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MANAGING “TURNS”

Tenant turnover can significantly impact a rental property’s profitability due to lost rent and the costs associated with preparing the unit for new tenants. If the property is in disrepair, it may also take longer to secure a tenant – thus leading to additional lost revenue. It’s critical to plan ahead for the reality that tenants will inevitably and sometimes unexpectedly move out. Here are some suggestions on how to proactively manage the financial aspects of these turns when they occur.

Home Equity Lines of Credit (HELOCs)

HELOCs are great for investors who need immediate and unrestricted access to smaller amounts of funds that they plan to pay back relatively quickly. They allow you access up to 80% of the equity in your rental property, but you only pay interest on the amount you actually borrow. Additionally, you can borrow the funds and pay them back as many times as needed during the “draw period”. These loans typically go in second lien position behind an existing mortgage (if there is one), which means you can keep a lower interest rate on your primary mortgage intact. However, they are typically variable rate loans so you should expect variations in the required interest-only payment over time. The best execution is to open the HELOC before the financial need arises so you can access the funds more immediately without having to wait for the application and closing process to be completed.

Cash-Out Refinance

If your property needs more significant repair to attract higher-end tenants and avoid constant turns due to unattractive attributes of the property, then a cash-out refinance may be in order. This is usually advisable when a larger amount of money is needed and when you plan to pay off the loan over a longer period of time. Fixed interest rates are typically lower on cash-out refinances compared to lines of credit and these loans can also be used to fund the down payment on additional rental properties.

Maintain a Capital Reserve

As a real estate investor, it’s important to not spend every penny of your rental profit as soon as you receive the rent check. To avoid having to borrow funds, consider establishing a healthy reserve account throughout the year in anticipation of inevitable expenses related to turns and repairs.

Sign up for your complimentary financing consultation at markmaimon.com!