

RENT INCREASES

The Why, What, When and How

The most frequently asked question I get from manufactured home park and community owners is about rent. How to raise rent, graciously, is obviously an important component to owning investment real estate. When you bought the property was your philosophy to maximize the net cash flow and eventually get rich or at least expand your net worth from owning real estate? Were you inspired by investors who have made fortunes in real estate? Is that still your goal...to maximize cash flow and your personal balance sheet by investing in real estate?

There are ways to raise rent that are both fair and realistic and won't get you nominated for the "Worst Person of the Year." It's important to know your numbers and it's important to understand what your property offers. In other words, what is the resident getting for the rent? It helps to write out a list in order to clarify your thinking.

Here are some ideas to help you make an informed decision about how much your rent should be and why. Then there are some ideas on how to present the rent increase that will help with any resistance from residents. If properly done, there should be zero to very few comments from residents.

1. Know your expense numbers. A mobile home park that I once sold was in a city that had increased water rates nearly every year in the previous eight years. The owners weren't aware of it and you can't really blame them. City utilities usually aren't required to hold public hearings on water rate increases like a public utility company is. Water and sewer were included in the rent in this case. These same owners expressed pride in how low their site rent was compared to other mobile home parks in their market. They didn't realize the water rate went up every year. Not only was their rent the lowest but most of the other mobile home parks charged for water and sewer. These residents were getting a below market, super good deal on rent.

In fact one of the residents trying to sell his home in that mobile home park said, "the rent at his community was the lowest in town." Mobile home park residents know the score on how rent at your community stacks up against the competition. It seems like sometimes residents know the rent comparables and what is included in the rent more than the owner.

2. Market Rent. What does housing cost in the market; and not just lot rent for the competition? What does it cost to rent a two or three bedroom apartment? A two or three bedroom rental home? What is the average sale price of a site-built home in your market? The higher the average sale price of a site-built home, the higher the market rent. There's a reason why multiple mobile home park owners like to buy in markets where residential real estate is pricey. They know that the rents may increase more and faster. There is always a "critical mass" of people needing housing. If a two bedroom apartment rents for \$600 per month, the site rent may be say, \$300. This assumes the house payment or house rental is \$300. Perhaps, the lot rent could be a little more, assuming that the apartment vacancy rate is low. Manufactured and mobile homes in communities usually trump apartments for most apartment dwellers.

When doing a market rent survey, net out whatever services are included in the rent such as water, sewer, trash, lawn, cable, internet, to get a true picture of how your property stacks up. This is work and that's why most owners don't do it. You can delegate it as long as you are specific about the information needed. Most owners and managers will give you the information if your offer to give them a copy of your findings. Even though this takes effort, it's worth it if it helps you, the owner or manager, to state with confidence your rent, knowing that you are within the market spectrum and that you aren't overcharging. Don't forget to assign a value to the location (proximity to schools, major streets, and retail) and any amenities (storm shelter, community room, cleanliness, management).

3. Your mobile home park/community vs. competition. How is your community better, easier to live in or speedier to respond to residents' needs than the competition. Here are a few things to get you started on things you may take for granted, but are components of your community's value proposition.

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| * Rules or guidelines for living | * Amenities |
| * Real estate taxes included in rent | * Resident screening |
| * Location | * Easier to purchase or rent a home or faster |
| * Monthly charges (rent, water, sewer, garbage, other) | * Security |
| * Resale | * Social/Recreation |
| * Management | * Property Maintenance |
| * Common Areas | * Snow/lawn |
| * Image | * Views, vistas |

What other items? If you chart this, it will be obvious if a rent increase is in order.

4. Pass-through Clauses It's unconfirmed if this takes place, but New York state mobile home park owners sometimes have leases that pass through increases in real estate taxes, insurance and utilities. Commercial leases often contain these clauses and allow for pass-through of additional categories such as lawn, snow, janitorial, etc.

5. Communication is the Key Make the effort to lessen the impact of the rental increase. Communicate with your residents; be respectful and be nice. Be prepared with a handout of all the benefits of living in your mobile home park/manufactured home community; make a list of all the improvements and resident things you've done in the last 12 months. Just as important is to communicate with managers and staff about the reasons for the rent increase. Ideally, they will be onboard with it and view it as reasonable. Through your website, newsletter, or however you communicate with residents, have a "WE DID IT FOR YOU!" mantra when improvements are made. Tell residents what you did. As community owners, perpetually selling the value and benefits of the park/community is up to each one of us.

Finally, your residents don't expect a perfect mobile home park to live in; they just want to know that they are getting value for their money. If the park/community can make that case, the complaints about the rental increase may be less.

6. "Soft" Markets and "Rising" Markets When unemployment is a problem, population is shrinking, housing is overbuilt and oversupplied, rent increases may need to be lower and move-in incentives may have to be offered. Employment is getting better and the U.S. population is growing. Factors such as these are like a good tailwind for rent increases. Is your market area growing or declining?

7. Rent Escalators In commercial real estate leases such as office and retail it's normal to have an automatic rent increase built into the agreement. This is especially so if the Landlord gives any rent concessions such as free rent or paying for improvements to the leased space that benefit the tenants. It's not common in multi-family leases, but there is no reason for a Landlord not to recoup some of the costs incurred for getting the tenant into the home (free rent, improvements to the home, the lot).

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