

How to Qualify Residential Investments: PART 1 - TENANTS

OVERVIEW

1. TENANT QUALITY A-D
2. ATTRACT A vs. D
3. HOW TO SORT OUT PROPERTIES
4. APPLYING IT TO YOUR MARKET

WHAT QUALITY OF PROPERTY ATTRACTS
THE QUALITY OF TENANT YOU WANT?

THE QUALITY OF THE TENANT MATERS?

Renter Class: A - D

	<u>Pay On Time</u>	<u>Pay Rent</u>	<u>Care for Property</u>
Class A –	YES	YES	YES
Class B –	Mostly	YES	YES
Class C –	Mostly	Mostly	Mostly
Class D –	NO	NO	NO

TENANT COMPARISON: A - D

A

PAY RENT
STAY A LONG TIME
KEEP CLEAN
MAINTAIN PROPERTY
WORK WITH LANDLORD
FOLLOW LEASE

D

DON'T PAY RENT
STAY SHORT TIME
MESSY & DIRTY
DON'T MAINTAIN
DON'T WORK WITH LANDLORD
DISREGARD LEASE

PAY RENT

A

PAY RENT

D

DON'T PAY RENT
VACANCY

What is the cost of an eviction?

What is the time it takes to evict?

STAY A LONG TIME

A

STAY A LONG TIME

5+ Years

D

STAY SHORT TIME

1 Year

How long is it vacant? 1 month?

What is rent up cost? ½ months rent?

What are turn over costs? \$500?

STAY A LONG TIME

	<u>Amount</u>	<u>A</u> 5+ Years	<u>D</u> 1 Year
How long is it vacant? 1 month?	\$2,000	1.6%	8.3%
What is rent up cost? ½ months rent?	\$1,000	0.8%	4.2%
What are turn over costs?	<u>\$500</u>	<u>0.4%</u>	<u>2.1%</u>
Total	\$3,500	2.9%	14.6%

(Rent at \$2,000/month - \$24,000 annual gross rents)

(Worse for net rents)

KEEP CLEAN PROPERTY

A

KEEP CLEAN

D

MESSY & DIRTY

What is additional cost to clean up when tenant leaves?

What additional wear and tear (deferred maintenance) is caused?

MAINTAIN PROPERTY

A

MAINTAIN PROPERTY

D

DON'T MAINTAIN

What additional damage done?

What additional deferred maintenance?

TENANT COMPARISON: A - D

	<u>Amount</u>	<u>A</u> 5+ Years	<u>D</u> 1 Year
Additional clean up costs?	\$1,200	1.0%	5.0%
Deferred Maintenance?	\$3,000	2.5%	12.5%
Additional Repairs?	<u>\$1,000</u>	<u>0.8%</u>	<u>4.2%</u>
Total	\$5,200	4.3%	21.7%

(Rent at \$2,000/month - \$24,000 annual gross rents)

(Worse for net rents)

TENANT COMPARISON: A - D

A

WORK WITH LANDLORD

D

DON'T WORK WITH LANDLORD

Won't let workers in to do repairs.

Complain and want many things done for them.

TENANT COMPARISON: A - D

A

FOLLOW LEASE

D

DISREGARD LEASE

Invite friends, boyfriends, family, etc. to live there.

Participate in illegal activities – grow drugs, sell drugs, crime, etc.

Cook in living room.

ADDITIONAL COSTS OF 'D' TENANT:

- 1. UPWARDS OF 20+% ADDITIONAL COSTS EACH YEAR
(20% LESS MONEY FROM GROSS)**
- 2. TIME & ENERGY**
- 3. STRESS & HASSLE**
- 4. MORE CONTACT – TENANT THERAPIST**

WHAT ATTRACTS A vs. D TENANTS?

1. PROXIMITY TO BENEFITS
2. LOCATION
3. PRIDE OF OWNERSHIP
4. SIZE, AMENITIES & LAYOUT
5. AGE AND CONDITION
6. ATTITUDE OF LANDLORDS

1. Proximity to Benefits

How close is it to stuff?

- Downtown
- Shopping
- Best Schools
- Recreation

2. Location

What is immediately around it?

- Park
- Train Tracks
- Commercial Area
- Bar
- School

3. Pride of Ownership

What is the condition of the neighborhood?

- Common area garbage picked up
- Houses painted
- Yards kept up
- Cars maintained

4. Size, Amenities & Layout

How livable is the property?

- Square Feet
- Bedrooms & bathrooms
- Garage
- Does layout flow?
- Is there a back yard?

5. Age & Condition

Is the property in good working order?

- Need new flooring and/or paint?
- Does everything work?
- When will the roof need to be replaced?

6. Attitude of Landlords

What do they think they can get away with?

- Did they confirm application and check references?
- Are there company systems and best practices?
- How deal with tenant?

SYSTEMS TO SORT:

- 1. PROPERTY TYPE**
- 2. NEIGHBORHOOD CLASS**
- 3. PROPERTY CLASS (FEATURES, AMENITIES, AGE, SIZE)**
- 4. LOCATION**
- 5. PROPERTY CONDITION**

1. Property Type:

	1 UNIT	2-4 UNITS
ATTACHED	CONDO 1/2 PLEX	DUPLEX TRIPLEX FOURPLEX
DETACHED	SFR	2 or 3 SFR on Lot

Property Type:

	<u>Tenant Term</u>	<u>Expenses</u>	<u>Time</u>	<u>Repairs</u>	<u>Rents</u>
SFR	+	+	+	0	0
Condo	0	-	+	+	-
Duplex	0	0	0	0	0
Fourplex	-	-	-	-	+

Tenant Term = length of time of an average tenant.
 Time = amount of time involved to manage.
 Rents = amount of rent relative to the price.

Expenses = typical cost of expenses
 Repairs = amount of maintenance that occurs

2. Neighborhood Class:

Class A – Largest, nicest, newest

Class B – Large, nice, newer

Class C – Medium size, older

Class D – Oldest homes & mixed use

Neighborhood Class, SFR

SFR: A – D

- A – Luxury Area, Well Located
- B – Newer, Larger, Well Established Desirable Area
- C – First Home, Smaller & Older
- D – Distressed

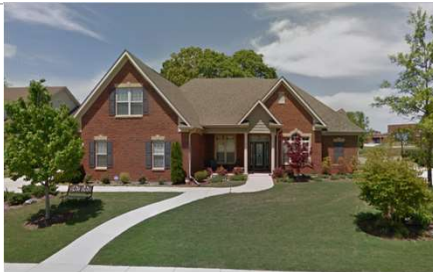
Neighborhood Class, 2-4 Unit

MULTIFAMILY: A – D

- A – High Demand
- B – Stable
- C – Transitional
- D – Distressed

Neighborhood Class:

Class A



Class B



Class C



Class D



3. Property Class

CLASS: A – D

- A – New & Well Laid Out
- B – Moderate Condition and Floorplan (1980-2000)
- C – Older &/or Not Well Laid Out (1970s and older)
- D – Distressed

3. Property Class:

SIZE & AGE

	<u>Size (ft.)</u>	<u>Bed/bath</u>	<u>Age</u>
Class A –	2,200 +	3/2+	0-5
Class B –	1,400 – 2600	3/2+	5-25
Class C –	950 – 1,600	3/2-	25-60
Class D –	1300 -	3/1-	60+

4. Location of Property

**FOCUS ON
NEGATIVE 1ST**

POSITIVE ASPECTS:

Food and other Stores
Commute
Recreation
Proximity to Schools +

NEGATIVE ASPECTS:

Commercial & Apartments
Noise Areas

- Trains, Freeways, etc.

5. Condition:

REPAIRS

◦ What needs to be fixed?

DEFERRED MAINTENANCE

◦ What will need replacing later?

CAPITAL IMPROVEMENTS

◦ Roof, HVAC

SYSTEM TO QUALIFY PROPERTIES:

1. INVESTMENT TYPE
2. PRICE RANGE
3. NEIGHBORHOOD CLASS
4. PROPERTY FEATURES, AMENITIES, AGE, SIZE
5. LOCATION
6. COMPARE WITH RENTS
7. PROPERTY CONDITION AND CONFIRM #3, 4 & 5

1. Property Type

**Number of Units
Attached vs. Detached**

2. Price Range

What can you afford to purchase?

- Price Range

3. Neighborhood Class

What quality of neighborhood do you want? A – D

4. Property Class

bed, bath, size, age, etc.

Search within Neighborhoods

- By Size – Square Feet
 - Bed & Bath
 - Garage
- Take into account other
Benefits/Drawbacks*

5. Check Location

What is immediately around property?

6. Compare Rents

**What are rents likely to be for top potential properties?
How will it cash flow?**

7. View Potential Deals

Go out and look at property...

- What is the Condition
- Confirm Location
- Confirm Information
- Layout
- Condition

QUESTIONS

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SHORTCUT TO INVESTING SUCCESS & AVOID COMMON ERRORS.