



MPM News

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2010: What's in Store?

We at Modern Property Management have almost 200 years of combined property management experience and none of us has ever seen a rental housing environment remotely like this. In the past, it was always a good rule of thumb that "Whatever else goes on, people have to live somewhere." Well, the last couple of years have shown us that isn't necessarily so.

Market Forecast

According to an NPR news story I heard last week, there are more vacant dwelling spaces in America than ever before in history. People are doubling and tripling up in houses and rental units. There are more rental spaces than there are renters. And so, we are in a renters' market, with depressed rents, high tenant churn, discounted rents, bundled utilities and a constant tooth-and-nail fight for market share.

We talk to commercial bankers who receive high-priced market analyses that unfortunately mirror what we are hearing on national news stories: this next year will be the bottom of the trough for commercial property (multi-family, office, retail and warehouse space). The prediction for when we start coming out of this situation in earnest is the spring of 2014.

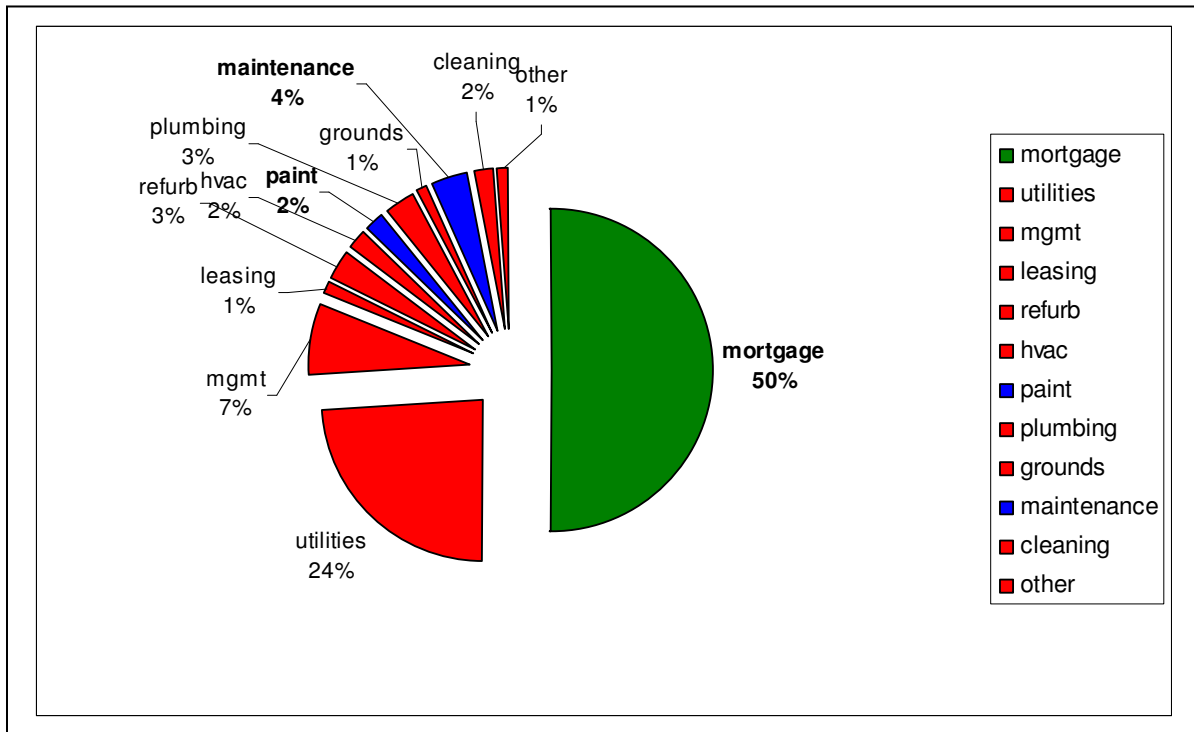
Survival Strategy

Like many of you, I own leveraged multi-family property where I have been forced to lower rents, include utilities and occasionally subsidize the Principal, Interest, Taxes & Insurance (PITI). The statistics for recessions since the Great Depression show that property values typically drop by a third and take about five years to recover. We just have to hang on, if we can, until times are better and our property values return. It is a test of endurance.

Occupancy and Expenses

Many of us bought older "C" properties, which meant the potential for growing value was high. Our initial strategy in many instances was to rebuild the old systems out of property income so the constant drain on income for maintenance would be minimized. Well, we didn't own

the properties long enough to get that done before the recession hit. So, each month, many of us look at an expense chart that looks something like this:



What Can We Affect?

Out of this entire pie, the bigger slices are things we can not affect, appreciably. We can maximize occupancy, which is income, and we can minimize – but not eliminate -- expenses. We can't afford to rehab any building systems, so we are stuck with minimizing the cost of maintaining what we have. There is a big chunk of the remainder we know simply cannot disappear. These are the parameters of the problem.

Occupancy

Tenants who stay and pay power your investment -- these tenants constitute *economic occupancy*. Tenants who stay and don't pay rob you of rent and artificially inflate your rent roll -- these tenants constitute *physical occupancy*.

A manager who wants to *appear* to perform well reports physical occupancy, only. MPM constantly strives to keep these two measures close to one another through formal payment systems and timely evictions, so we deliver reality, not a mirage.

Expenses

Expenses divide into three categories: **fixed, operating and reserve**. *Fixed expenses* are the ones we can't affect, like principal, interest, taxes and insurance. *Operating expenses* cover utilities, turns, minor repairs, property manager, lawn care, pest control and so forth. *Reserve expenses* are prorated monies set aside each month for anticipated repair or replacement of things with longer but fixed life-spans, like roofs, water heaters, appliances and boilers -- often, especially in tight economic times, this category is often treated like an operating expense.

Some expenses are cyclic, such as utilities, with mid winter and mid summer being the highest bills; spring and fall are used to buffer the spiked expense months, so the total picture emerges by looking at an entire year, not just a quarter. Furnaces and air conditioners fail more often at seasonal transitions after a season of non-use. Buildings never sleep and expenses mount 24 hours a day and seven days a week. They won't go away.

MPM is constantly looking for ideas on reducing expenses while maintaining fully-insured service levels. Sometimes, our clients offer suggestions that we adopt. Such is the case with the expense reduction programs described, below.

New Expense Reduction Programs

Many of our clients offer ideas for cost reduction, some specific to a particular property, but others that can be migrated to properties in general. Here are two such suggestions that we are implementing:

Contractor Corps

We are assembling a corps of contractors for lower-end maintenance work, such as painting. We are qualifying them as we would an employee, providing liability and worker's compensation insurance coverage. Use of reliable contractors for repetitive work will reduce turn costs. Given the frequency of turns, this will result in significant savings over time.

Utility Cost Reduction

Utility rates are rising constantly for all three major utilities (gas, water and electric). Boiler-chiller HVAC systems have no option but that the landlord pays utilities. Unfortunately, the state of the rental market has forced separately-meter-able units to bundle utilities, also. This puts many of us in the utility business whether we like it or not.

We have tried many ways to cap tenant use of utilities, usually with little to mixed success. These are usually the *stick* option of a *carrot-and-stick* methodology.

Tenants often put off paying overages and in many cases move out rather than pay anything over a cap. They argue and find maintenance items to complain about, holding utility overage money hostage to repair demands. The Ratio Utility Billing System (RUBS) has the same problems, plus complaints of fair application and bear the stigma of failing in the courts if a tenant sues. Extracting utility overage payments is piecemeal and usually causes more trouble than it is worth – literally.

However, there is still a lot of money tied up in utilities and a frugal tenant can save us some money. Here is a *carrot* method that we are going to try on volunteer properties:

Carrot Utility Conservation

We establish a baseline of expected utility usage based on previous utility bills. Then we inform tenants that anything under this amount is savings and that they will share 20 percent of the savings among them in the form of rent reduction. Ground rules are:

- 1) the measure is quarter by quarter,
- 2) only tenants who have been in the building the full quarter can share in the savings,
- 3) there is no distinction between number of occupants or apartment size.

A thermometer type graphic will be placed in the common area to monitor current costs

versus the baseline, i.e., their savings.

With the carrot approach and cash rewards, we may actually achieve some conservation. Please let your property manager know if you would like to participate in the trial of this program.

Property Value Assessment Hearings & Mayor Newberry

Tim has Property Value Administration (PVA) hearings scheduled for June 21 to argue for lower property values for clients who did not achieve a reduction last year. Breaking news, June 16, PVA has requested a pre-hearing; we might win a few before going to the formal hearing, always a better way.

Tim has an appointment with Mayor Newberry June 17 to report the effect of excessive “code sweeps” on older properties already suffering from recession effects and request some relief.

Your Property Managers

Here are your property managers. Please contact them if you have any questions about the local rental market, your property's neighborhood, your property or tenant management. Of course, Maintenance, Accounting, Evictions and the other departments are always available, too. And, if these guys can't help, call me.



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On-Line Reports & Direct Deposit Capability

Don't forget, you have a secure, on-line Internet owner's portal with your rent roll and financial reports posted each month. We also have the ability to direct deposit your funds into your bank via ACH wire transfer. Please contact your property manager or Lucy in Accounting if you need more information.

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