

EP39: Strategies to Grow Your Rental Income Values

Welcome to the Landlord Logic Show, hosted by John Tiner. John is the owner and CEO of Tiner Property Management, a three-generation family business since 1976. Tiner Property Management expertly manages over 1,000 properties in the greater Sacramento area to place quality tenants quickly while minimizing your risk. John stays up to date on all the new laws and regulations and shares his knowledge with do-it-yourself landlords each week.

The Landlord Logic Show with the Tiner Property Management Pros. Joining us now, John Tiner, along with his wife and business partner, Jenny Tiner.

Welcome to the Landlord Logic Show. We appreciate that you're tuned in today and looking forward to the next half hour where we talk about all things landlording, and in the studio with me today is my wife, Jenny.

Welcome, Jenny. Glad to have you with me as always. Thank you-and before we start, we just want to talk a little bit about our company and who we are. Yeah, let's give them a piece of that.

So Tiner Property Management is a property management firm. We manage about 1,300 mostly single family homes and about 100 duplexes in the greater Sacramento area. So I like to say everything within about a 45 minute drive of Carmichael where our office is located. But we've been in business for, wow, next year will be 50 years. My parents started it and then I joined them in 1986. So I've been there almost 40 years myself, and when I joined my parents, they had about 40 rentals. And we've grown the business and bought my parents out now and up to 1300 accounts at this point. And we're good at what we do. We're doing less than one eviction a year with all the tenants that we select. We place nearly two tenants a day. And we move out nearly two tenants a day. There's always that turnover going on all the time. And I figured out this morning that we do have to go to court over security deposit deductions about one in every hundred times a tenant moves out. So we make deductions for the owner. We always want to restore those properties back to their pre-rental condition, and sometimes tenants don't think that was fair, and we have a dispute, and if we can't work it out, we end up going to court. So really, 1% on that isn't bad. Especially since we're very careful to keep these properties up between tenants and make the costs, whatever it takes to get them squared away again, we do that. But we make owning real estate easy for people. So that's the main concept of professional property management. is that we take the risk out of it by doing things that are legal and correct according to the latest laws which are changing all the time it's a full-time job just to keep up with that and then help you find a great tenant get your properties ready whatever is necessary on that side help you coordinate all the repairs and do the accounting for you and send you a check each month, and deal with all the tenant relationships, and do annual inspections. All of that's done for our owners, and so that's the service we provide.

But part of why we do the Landlord Logic Show on the radio is to help equip do-it-yourself landlords who are trying to do it themselves. And we feel like if we are sharing the secret sauce of intelligent, good property management secrets with the whole world, the industry is better. A

lot of the new laws are being created because there were bad landlords who did bad things. Like there's laws that say you can't take the tenant's front door off and you can't turn the power off on them. Well, that seems obvious. Why would you need a law for that? Because someone did it, before they move in, after they move out, and before you do the work, and then again, after the work is completed. If you don't have those three sets of photos, you can no longer charge tenants from their security deposit for cleaning or damage. So a landlord doesn't know that, that's no excuse. You're just gonna have to give them back all their security deposit, even if they did damage. So it's those kind of rules that you need to know and stay in compliance with. And then we help landlords do that if they hire us. And if they don't, then we'll tell you what you need to do so you can do it successfully yourself.

So I want to give you a couple of ways to reach out to us. You can from your cell phone, dial pound 250. and say the word Tiner, leave your name, and then that'll send you some information, and then we'll be able to call you back from that also. You can reach out directly on your phone, and that's 916-974-6003. And then, of course, our website has lots of valuable information for people who want to just check us out kind of quietly, and that's Tiner.com, spelled T-I-N-E-R.com.

But today, we kind of want to dig into a few pro strategies with regard to owning real estate and why it makes sense to have a rental property. We hear a lot of people say, why would anybody own rental property in California anymore? It's just too hostile of an environment. And, you know, there's some point to that. There's definitely the political environment, the new laws have made it difficult. But if you've really put your thinking cap on and worked through some good policies and come up with a way to handle things effectively, it can still be done very successfully. And California's real estate is done very well. It's leveraged. There's a lot of good reasons. That's one good thing about California. Yeah. Yeah. Good real estate. And there's a whole lot of people who have become very wealthy by owning real estate in California. So the prices have gone up faster than other places in the country. And all that can play into an owner's benefit. So one of the things we love about California. Owning real estate is the concept of having your investment fully leveraged.

In other words, the lender is carrying a high percentage of the value of the property with a note. So if you're only putting 5% down on a property, which if you're gonna own or occupy a house, it may even be less, 3% sometimes, or if you're a VA, it may be almost nothing. So you get into a home with very little down payment, and then over time, maybe a \$500,000 house becomes a \$600,000 house. Well, if you'd only put 5% down, that 5% is going to make a huge increase. So literally, 5%, say, on a \$500,000 is \$25,000. So if the house goes up \$100,000, the investment you made, that \$25,000, has gone up five times, fivefold, or 400% from where it was, which is a huge return, right? It is, and not everybody thinks that way about it. So it's a good way to break that down, John. Yeah, you need to understand the beauty of leveraged real estate. That's one of the great things about owning property, and then the tenant makes the majority of your mortgage payment for you, sometimes all of the mortgage payment for you by paying the rent. It's enough to cover a good portion of your PITI, in some cases all of it, depending on how long ago you bought your house and what your interest rates are.

So the sales value to rent ratios is another thing that there's kind of a sweet spot with that. With landlords, they need to kind of understand how low you can go. A lot of people, when they just start analyzing, how much rent can I get for a purchase price of this amount? And the lower they go, it seems like that ratio starts to get higher and higher. They get into, you know... difficult properties to manage in the rougher neighborhoods. And what I mean are neighborhoods where there's fences around the front yards and bars over the windows, gun and dog kind of neighborhoods. They can be smart strategies for an investor, but you can also get in way over your head because you're way more likely to have problematic tenants, rehab, evictions. Turnover. Right. As the price goes down, the rent ratio becomes really good. But I think the sweet spot is on a single family home, don't go below about 450 right now. Yep. And then on the other side of that. There's a diminishing return. There is. On the upper side. Because a lot of times we are seeing a lot of upper end properties, expensive homes. They aren't wanting to get rid of their home. They don't want to sell it, so they're coming to us for rentals. I think out of all the time that you've had your business, we have more over-million-dollar properties than probably ever than we've ever had, yes. But then the ones that have the over-million-dollar properties, they also think that they're going to get \$5,000 or \$6,000 a month for rent. Right. Yeah, so there's a strong diminishing return on the rent when the values go. I think \$600,000 is still quite good.

The difference between \$500,000 and \$600,000, the rents go up a lot. The difference between \$600,000 and \$700,000, they go up some, but not quite as much. But then after about \$700,000 in value – they really don't go up much. You go 700 to 1.4 million and the rents go up 20%, you know, more, maybe 10% more in some cases. So you're going to just have a diminishing return. And many times those are the markets where people can't sell. They've been on the market the longest. And so they're starting to think about renting those homes and the numbers just aren't going to be as good at those high price properties. Nobody buys a million dollar property with the intention of making it a rental. They're all default plan B landlords. But sometimes we get people who want to do that. We've had people who were transferred away, but they're planning to come back to their home. They're going to be gone for two or three years. It makes sense to have some cash flow for those properties. We may get \$4,000 for a property that's worth way over a million dollars, but it helps pay their costs and hold that property until they can come back. And usually the renters that rent at \$4,000 a month, they're excellent. They have great credit, great rental history. We're able to select really high quality people for those.

Square footage. There's a diminishing not only on terms of value, but square footage. Yeah, rental properties, if they become too big, they have a diminishing return also. So not only with the price, but with square footage. Right. You know, 2,500 to 3,000 feet, it starts to, after that. It's not price per square footage anymore. It goes down. Yeah, the rental values aren't based on a price per foot. It doesn't add up the same way as for the smaller properties. Mm-hmm. So smaller, no limit. The little one-bedroom properties can run out and do good on their price per foot. But yeah, when you get too big, it's the same kind of principle that is you can have too much value in a property, you can have too much square footage, and it just starts to diminish there.

Another strategy of growing your rental that's really, really important is to keep pace with the market rent values, and this is good for many reasons. Right. We see landlords come to us sometimes, and they bring their rental properties, and they say, well, we're way below market. We like our tenants, and so we just haven't raised them. And I say, well, what do you mean? And they're like, well, I just had one we met. He'd had tenants for 40 years, had moved out, and he has on the other side about 20-year tenants. And he had rented both of those a long time ago. And he'd raised the rent over the years, but not enough to keep up. So he was renting his properties for \$1050 on a duplex kind of out by the pocket. Still? He has been right up until today. So his lost potential rent values were so much. I mean, I think these properties are going to rent for \$2,200, \$2,400 when they are. It's going to have to do some rehab to catch him up after a 40-year tenant, but much, much higher. So the potential of rent that was lost because he didn't keep up with the rental market is really significant. And the other thing that would have happened is if he decided to sell and he had two tenants under rent control at \$1,050 when the market was \$2,400. That's going to bring that property value down. Way down because they have lifetime tenants. They can't get them out. And if somebody were to buy that property, you can't just increase the rent. You still have to abide by the rules. Rent cap supply.

We've sold duplexes like that, and you really have to do a price adjustment for that. So even if you want to be nice, it's not in your best interest to do that. Who are you going to give your charity to, right? You can either give your charity to your tenants, or you can have a better cash flow, make more sense, and have more to give your kids one day. I kind of would lean toward that. My charity should be to my family or the heirs that I choose, not necessarily the tenants. We love good tenants. We appreciate good tenants. But fair market rent is fair market rent. We try to keep up with it, and I think that our job as a property manager is to help keep up with rent values. It is, yeah-and every year when we go through our renewal to see if we're going to be – advising our owner clients if we're going to be renewing the lease is analyzing that market value, and we can make the best advice that we can. We still have some owners that are like, no, but we really try to keep those values up. We know it's important.

So if you're listening and you need property management, then give us a call. 916-974-6003. or our website again Tiner.com and that's t-i-n-e-r.com our contact information is on there as well or you can dial pound 250 on your cell phone say the word Tiner and that's a good way to reach us too.

So another good thing for strategy 1031 exchanges. Yeah, there's a lot of times that that makes great sense for an investor that's had a property for a while. Sometimes we have people come to us. They have a home maybe in the Bay Area and the rental markets there with all their local rent controls have made it pretty cost prohibitive. The property values have gone way up, and it's just not making sense as a rental there. So they exchange for Sacramento real estate, and this is, you know, we see a lot of Bay Area influx with this. They'll buy maybe two duplexes from their single family home that they sold in the Bay Area, and the two duplexes generate considerably more cash flow for them in rent. So that's a good strategy sometimes, and let's just, if somebody's listening and they don't know what's a 1031 exchange, let's just briefly say

what that is. It basically is where you exchange your property for like for like, quote unquote, and those taxes are deferred. So as long as you don't touch that money, you have an intermediary third party hold that money, and then they disperse that money to your next purchase. As long as you don't touch that money, the government doesn't get it, and it's deferred. So you're avoiding the capital gains tax, which if you're sitting on a lot of equity, that's going to be 24%, depending on several factors, but around 24%, 19% for the federal and another 5% for the state. So 24%, that's a big chunk of your equity. And it's a really easy process, too. A lot of our clients come to us. They know that's what they want to do. We get them in touch with a 1031 exchange facilitator. It's super easy. It's just an extra person that signs, company that signs the papers. I want to say cost-wise, maybe \$1,500. It's gone up a little bit. Probably a little bit more. Probably can figure out a way to write that off with your taxes too.

But anyways, it's well worth it. And we've had some that use all of those funds and buy property. We've had some where they use half of those funds and then have to buy property. So only half was 1031 exchanged. A lot of our clients right now, we're closing escrow on one that... He's had that property for 33 years that we managed. He's going to make a good amount of money, but I think he's probably going to pay a couple hundred thousand dollars. But he doesn't want to do an exchange. He wants to tap out, cash out, and that's his choice. But I'm always like, if you can avoid giving that government money, then do it.

So anyways, we're well-versed with 1031 exchanges. It's another way to grow, whether you're exchanging it. Your property is going to give birth. You're relocating to a different area. Just anyways, that's something to think about if that's. And cashing out, in other words, sell your property and go ahead and pay the capital gains. Some people want to do that because they don't want to deal with rentals anymore. They don't want their kids to have to deal with rentals after they pass away. They're getting older. We see this a lot. But the better strategy usually is to go ahead and let your kids inherit that property or whoever your heirs are. Let them inherit it. And then they get a stepped up tax basis and they avoid the capital gains that you would have had if you'd sold your own property.

That's a one time and a lifetime opportunity to completely avoid the taxes, even without the 1031 exchange. It's a way to exit real estate without paying the capital gains or doing an exchange. With a little side note here that we are not accountants and we are not tax experts. So whenever anybody comes to us with these things, we always say, go talk to your accountant, go talk to a CPA. Everybody's financial circumstances are different. So that's my little side note, John. All right.

So if you need some help with your rental property and you don't want to do it yourself, we would love to talk to you. You can reach out and call us by dialing 916-974-6003. or dial pound 250, say the word Tiner. Leave your name and number and we'll provide you with a free e-booklet with 16 questions you should ask your next property manager before you hire them. Again, dial pound 250 and say the word Tiner. The other way to reach us is through our website, which is Tiner.com. On there, we have blogs. We have information about new property

managers, new property management services for people who are interested in hiring us. You can check us out without talking to anybody for a long time because there's a lot of information on the website. These podcasts are on the website, video blogs, written blogs, and a lot of information designed for people who are just considering hiring a property manager. It's all there for your review. Yeah, because it can be scary. And so just being smart about this.

So protecting your rentals. One of the biggest things that we've talked about many times before, because it is very important, is tenant screening. It's probably the most important aspect of good property management. If you pick good tenants... It's a good experience. If you don't, it's a nightmare.

So our tenant screening with Tiner, I'll just give you a quick overview of the things that we do for owners when we're screening tenants. Number one, of course, verify their ID. You want to make sure that the person that you're looking into and running credit reports for is the person who they say they are. So we're matching a face to a driver's license to a social and then making sure that we're getting the correct information because there are scammers out there. They're using someone else's social security to pull credit reports and they look good, but they're not good. Do that ID, and we're verifying that very well every time. And then the credit score tells us a lot about a person's history of keeping their financial promises. At Tiner, we don't make exceptions for bad credit. We have a pretty high standard on the credit score, but we look at a lot more than just the score. We're looking at how much is their debt load, what is their minimum payments for their student loans and their credit cards and their car payments, kind of adding all that to the income requirement. We actually have an income calculator. It's available for anybody if you want to look on our website, which is Tiner.com, and then pick any of the properties we have and look at the screening guidelines, and there's a calculator there. But we're adding that consumer debt to their minimum requirement. So we know that some people, two people, different parties that have 700 credit scores, one can be debt-free and really strong financially, and the other person might have tons of debt and still have a 700 credit score, but they definitely need more income to pay their rent. because they're living with a lot more payments. Yeah, and it's not just income. It's not only credit score. It's just everything as a whole. Yeah, judgments.

Rental history. Rental history. We look at rental history. We call landlords and ask. We ask 18 questions. A lot of people call us and ask three questions. It's so important to ask all the right questions. Did they get along with the neighbors? Have you been inside the house yourself? When's the last time you saw it? Do they have pets? Have they snuck in people? Sometimes it's not just the last landlord because they may want them out. So you go to the one before that one. Right. Prior landlords will tell you the truth. That's what we always say. So they're more honest reference sometimes because they don't have a vested interest to see their tenant vacate. So we check the landlord reference. We have a cool tool available to us through our software that we have that actually takes a look at applicants' bank statements, and it can see their income on a regular basis. So it can verify whether their income is not just their pay stubs, but now we have another verification through their bank records. It also takes a look at how

much has been coming out for rent every month. So you have a good idea if the rent they're claiming jives with how much is coming out of their bank account for rent.

And then... One of the cool tools that's come up with this one, too, is if they claim to not have pets, the artificial intelligence that looks at their bank statements will tell you that they have a bunch of purchases from PetSmart over the last several months. So you want to know, you know, where is the phantom dog going to go? Or is he planning to sneak in? So it just gives you good tips. So those are tools that are available to us because we are a professional management company. Yeah, we pay for that software. There is a lot of fraud out there. I mean, as everybody knows, but we're just seeing it. even increase more and more in terms of property management. So we did have to get some additional screening tools. They paid extra money for it, but they've been great because we've had to raise our standards. We've always had high standards. But this last year with the new laws on screening, we had to raise our standards a little more because we're no longer just taking the strongest applicant. We're taking the first qualified applicant.

So that qualification level, we've raised that up to a very high level now. And we're continuing with a good success rate because of that, too. And why is tenant screening important? It's because, you know, you just don't want to, you don't want turnover. You don't want them to damage your property. There's just there's numerous reasons. It's just that's why we say it's like the number one. It's the most important thing. The other thing we're still doing, and I've met with a lot of property management groups, and a lot of people are not even doing this anymore, is running criminal backgrounds. But we still do. We're looking for convictions. You have to be careful not to just look for that someone's been charged, but convictions. And if they have a felony conviction, that would also impair their ability to be a good tenant. And you have to make a judgment call on that. So how long ago was it? A DUI, for example, we'd be pretty tolerant if that's the only thing on there and they had good credit and everything else makes sense. But some other drug dealing and some of those kinds of things are just always going to be a kiss of death for applicants. But we still run that. But you have to be careful how you apply it with some of the new rules. And I'm not going to go into all that, but it's really strict, especially with Section 8 applicants and some others. You need to know the rules if you're going to run a criminal history because you have to apply that very carefully. Yeah, a lot of it is fair housing. We have to follow fair housing guidelines, and we follow them to a T. And so if you're a do-it-yourself landlord, you also have to, too. If you didn't know it, you do. I know the rules. It's just getting more and more compliance and more rules. First come, first serve. I mean, just things that have just changed and the stricter guidelines that we have to abide by in California just makes us screen strict, too.

Another strategy we're dealing with a lot on a day-to-day basis is keeping up with market trends. So a lot of people, they rented their home two years ago for a certain price. We see this happening a lot now. And now they've been on the market again this year. and their house has been four months and they're getting no application and they don't know why. What's wrong with the market? Well, there's been a lot of influx of rental properties come on the market in the Sacramento area, and we've seen rent values soften a little bit. Vacancies are up. All the

indicators days on the market are up. Price reductions are up. Every indicator is that the market is softened and values have dropped a little bit. So you have to know where the market is, because if you have sat vacant for three months, it's going to take you a long time to recover that money, even if you got your old rent amount, which you probably won't anyway. So much better to get ahead of that curve, price it right originally, and get the property rented right away. Get that income. You're going to have basically \$100 a day in rental income. You lose that every day you sit vacant. So pay attention to the market. Yeah. Whenever I have a vacancy at my own rental, I'm more aggressive on my pricing. I don't like that sitting longer because I still have to make a mortgage payment. So if I don't have a tenant in there, then I'm paying it. So if I don't have a tenant after two weeks, I'm lowering that rent. And sometimes just \$50, \$100, depending on where your pricing point is, that'll just get another pool of applicants. And then usually it's rented that next time. And then if it's not for me personally, I will do another week. I'll reduce it again.

So just stay on the market trends, watch that and just be proactive. If you're not capable of being a great property manager as a do-it-yourself, hire a great property manager. And there's many good ways to do that. We are fantastic. I feel like the best property management company in Sacramento. But I know there's some other really good ones too. There are some good ones. And if we have listeners that listen from other states and even in other countries, find a good one there. Look at the reviews. It really is important. And the compliance and the cost is very minimal compared to the value that you get. And then stay compliant legally. So failing to do that can be very costly to a landlord. So you want to make sure you know the new laws.

But if you need some help with your rental property, we'd love to talk to you. You can call us directly at area code 916-974-6003. On your mobile phone, if you dial pound 250 and say the word Tiner, and then leave your name and number, we'll provide you with a free ebook. with 16 questions that you should ask your next property manager before you hire them. And again, dial pound 250 and say the word Tiner. Lastly, if you'd just like to check out our website, there's a lot of resources there for you. And that's Tiner, T-I-N-E-R dot com. But thanks so much for listening. Remember, professional property management doesn't cost. It pays.

Would you like to learn more about the services provided by the Tiner Property Management Pros? Their professional property management team will take care of your rented home from start to finish. Simply dial pound 250 and say Tiner to learn more about the ease of managing rental properties or check out their website, Tiner.com.

Join us again next week for the Landlord Logic Show with John Tiner.