



The **B**ig 3 **M**'s to **M**aximize Your Investment Property's ROI

*By Rosetta Parker, CPM, President
Premier Real Estate Management, Inc.*



ROI

*You own
rental property
as an investment.*

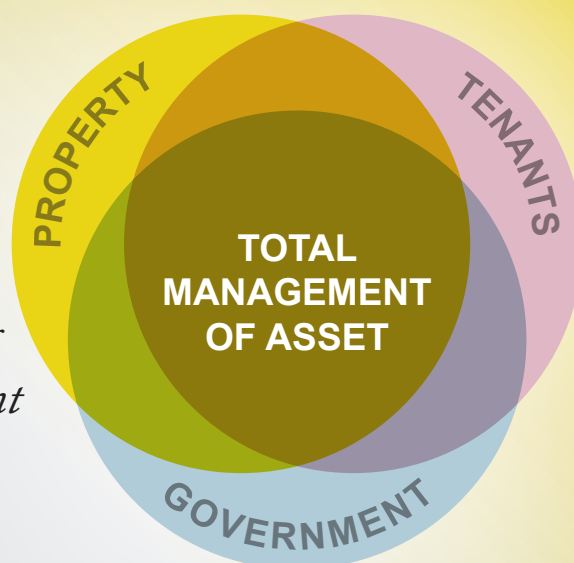
*A lone duplex or perhaps
a large apartment complex.*

*Your property isn't performing as
well as you had planned and its Return On Investment (ROI) is
disappointing. Yes, the current economy has affected investments of all
kinds and it's been especially hard on real estate. Especially in challenging
economic times, the secret to MAXIMIZING the ROI of any investment
property lies in successfully utilizing the Big 3 M's:*

Management • Maintenance • Marketing

M1: Management

More than just focusing on property management, maximizing your property's ROI depends on committing to a Total Asset Management approach.



M1a Managing the Property:

The primary objectives of managing investment property are these. 1) Maximize the Net Operating Income with efficient financial oversight and 2) increase its long-term value. These two factors determine the ultimate Return On Investment. Choosing the cheapest option is not always the most cost-effective one. It's important to balance cost with value.

- **Finances:** Manage the month-to-month cash flow. That includes renting units quickly to reduce vacancy, collecting rents in a timely manner, and even being the “tough guy” when needed by enforcing consequences for non-payment fairly but firmly. A delinquent tenant is not truly helped by prolonging their difficult and unaffordable situation. And if trying to placate a bad tenant really seems like a better idea than seeking a new one, rethink your management priorities... and marketing strategy!
- **Employees:** Hire, and then do your best to keep great employees. However, always evaluate the short- and long-term needs of the property first to determine what employees are needed, if any. While an employee gives management a bit more control overall, in some situations a subcontractor might be the more cost-effective option.
- **Outside Services:** Build good relationships with quality service providers and subcontractors. Inexpensive costs for services may seem wonderful initially, but *always* use someone you know and trust. Trust nearly always ensures better long-term value.

M1b Managing the Tenant:

A tenant is NOT your customer! While this may seem startling, by thinking of them as employees, you'll build more successful tenant relations. Good tenant relations encourage retention and minimize vacancy. This unusual concept from Mike Butler, real estate investor, can be found online at www.reichub.com/articles/tenants-are-not-customers.

- **Screening:** When evaluating a prospective tenant, ask yourself... would you *hire* this person? Use the same screening criteria as you would for hiring an employee. For instance, avoiding vacancy is important, but a poor choice made too quickly to address a short-term vacancy may cause more problems far worse than that initial vacancy.
- **Retention:** Good management will keep good tenants for longer terms resulting in lower vacancy rates. Ask yourself, “What would I do to keep a good employee?” Respond

to maintenance requests quickly. Create a sense of community. Provide unique services as perks. These are just a few things you can do to retain good tenants.

- **Eviction:** Evict delinquent or troubling tenants quickly... and legally. The old adage, “one bad apple spoils the whole bushel” holds true. Keeping a bad employee undermines morale and damages unity within a company. A bad tenant has the same effect on an apartment community. Remember, your priority as manager is to help the property become, and remain, profitable for the investor, not accommodating all tenants... especially bad apples!

M1c Managing the Government:

Know the law. Some benefit investors, some protect tenants.

- **Tenant Protection:** Become knowledgeable of Federal housing laws that protect the tenant from discrimination, unlawful entry, etc.
- **Management Protection:** Get to know local courts and authorities, and become familiar with local procedures and time frames necessary to take action on tenants for such things as eviction. Aggressive, consistent and timely action taken on delinquent tenants can dramatically reduce losses caused by a prolonged eviction process.
- **Management Liabilities:** Minimize liabilities through proper adherence to safety and security measures such as smoke alarms, fire extinguishers, etc.
- **Accurate and Detailed Bookkeeping:** Proper record keeping better facilitates tax benefits for depreciation, business expenses, etc. The devil is *always* in the details.

M2: Maintenance

The principles used to maintain and increase the value of your home also apply to investment property. From a simple concept like keeping the premises clean to a costly, although necessary, capital investment like replacing a roof, consistent attention to cost-effective, quality maintenance affects the short-term ROI factors such as vacancy and tenant retention and the important long-term ROI of the resale value of the property.

M2a Maintaining the Property:

Addressing day-to-day/emergency maintenance issues in a timely manner can have a positive effect by encouraging tenant retention, thus reducing vacancies raising profits.

- **Maintenance Agreement:** Make clear to your tenant, *with documentation*, which maintenance responsibilities belong to tenant and which to management (i.e. light bulbs/tenant, plumbing/management, etc.) A call in the middle of the night to change a light bulb is not a reasonable request of any manager. But if it's unclear to a tenant

which responsibilities are theirs, management's reluctance to respond will always be perceived as poor management. Clear communication and clarity are invaluable.

- **Emergency Maintenance:** Always respond to emergencies quickly. Building strong relationships with service providers such as local plumbers greatly enhances your ability to respond to emergency maintenance needs in a timely manner.
- **Maintenance Requests:** While non-emergency requests may not need immediate response, a reasonably quick response will build confidence and respect for management. Slow responses will *always* be perceived as poor management. Unfortunately, evidence of this unfair misconception will show up as increased vacancies and higher turnover.
- **Maintenance Staff:** Full-time maintenance person or quality subcontractor? Answering the question is not always easy and requires an objective assessment of the property's current conditions and goals. The answer is found in one of the fundamental questions poised for all phases of sound management. Which is most cost-effective?
- **Commitment to Maintenance:** Consistent day-to-day maintenance must be a priority for good management and improved ROI. Small problems won't evolve into major expenses. A 2011 national survey of top do-it-yourself home improvements illustrates

HomeGain 2011 Top 10 D-I-Y Home Improvements For Sellers (NATIONAL)

D-I-Y Home Improvements	Cost	Benefit	ROI	% Recommended
Clean & De-clutter	\$209	\$1,990	586%	99%
Lighten & Brighten	\$375	\$1,550	313%	97%
Staging	\$550	\$2,194	299%	80%
Landscaping	\$540	\$1,932	258%	93%
Repair Electrical & Plumbing	\$535	\$1,505	181%	92%
Replace or Shampoo Carpets	\$647	\$1,739	169%	98%
Kitchen & Bathroom	\$1,265	\$3,435	172%	75%
Repair Floors	\$931	\$1,924	107%	93%
Paint Interior	\$1,012	\$2,112	109%	96%
Paint Exterior	\$1,467	\$2,222	51%	81%

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the equation of cost, benefit and ROI. While the survey focused on home ownership, the same principles apply to day-to-day maintenance of investment properties.

M2b Maintaining the Asset:

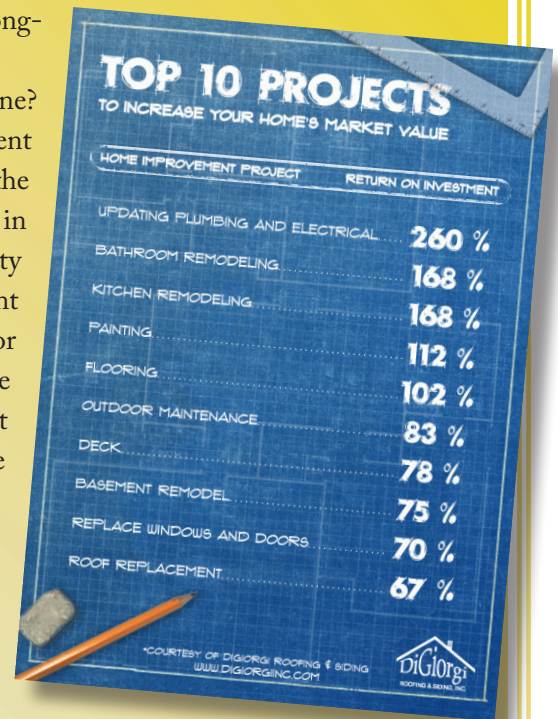
The long-term value of an investment property can be dramatically affected by decisions pertaining to major repairs and capital improvement.

- **Major repairs and replacement:** From roof to driveway, keep an eye on the long-term value of the property. While the cost of a new roof is a major expense, putting off roof replacement until significant damage is done to the interior is even more costly and

certainly a poor management choice for the long-term profitability of the property.

- **Capitol Improvements:** Underdone or overdone? The cost to value ratio of capital improvement and replacement is significantly affected by the location of the property. Will the expected rise in the property value justify the costs? Your property may need a new roof. But should the replacement roof be bargain basement, top-of-the-line, or somewhere in between? Property values of the surrounding neighborhood dictate what is most cost-effective. An expensive roof may seem like a great decision to improve the quality of your property, but in a middle-of-the-road location, the rise in value may never fully recover the expense resulting in a negative ROI. Too cheap and the roof replacement may produce a positive ROI but not come close to reaching the potential value of the property. Know your

property's location and don't over build or under build! The graph above illustrates how major improvements such as new windows, new siding and new roof affect the ROI of your property. Again, this data was compiled for home ownership, but applies equally to investment property. Read DiGiorgi's full article "10 Home Improvement Projects that Increase Home Value" at www.digiorgiinc.com.



M2c Maintaining the Intangibles:

The effects on ROI from reputation, ambiance and presence in the community are not easily gauged, but common sense supports that they do, indeed, have an effect. If an investment property is perceived as a great place to live, it has a positive effect on ROI by increasing the pool of prospects, encouraging tenant retention and minimizing vacancy.

- **Reputation:** This begins and ends with management. A beautiful, well-maintained property is a result of management's attention to maintenance. Tenant satisfaction is promoted by responsive maintenance, fair and consistent treatment of all tenants, and competitive rental rates... all indicators of good management.
- **Ambiance:** What does ambiance even mean? Well, it is best measured by asking... and answering... the following questions. Is this a great place to live? Is there a genuine feeling of community? Would a tenant suggest to a friend that this is THE place to live? Ambiance. Difficult to measure?... yes, but so important!
- **Presence in the Community:** Is the property a preferred place to live in the community? Is management involved in the local business community? Is management perceived to be a "good neighbor?" To give positive — and honest — answers to the question often requires management to go a little above and beyond... to be *truly* involved in the community personally and as a representative of the property's ownership.

M3: Marketing

Paraphrasing the Hollywood film Field of Dreams, “If you build it, they will come,” simply doesn’t hold true for an investment property. It takes more than simply building it. They (prospective tenants) will come only if they know who, what, where and why... in short, you had better market it well! While advertising is always a significant portion of marketing, there’s more. It’s also understanding whom you are trying to attract and where to find them. And with the Internet, mobile devices and social media, it’s also keeping up with the newest ways to find them.

M3a Knowledge of the Local Market:

Without in-depth understanding of your local area, your marketing can be significantly less effective. Knowing whom your prime prospects are, where to find them and how to best communicate with them is essential to a successful marketing effort. And additional benefit comes from knowing your competitors better.

- **Proper Rental Rates:** Offering the most cost-effective rental rate, which is a balance between maximum profit and minimal vacancy, requires a knowledge of the area, your competitors and your prospects. Make sure the price is reasonable and competitive – no one is going to rent an apartment that is \$500 a month more than an identical one down the street.
- **Fix It Up, then Price it Right:** It’s something management may overlook even though it seems obvious. Property trashed by previous tenants, or with obvious defects, or that looks outdated is not as likely to attract tenants that will be trustworthy or long-term. Without going over the top, such things as making sure all fixtures have working light bulbs, a fresh coat of paint, and other repairs will help make showing the property go more smoothly. The first rule of marketing is to be sure the product is good *before* marketing. Nothing causes a poor product to fail faster than great marketing!
- **Advertise Appropriately:** Use the most cost-effective advertising methods within your locale. In a college town, for instance, flyers distributed or posted on campus can be cost-effective. If your property is located on a highly traveled road, signage or billboard may seem expensive, but may be the most cost-effective.
- **Know Your Competition:** Chances are you are not the only apartment building in an area. Spend time looking at other properties and what advertising efforts they are making. What do they do differently than you? And is it working for them?

M3b Marketing that pays rather than costs

Advertising is still the heart of any marketing program, but finding unusual and resourceful ways to get your message out can reduce your overall marketing budget, or help spread a limited budget a little further.

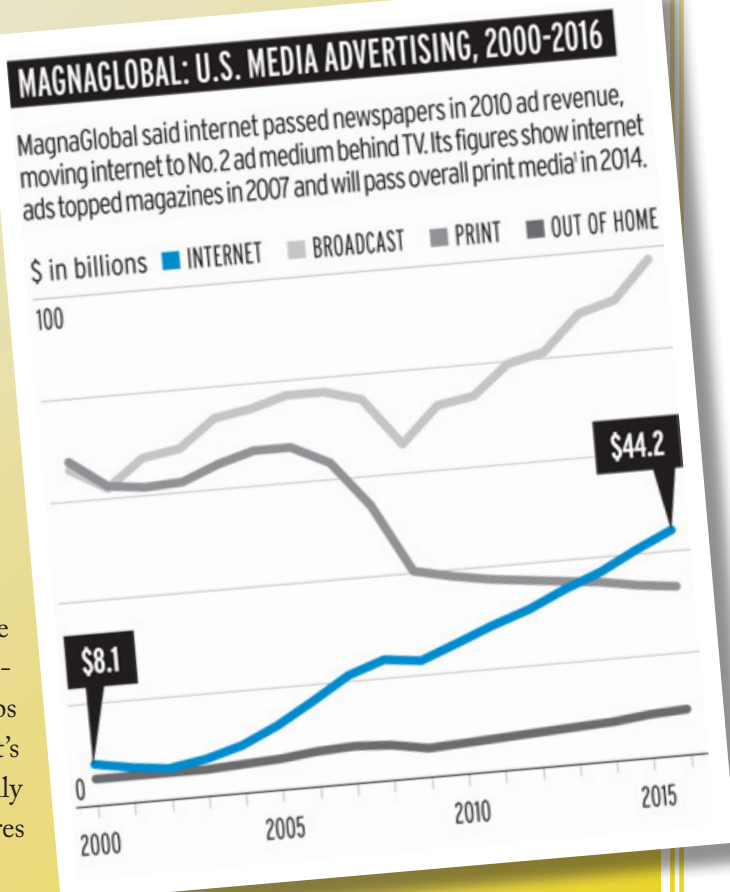
- **Co-ops:** Often co-oping with other local businesses can reduce costs and increase local presence. A local printer may agree to print an apartment rules and guidelines booklet specifically for your apartment tenants and sell ad space to local businesses that include coupons for their products. It allows you to provide a helpful service for your tenants at no cost and helps your networking in the local community.
- **Network With Local Businesses:** Larger businesses in your area frequently hire and transfer employees. Consult with their human resources (HR) department, setting up special offers to their employees. Working with relocation companies can also work since many people, when relocating, prefer to lease first to familiarize themselves with an area before deciding to buy.
- **Capitalize on Current Tenants:** Your current tenants can be an effective source for referrals, since most have family, friends and coworkers. Post flyers around the building, offering special incentives for referrals (ex: save 15% off next month's rent) can help you find new residents without needing to spend extra money on advertising.

M3c New Marketing Trends:

Keeping up with new marketing trends is not an ego thing. It's purely practical. It's less expensive and Internet, mobile and social media are

becoming more and more the new communication tools of choice. A shift from traditional print advertising to electronic media is growing steadily. The chart at right from MagnaGlobal is an indication of the trend already underway. By 2014, it is predicted that dollars spent for advertising on the Internet will exceed those spent for traditional print advertising (other forecasts are found at www.magnaglobal.com). Potential tenants are choosing Internet ads over print ads in increasing numbers. Ignore that trend at your own peril.

- **Online Classifieds:** Many people start their apartment search online first. Craigslist.org is perhaps the preferred classifieds site, but it's not the only one or even necessarily the best. Posting excellent pictures



online will help attract people with strong interest and weed out those with none. One property manager wrote, "Craigslist has been the most wonderful thing for my apartment advertising. The local paper costs \$90 to list my vacant apartments. With the free option online, I actually get the same amount of calls and was able to drop the newspaper."

- **Develop an Apartment Website:** A website can be a major benefit to you and can reduce advertising expenses. Not only can you rank for apartment search terms in your area, but you can also take advantage of online campaigns such as Yahoo's sponsored listings or Google Adwords. You should set up the site to include pictures, community amenities, rules and regulations, local events and news, and even testimonials from your satisfied tenants. Make your website functional, professional, and appealing and you'll find excellent results.
- **Conduct Business on Your Website:** Setting up so your tenants can conduct business via the Internet, such as maintenance requests (non-emergency) and rental applications, can save time and expense by reducing your staff's involvement for that business.
- **Residential Blog on Your Website:** Increasing tenant retention can be helped by adding a resident portal to a website. Landlords can keep their lines of communication open with residents, allowing residents to receive excellent customer service. It can also serve to open communication between tenants, creating an online "bulletin board."
- **Offer Unique Services:** Offering free wireless Internet access, for example, may be a perk as long as it is reliable and you can have someone to help tenants with setting it up. You can then consider marketing that perk in places where a unique benefit like that might appeal to someone – such as a local cafe that offers wireless Internet. It helps to think somewhat out of the box.
- **Explore Social Media:** Facebook, Twitter and other social media are still in the early stages of becoming a true marketing tool. However, it is fast becoming the networking tool of choice. And what you offer, which is a place to call home, is a topic that is perfect for social networking. Creating positive word-of-mouth about your property is the best form of marketing. While it may be a slower marketing build than other conventional marketing tools, open a Facebook account and become familiar with the media. It will not be long before it becomes the dominate form of communication, i.e. marketing. So prepare for the future now!

Conclusion: Achieving a Profitable ROI in Today's Economy

*The tips presented in this brochure address just a few of the issues facing today's property manager. Multi-family real estate has always been an excellent investment option. However in this economy, it takes a little more effort and business savvy to ensure a profitable Return On Investment. To achieve success, remember the Big 3 M's: Management, Maintenance and Marketing. If you want further information or have questions about achieving a profitable ROI on your investment property or are interested in using our experienced property management contact us at **816-228-8222** or e-mail RosettaEParker@premiermgmtinc.net.*

About the author: Rosetta E. Parker, CPM

Rosetta Parker's career in property management and real estate sales spans 20 years and includes serving as Asset Manager for the Federal Deposit Insurance Corporation, the Virginia Housing Finance Agency and the Asset Investment Management Corporation, a real estate investment trust. She has functioned as owner and operator of a real estate brokerage and fee management firm in Dallas, Texas, and currently is a principle of Premier Real Estate Management, Inc. Ms. Parker is a Certified Property Manager whose training and experience is producing bottom line results in multi-family portfolios.



Ms. Parker has been the recipient of the Professional Achievement Award since 1987 nationally, and was conferred into the Academy of Author's for her authorship in writing the handbook on elderly management. Additionally, she has received the Manager of the Year Award by her local chapter of the Institute of Real Estate Management.

Ms. Parker has been the author of training courses and modules on elderly housing as well as procedural management courses in both conventional and subsidized housing. Ms. Parker serves as a faculty member, teaching techniques of housing management practice for the Institute of Real Estate Management.

More recently, she served as Director of Asset Management for a real estate investment trust. In that capacity, she serviced affordable housing and conventionally financed properties. Parker developed and presented public education seminars for small and large investors, public agencies, and non-profit groups in order to perpetuate the sales of multifamily investment purchases from the Resolution Trust Corporation. These sales are produced under the guidelines of the Affordable Housing Program as mandated by FIRREA.

Ms. Parker has served the small investor's interests for all types of investments, such as the sale of real estate, non-performing loans, securitization of loans and subsidiary assets. Parker holds licenses as a Real Estate Broker and Certified Commercial Appraiser as well as being a Certified Property Manager (CPM).

Currently, Ms. Parker is a principle in Premier Real Estate Management, Inc., an association of conscientious professionals with roots in the management philosophies and realities of service to residential communities.

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