usually get a nice return on investment, typically 90% or more. Things like adding rooms or finishing basements tend to pay back the least. Finishing a basement usually returns less than 50%, so it's not a project likely to show profit at selling time.

There are a number of factors that go into determining how well a project will pay back. Payback value depends a lot on the current market conditions in your area. If the market is hot and homes are selling fast, you can expect a higher payback value than you would get in a slow market (like now).

The type of project you do and how it fits in with other homes in the area can have a big influence on payback too. If you put your money into the wrong type of improvement, you won't get your money back. But if you're smart about what you do, you can make money. The payback will be better on improvements that are in demand and conform to neighborhood standards. Adding a second bathroom in a neighborhood where most homes have two bathrooms will give a high return on investment. Building a large addition that makes your house twice as big as the other homes on the block probably won't pay back very well. Likewise, the popularity of a project will factor into how much it pays back. An improvement heavily customized to your tastes won't pay back as well as something more common to other homes in the neighborhood.

Another factor to consider in the cost of the improvements is if you are going to rent the property for some time before ultimately selling. If so, keep in mind that you will most likely need to re carpet and repaint and perhaps replace the appliances before you sell. Install "service" or "builder" grade furnishings now, and then add the "bling" just before you put it on the market. Consider putting a lot of money in the basement only if the property is small and in dire need of extra living space. Otherwise just clean out, clean up and paint the basement. Don't ever consider adding a pool (in our area) and I would recommend taking down any above ground pools.

The list below is compiled from several published surveys and shows typical payback for some popular remodeling projects:

- Kitchen remodeling – 90%
- Add a bathroom – 90%
- Bathroom remodeling – 80%
- Install central heating – 90%
- Install central air – 75%
- Add a deck – 70%
- Replace windows – 70%
- Add a room – 55%
- Build a pool – 45%
- Finish a basement – 40%



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The Importance of the Move-In Inspection Sheet

Tenant damage is an ongoing issue. You can't emphasize enough the importance of the move-in inspection report. Not only does it make it clear to the new tenant when he moves in that you are serious about the care of the property, but it sure serves its intended purpose of determining who is responsible for a repair when the tenant moves out. I still find it amazing that most of my tenants are seeing a move-in inspection for the first time when they move in to one of my residences.

In addition, many states make the move-in report a condition of retaining all or part of a tenant's deposit. In Georgia, the code says that a landlord may not retain a tenant's deposit for any reason if he fails to do a move-in inspection.

I doubt that I have ever had a tenant who had or could locate his copy of the move in report (yours is the copy signed by him or her) when they vacated. I have had a few who were very surprised when I showed it to a judge in court. While a tenant may contest the date your pictures were taken of the move-in ready condition of the property or the damages, having the signed move-in inspection sheet and pictures is iron clad proof.

This is important : Keep that digital camera in your vehicle ready for use. Tenant damage is a good time to use it. It's also good for noting parking violations, trash and garbage problems etc.

I think it is a great idea to have a tenant pay for a repair for something he damaged while he is still occupying the residence. The tenant should also understand up front that the repairs are subject to your final acceptance. His idea of a repair and yours may differ. I offer a standard list of repair costs for tenants such as replacement mini blinds, screens, toilet lids, towel bars, etc. Along with the inspection sheet.

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Protect Yourself at the Property - Part Two

Aug 24, 2008 | CHICAGO | *The 77-year-old South Side landlord who was set on fire last week, allegedly by a 28-year-old former tenant, has died. Harlan Hayes was pronounced dead at 12:15 a.m. Sunday, according to a spokesman for the Cook County Medical Examiner's office.*

Police responding to a fire about 2 a.m. Tuesday found Hayes screaming for help on a sidewalk in the 6300 block of South Ellis Avenue. Hayes told police he had answered an early knock at his door at 6319 S. Ellis Ave. when a former tenant drenched him with gasoline and lit him on fire. Hayes was initially taken to University of Chicago Hospitals in critical condition with third degree burns to more than 90 percent of his body. Hayes was doused with an accelerant and lit on fire inside his building, police said. A tenant who called 911 after seeing smoke coming from Hayes' apartment said Hayes had asked the alleged arsonist to move because of illegal activities in the apartment. He would not specify the type of illegal activities. The tenant said he thought he heard noises in the former tenant's apartment just before Tuesday's incident.

The former tenant, Donald Hardy, 28, of the 800 block of East 65th Street, was charged Friday afternoon with attempted first-degree murder. Hardy turned himself into Grand Crossing District police on Thursday after realizing he had been identified as a person of interest, police said. A judge denied bond for Hardy during a Saturday morning hearing.

(Source: Chicago Sun-Times)

Most of the time when we think about personal safety, we think about ways to avoid accidents on the job, but personal safety also includes ways to avoid being robbed or attacked. Like it or not, landlords engage in high-risk activity all the time. From working alone in vacant units to meeting strangers at all hours, it's a wonder we aren't victims of violence more often. The reality of this struck home when the landlord of the apartment building next to mine was robbed last December. This was done at gun point, on a Monday morning, outside in the parking lot, in full view of Interstate I 80! Police suspect an inside job rather than a crime of opportunity. The landlord just collected rent from a tenant, information not widely known outside the apartment building

This may be easy to pass off as an odd occurrence, nothing to do with me, but I had to re-think the situation. We think know our tenants, but how well do we know their friends and relatives?

While our tenants may feel it would be crazy to try to rob us and get away with it, we can't be so sure about their friends – or their friends' friends. An innocent comment by a tenant such as "It must be the first of the month because the landlord is here collecting rent" can give someone an idea. Pick up a few rents and you probably have more money in your pocket than the local 7-11 has in their cash drawer at any one time.

We are hoping to have a presentation in one of our future meetings on personal safety for landlords to help us be more aware.

M a i n t e n a n c e T i p s

Appliance replacement parts

Replacement parts - from refrigerator door handles and crisper bins to washer and dryer knobs, range knobs and oven door etc. - are generally available until the appliance is about 15 years old. Some manufacturers continue to maintain their own back-stock of original parts; others cede the replacement business to after-market suppliers. If you're caught needing parts on an otherwise-functional older appliance, try the following Web sites:

- www.partstore.com
- www.repairclinic.com
- www.partselect.com

Small appliances are often deemed easier to replace than repair, but such things as coffee carafes, blenders, blades, and microwave turntable trays are often available through the manufacturer's customer-service department or on their web site. Or, type the phrase "replacement parts" into your Internet browser, along with the brand name and model number, if available. It's a good idea, when you purchase an appliance of any kind, to record the model and serial numbers on the front of the owner's instruction manual, and staple your sales receipt to the manual. If you use a personal finance program on your computer, check to see if it has a "home inventory" module to help track model numbers and warranty information.

Water Heater Maintenance Tips

into a large bucket until it looks clear (usually about 5 gallons). If sediment levels are high in your region, do this monthly. Each year, check that the water supply is not kinked, bent or leaking. For best results, replace with braided, flexible stainless steel connector such as Fluidmaster NO-BURST. At least once a year, lift and release the lever handle on the temperature pressure relief valve located near the top of the water heater to make certain the valve operates freely and allow several gallons to flush through the discharge line. Make certain the discharged water is directed to an open drain.

Paint Spills On The Carpet

If the paint has dried, put some ice on it to get it as crisp as possible, then scrape with a dull knife. This will be tedious, but over time it can work if the rug is small and valuable. Or try applying Goof Off, designed to remove latex paint without hurting the underlying material, or Citristrip, a citrus-based paint remover. With either of these materials, try a small area to make sure it does not harm or stain the rug.

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Landlords Can Always Afford to Wait

By Robert L. Cain, Copyright 2003 Cain Publications, Inc.

We, as landlords, cannot afford to wait for the rent. Trouble is, many tenants believe we can. Enough tenants to populate a large city believe we get to keep as our own all the money they pay us in rent. They ignore, forget, or don't know that we have mortgages, insurance, taxes, maintenance or management expenses to pay. They have visions of us rolling in dough, and like Scrooge McDuck, having a huge vault where we keep our ill-gotten gains, and daily going in to roll around and play in our money--the money we snatched from them.

Some of our tenants wake up on the 22nd of the month and find themselves in the predicament of having more month than money and having to choose which bills to pay. How do they go about choosing who gets paid this month and who gets to wait? They use two criteria to decide.

One, who is going to hassle them. Two, who will report their nonpayment to a credit reporting agency. So our tenant sets his pile of bills on the table and goes through them.

Electric bill: "I paid it last month, they won't call me and bug me, and they never report it to a credit-reporting agency."

Visa bill: "Whoa! If you don't pay them, they call you, they hassle you, and they send notices to credit agencies."

Phone bill: "I didn't pay them last month, so I guess they have to get paid now. They'll shut you off if you don't pay. At least they don't report you."

Cable bill: "They won't report you, but they will cut you off. If they cut me off, I can't watch baseball on four channels at the same time. Gotta pay them."

Car payment: "Gotta pay that one, too. If I don't, they'll come and get my wheels, and report it to a credit agency."

THE RENT (landlord one): "I have such a nice understanding landlord. He won't hassle me. I can call him and tell him I had some emergency. Let's see, what will it be? Uh, kids in the hospital is always a good one. He'll let me slide a couple of weeks, then I can call back and get him for another couple of weeks. Best part is he never reports me to a credit agency. That's a big bill, too, I can pay a bunch of other ones if I don't pay the rent. Besides, the landlord's rich, anyway, he can afford to wait. I think the cell phone company would like to get paid before they cut me off."

That, or something really similar, is the thinking that goes on in the mind of a tenant who has more month than money. Why do tenants do that to landlords? It's because we don't make sure they know from the beginning that paying the rent comes first, period.

Imagine the difference with a landlord who takes a different attitude.

THE RENT (landlord two): "I'd better get that check written right now. It's the 29th and the rent is due on the first. If it doesn't get there on the first, that jerk is going to call me. Besides, I won't get the prompt-payment discount. Then, he'll bug me some more. On the 25th of next month there'll be a notice posted on my door reminding me of the importance of paying the rent on time. I remember one month when I tried to not pay the rent, he called reported me to that RealChek company, and they reported it to a credit agency. That ended up costing me a bunch when I had to pay a higher interest rate on the car I bought because of my lower credit score. Gee, maybe I should hand deliver the check."

From the beginning landlord two made it clear that the rent was the most important bill. Many landlords use a move-in checklist so they don't forget anything. One checklist item explains to the new tenant that the rent is due on the first and late on the second. We need to make clear that we will always collect late fees from the tenant or deduct the late fees from the security deposit, after which the tenant will have to make up the deficit in the security deposit. We need to make clear that we begin eviction proceedings the first day they are legally allowed. Finally, we need to make clear that if the tenant pays the rent late more than three times in a year, we will terminate the tenancy or will not renew the lease.

Tenants can think whatever they want about all landlords being rich. They can imagine mythical vaults crammed full of money. There is no cure for this particular piece of ignorance that we, as landlords, can provide. Regardless of the mistaken notions of tenants, we still need to make clear that prompt rent payment is vital. If we don't make that clear, if we don't stress the importance of on-time rent payments, if we don't believe with all our hearts and minds it's important, neither will our tenants.

Robert Cain is a nationally-recognized speaker and writer on property management and real estate issues. For a free sample copy of the Rental Property Reporter or Northwest Landlord call 800-654-5456 or visit the web site www.rentalprop.com

The Affordable Housing Cramdown

By Robert L. Cain, Copyright 2009 Cain Publications, Inc.

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Be afraid, be very afraid. The latest mantra of those who would abrogate our property rights and interfere with our rental property businesses is "affordable housing." It always sounds so appropriate and worthwhile, no matter what the latest mantra. They plan it that way. Who can be against "affordable housing"? Well, nobody, and that's the problem.

Affordable housing means "decent, safe and sanitary" housing that is purchasable or rentable by people whose incomes are no more than 80 percent of the area's median. It includes Section 8 housing, which is available to those whose incomes are no more than 50 percent of the area's median.

The problem is that when drives for affordable housing hit roadblocks, those who are in the business of protecting the welfare of people who would rent or buy below-market housing take further action to make sure their goals are accomplished. People in communities with little or no "affordable housing" live there because they expect a lifestyle that reflects their capability of living in upscale communities. "Affordable housing" advocates say, "No fair. What gives you the right to live in upscale neighborhoods when all those other people can't afford to live there?" So they conjure up reasons why more successful people should have to share their enclaves of prosperity with those who can't afford to.

The State of New Jersey is a vanguard example. Encouraging building affordable housing didn't work; those pesky wealthy people just didn't want slums imported into their cities and towns, so the legislature established "affordable housing" quotas that cities and towns had to meet. For a while local governments got to barter off their quotas to other cities and towns; but once again those pesky wealthy people still got to live in communities without having to live near people they didn't want to tolerate. Last summer all that went away and now every city and town (at least those with too many wealthy people in it) has to have an affordable housing plan that fulfills the quota.

Why we should be afraid, very afraid, is that ideas such as New Jersey's are tested in one place to work the kinks out (or not), then foisted off on the rest of the country, often by our elected representatives in Congress. The result of this particular event is lower property values. Here's why.

Investment property is usually valued using cap rates. Cap rates are a function of Net Operating Income, which is rental and other income, less a vacancy rate and operating expenses. The lower the Net Operating Income, the lower the value of property. That means if your Net Operating Income drops because you had to provide housing for people whose incomes are no more than 80 percent of median, or a low-rent complex gets built next door lowering rents in the area, you have lost some of the value of your investment.

For example, if your rents had averaged \$1500 a unit and the cap rate was 6 percent, the value of each unit would be \$300,000 ($\1500×12 divided by 6 percent). Suppose then, that you had make one quarter of your units "affordable" and that lowered your average rent per unit to \$1400? That would lower your value by \$20,000 a unit. Even worse, suppose the average went down to \$1250 a unit? You just lost \$50,000 a unit.

That doesn't even include the increased wear and tear you can count on with lower-income tenants.

Be afraid, be very afraid. Our property rights and our profits are an inconvenience that can be taken away by those with people with agendas. Join and/or participate in your local apartment, landlord or rental owners associations' political committees to protect your profits and property rights.

Robert Cain is a nationally-recognized speaker and writer on property management and real estate issues. For a free sample copy of the Rental Property Reporter or Northwest Landlord call 800-654-5456 or visit the web site www.rentalprop.com.

30 Questions to Ask Your Prospective Property Manager

- Brendan O' Brien

Finding a good property manager is like any other vendor search – it's worth your time up front to make the best possible choice. That's because a bad manager can cost you a lot of money, up to the entire value of your rental property investment. Consider:

- Your property manager will be receiving rent and fees on your behalf. A crooked manager could steal you blind.
- Your manager will be in charge of finding new tenants. A naïve or slipshod manager could bring in bad tenants who trash your building.
- Your manager will handle maintenance. A greedy manager could charge a fortune for simple repair jobs.

Here's a thirty-question checklist for interviewing prospective property managers. The answers you get will provide a very solid understanding of each manager's qualifications. You can also get an impression of a prospective manager from other cues – I'll explain those at the end.

Finally, remember that you have to compare managers to others within an area. It's possible that none of the prospective managers in one city will match the high standard of your terrific manager in another. On the other hand, if you can't find a good manager in a city where you plan to invest in real estate, maybe you shouldn't invest there.

The first questions have to do with finding good tenants, which I think is the key to a happy building. A building with good tenants tends to have fewer maintenance and other issues.

- How many vacancies do you have right now? Out of how many total units that you manage?
- What is the average length of time it takes to fill a vacancy?
- Is that average time getting longer or shorter?
- How do you market your rental units?
- Do you require an exclusive arrangement for marketing to new tenants?
- How does your web site look?
- What factors would make you reject a prospect?
- Would you accept a tenant who met your qualifications in some areas, but not others?
- Which qualifications are most important to you?
- What screening methods do you use?

You want a manager who finds good tenants reasonably quickly. He should use a variety of methods to find prospective tenants, such as a web site, Craigslist postings, newspaper ads, signs, flyers and more. Your manager should follow an extensive screening process, but be willing to accept a "maybe" tenant if the situation is right. You want a look at the web site to make sure that is inviting to prospective tenants, and constantly updated.

As for the exclusive arrangement, property managers never mind when you or somebody else finds prospects for them. However, in almost all cases, they will still want a rental fee for moving the prospect into your rental unit. Make sure you have a clause that if the unit hasn't been rented for some time, and you or someone else you find brings in a new tenant, the rental fee is cut in half. You don't want it cut to \$0 because the manager will still have to screen prospects.

30 Questions continued

The next questions relate to tenant management. It's just as important to keep good tenants as it is to find them.

- What does your lease look like?
- What is your late rent policy?
- What other rules do you set for tenants?
- What percentage of tenants do you have to evict?
- How does the eviction process work here?
- How do your tenants contact you?

I recommend sticking with the manager's preferred lease, late rent policy, and rules unless you have a really major objection. If the manager is really experienced, chances are they've developed smart rules and policies over time. Tenants should be able to contact the manager through a variety of ways during the day, and have an emergency number for off hours. If the manager is always evicting tenants, he's bringing in bad tenants.

The next questions relate to maintenance.

- Which kinds of maintenance jobs are handled in-house?
- Which ones do you use an outside handyman for?
- Which ones do you use professional contractors for?
- How many quotes do you get for jobs?
- How expensive does a job have to be for you to contact me before doing it?
- What are your rules for contractors being inside occupied rental units?
- Who are your preferred contractors?

Managers should have a well-thought-out system for assigning jobs to different parties – in-house employees, handyman and professional contractors. Almost any plumbing, heating, or electrical job should be handled by a professional. Other jobs, such as paving a parking lot, require special equipment that usually only professionals have. But most small jobs can be done by handymen who will cost you less.

You want multiple quotes for major jobs – say, anything over \$500. You should also have a rule that contractors can never enter an occupied unit –even if the tenant is not home at the time – without a manager's representative being there. Finally, you want the names of preferred contractors so you can run a quick check on them.

The last group of questions relates to experience. You want managers to know the local real estate world inside and out.

- How long have you been a property manager?
- How long have you been a manager in this area?
- Can I see some of the other properties you manage?
- Do you personally invest in real estate in this area?

30 Questions continued

Finally, you need to understand your arrangement with the property manager.

- What is your fee structure?
- How will I get reports?
- Do you require an exclusive arrangement to broker the property?
- How much notice will you give before terminating a contract?

The manager's fees aren't really important unless they are much higher than everybody else's, or are so high that you really can't afford them. Reports are very important because they are your only window into how your investments are performing. The best way is to get them on your own computer, on your time – as may be the case if they use on-line property management software.

You should not accept any exclusive arrangement to broker properties unless they have a limited term. In other words, if the properties don't sell after a certain time, you can re-list with a different broker for no penalty.

Also, you should require good notice for the contract to be terminated – at least 30 days. That gives you time to find another manager.

Here are some other things to watch out for:

- A manager with a messy office or personal appearance. Chances are he doesn't much care about the condition of the properties either.
- A manager you have a hard time reaching by phone or email. If he won't return your messages now when he's trying to get your business, what are the chances that he'll do better later?
- A manager whom you sense is trying to intimidate you with knowledge. The "don't ask stupid questions, I know all about this" approach is often a cover for not really knowing much at all.

Brendan O'Brien is the founder and president of Property Master Web™ Software. He is a contributing writer to REIP The Rewards® Magazine and is an active landlord and real estate investor. O'Brien designed Property Master Web™ with a team of 26 real estate investors and professionals to create the most comprehensive property management software solution for everyone, from first time investors to multiple property managers. In addition to software, the advisory board has written 162 Landlording Tips that are a great resource for any property manager. For more information about Property Master Web™ visit www.PCPropertyMaster.com or email Brendan.obrien@pcpropertymaster.com.

C o p y t h e R e n t C h e c k

If you have not done so lately, the beginning of the year is a good time to make copies of the front of all rent checks you receive and put in your resident rental files. By doing so you will have updated bank information on your residents, which may have changed since they first filled out their original rental application. This updated information may come in handy if you later have to garnish their bank account in the future.



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Dear Maintenance Man

I have installed vinyl floor squares a number of times, but I can't seem to get it square with the walls. It always looks like the floor is slightly cocked to one side. Do you have a procedure on how to start the first tile straight and end up with a square looking job?

Dear Noah,

Complete all of your floor prep work; be sure the surface is clean, dry and free from dust and debris. Measure the length and width of the floor; divide each measurement by two and mark the floor at the intersecting lines. Snap a chalk line along the length and width of the floor, using the previous measurements. This will produce a cross dividing the floor into quadrants. Now check your chalk line for squares-ness, using a carpenters square at the intersection of the two lines. Next, dry fit your tile in both directions to determine your run. Keep the following in mind: adjust your chalk reference lines to allow for full tiles at high traffic tile termination points such as dining room to kitchen, hallway to bathroom etc. Ideally, you will want to use no less than one half of a tile at any wall or termination point if possible. Start your first tile at the cross section of the two chalk lines. This will allow you to use two perpendicular straight lines to align your first tile. Follow each chalk line, putting down tile until you have a formed a cross dividing the floor into quadrants. Continue gluing down your tile in each quadrant by going down one axis and across the other.

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The Monster That Ate Wall Street

How 'credit default swaps'—an insurance against bad loans—turned from a smart bet into a killer. They're called "Off-Site Weekends"—rituals of the high-finance world in which teams of bankers gather someplace sunny to blow off steam and celebrate their successes as Masters of the Universe. One 1994 trip by a group of JPMorgan bankers to the tony Boca Raton Resort & Club in Florida has become the stuff of Wall Street legend. Holed up for most of the weekend in a conference room at the pink, Spanish-style resort, the JPMorgan bankers were trying to get their heads around a question as old as banking itself: how do you mitigate your risk when you loan money to someone? By the mid-'90s, JPMorgan's books were loaded with tens of billions of dollars in loans to corporations and foreign governments, and by federal law it had to keep huge amounts of capital in reserve in case any of them went bad. But what if JPMorgan could create a device that would protect it if those loans defaulted, and free up that capital?

What the bankers hit on was a sort of insurance policy: a third party would assume the risk of the debt going sour, and in exchange would receive regular payments from the bank, similar to insurance premiums. JPMorgan would then get to remove the risk from its books and free up the reserves. The scheme was called a "credit default swap," and it was a twist on something bankers had been doing for a while to hedge against fluctuations in interest rates and commodity prices. While the concept had been floating around the markets for a couple of years, JPMorgan was the first bank to make a big bet on credit default swaps. It built up a "swaps" desk in the mid-'90s and hired young math and science grads from schools like MIT and Cambridge to create a market for the complex instruments. Within a few years, the credit default swap (CDS) became the hot financial instrument, the safest way to parse out risk while maintaining a steady return. "I've known people who worked on the Manhattan Project," says Mark Brickell, who at the time was a 40-year-old managing director at JPMorgan. "And for those of us on that trip, there was the same kind of feeling of being present at the creation of something incredibly important." Like Robert Oppenheimer and his team of nuclear physicists in the 1940s, Brickell and his JPMorgan colleagues didn't realize they were creating a monster.

Today, the economy is teetering and Wall Street is in ruins, thanks in no small part to the beast they unleashed 14 years ago. The country's biggest insurance company, AIG, had to be bailed out by American taxpayers after it defaulted on \$14 billion worth of credit default swaps it had made to investment banks, insurance companies and scores of other entities. So much of what's gone wrong with the financial system in the past year can be traced back to credit default swaps, which ballooned into a \$62 trillion market before ratcheting down to \$55 trillion last week—nearly four times the value of all stocks traded on the New York Stock Exchange.

There's a reason Warren Buffett called these instruments "financial weapons of mass destruction." Since credit default swaps are privately negotiated contracts between two parties and aren't regulated by the government, there's no central reporting mechanism to determine their value. That has clouded up the markets with billions of dollars' worth of opaque "dark matter," as some economists like to say. Like rogue nukes, they've proliferated around the world and now lie hiding, waiting to blow up the balance sheets of countless other financial institutions.

It didn't start out that way. One of the earliest CDS deals came out of JPMorgan in December 1997, when the firm put into place the idea hatched in Boca Raton. It essentially took 300 different loans, totaling \$9.7 billion, that had been made to a variety of big companies like Ford, Wal-Mart and IBM, and cut them up into pieces known as "tranches" (that's French for "slices"). The bank then identified the riskiest 10 percent tranche and sold it to investors in what was called the Broad Index Securitized Trust Offering, or Bistro for short. The Bistro was put together by Terri Duhon, at the time a 25-year-old MIT graduate working on JPMorgan's credit swaps desk in New York—a division that would eventually earn the name the Morgan Mafia for the number of former members who went on to senior positions at global banks and hedge funds. "We made it possible for banks to get their credit risk off their books and into nonfinancial institutions like insurance companies and pension funds," says Duhon, who now heads her own derivatives consulting business in London. Before long, credit default swaps were being used to encourage investors to buy into risky emerging markets such as Latin America and Russia by insuring the debt of developing countries. Later, after corporate blowouts like Enron and WorldCom, it became clear there was a big need for protection against company implosions, and credit default swaps proved just the tool. By then, the CDS market was more than doubling every year, surpassing \$100 billion in 2000 and totaling \$6.4 trillion by 2004. And then came the housing boom. As the Federal Reserve cut interest rates and Americans started buying homes in record numbers, mortgage-backed securities became the hot new investment. Mortgages were pooled together, and sliced and diced into bonds that were bought by just about every financial institution imaginable: investment banks, commercial banks, hedge funds, pension funds. For many of those mortgage-backed securities, credit default swaps were taken out to protect against default. "These structures were such a great deal, everyone and their dog decided to jump in, which led to massive growth in the CDS market," says Rohan Douglas, who ran Salomon Brothers and Citigroup's global credit swaps research division through the 1990s.

Credit Default Swaps continued

Soon, companies like AIG weren't just insuring houses. They were also insuring the mortgages on those houses by issuing credit default swaps. By the time AIG was bailed out, it held \$440 billion of credit default swaps. AIG's fatal flaw appears to have been applying traditional insurance methods to the CDS market. There is no correlation between traditional insurance events; if your neighbor gets into a car wreck, it doesn't necessarily increase your risk of getting into one. But with bonds, it's a different story: when one defaults, it starts a chain reaction that increases the risk of others going bust. Investors get skittish, worrying that the issues plaguing one big player will affect another. So they start to bail, the markets freak out and lenders pull back credit.

The problem was exacerbated by the fact that so many institutions were tethered to one another through these deals. For example, Lehman Brothers had itself made more than \$700 billion worth of swaps, and many of them were backed by AIG. And when mortgage-backed securities started going bad, AIG had to make good on billions of dollars of credit default swaps. Soon it became clear it wasn't going to be able to cover its losses. And since AIG's stock was one of the components of the Dow Jones industrial average, the plunge in its share price pulled down the entire average, contributing to the panic. The reason the federal government stepped in and bailed out AIG was that the insurer was something of a last backstop in the CDS market. While banks and hedge funds were playing both sides of the CDS business—buying and trading them and thus offsetting whatever losses they took—AIG was simply providing the swaps and holding onto them. Had it been allowed to default, everyone who'd bought a CDS contract from the company would have suffered huge losses in the value of the insurance contracts they had purchased, causing them their own credit problems.

Given the CDSs' role in this mess, it's likely that the federal government will start regulating them; New York state has already said it will begin doing so in January. "Sadly, they've been vilified," says Duhon, who helped get the whole thing started with that Bistro deal a decade ago. "It's like saying it's the gun's fault when someone gets shot." But just as one might want to regulate street sales of AK-47s, there's an argument to be made that credit default swaps can be dangerous in the wrong hands. "It made it a lot easier for some people to get into trouble," says Darrell Duffie, an economist at Stanford. Although he believes credit default swaps have been "dramatically misused," Duffie says he still believes they're a very effective tool and shouldn't be done away with entirely. Besides, he says, "if you outlaw them, then the financial engineers will just come up with something else that gets around the regulation." As Wall Street and Washington wring their hands over how to prevent future financial crises, we can only hope they re-read Mary Shelley's "Frankenstein."

- Newsweek

Choosing Appliances for Your Rentals

Let's talk about kitchen appliances. In your own home, you may want nothing but the best. And you'll take care of it like it's your own (because it is!). Tenants don't care for your property like it's their own. In fact, rarely do I find a clean stove and oven when a tenant moves out. A clean refrigerator is uncommon, too. My suggestion is to buy decent quality kitchen appliances for your rentals, but skip the bells and whistles. The basic gas range shown here should be satisfactory for most rentals. If you can, skip the electronic ignitions; this will lower your maintenance costs.

Self-cleaning backfire - Years ago I removed a gas stove from a home and decided to use it in a rental property. The stove was in very good condition. It had sealed burners and a self-cleaning oven. My tenant kept a pan of grease in the broiler drawer; one evening she decided to use the oven's self-cleaning function and forgot to remove the grease pan. Soon the stove was on fire, and the tenant could not figure out how to stop the selfcleaning process. The fire department saved the home from major damage but the stove was ruined. Lesson learned.

Keep it simple. This applies to refrigerators, too. Your tenants don't need icemakers in their refrigerators, nor fancy crispers and glass racks. Stainless steel is out of the question. Kitchen appliances don't last as long in a rental home; don't expect the normal 15-20 year life span. Buy simple, good quality appliances and it won't hurt so badly when you have to toss them out! I'm not a fan of garbage disposals. They don't add value to your rental and they are a maintenance nuisance. I am a fan of dishwashers. Adding a dishwasher should add around \$15 to your market rent. But remember, keep it simple.

Mel Metts - Lake County Property Investors Association