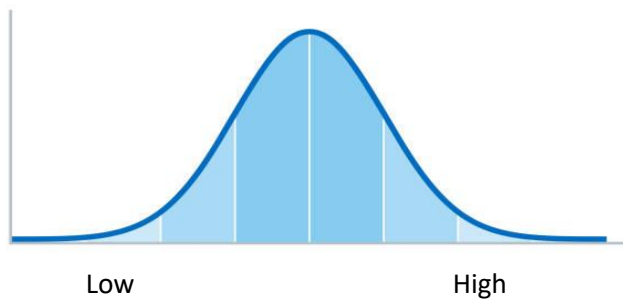


## Renting Homes and Apartments – Higher rent or more applicants?

by Jeff Zank, ARM®, Realtor®, President Rancho Property Works LLC, Property Manager, Instructor, Consultant, and Investor

How does one choose rental rates when renting residential homes and apartments? Great question! I will go through a process on how to price rentals at a high level. Is that the real question when renting residential units? Maybe so, maybe not? I'll get into that also.

First off, how do you price rentals? You need to understand the basics of the property including; 1) square footage, 2) features like bedrooms, baths, etc., 3) location including neighborhood, proximity to shopping, transportation, schools as well as quality of life living there, 4) how nice is the property inside and out, and lastly 5) area comps / market conditions. All are important in pricing rentals. I am not going to cover them in depth as this would turn into a longer white paper which is not the objective.



At the end of all this is a price range per SF as represented in this graph. On the bottom X axis, you have a rent range from low to high on the right. Going the other way on the Y axis is the number of renters at that price in blue so the higher up you are in to the darker blue there are more renters available. If one gets aggressive on rent you move to the high rent side of the graph. In that side there are fewer possible renters out there so your supply is less. If one has lower rent then you will undercharge for rent - as a professional property manager / owner you don't want to go there as you devalue the property with lower income, etc. I like to target the middle darker blue area as there are more renters available there. This

means more showings, more applications received and all things being equal, better tenants moved in sooner paying rent resulting in income for owners and at a fair price for tenants. More showings are important to get more applicants. More applicants are important as many won't qualify to defined standards and I've had to move on to the 2<sup>nd</sup> or even 3<sup>rd</sup> applicant before one is approved to move in.

For example; I put a property on the market for \$2150 in rent. This was a nice newer home matching current area standards, 4 bedrooms, 2.5 baths, fire place with up-dated appliances in the best part of town. Less than other larger properties in the area on the market. I thought I had a price advantage even though it was at the higher end of the range. I had a handful of showings, some applications out but none back over about a week's time while interest slowed way down. I had priced it at the high end of the range and did not get it rented in a timeframe where it should have been. So I reduced the rent to \$1900 to move into the sweet spot (middle of the chart) of possible renters and rented it within 3 days and moved them in within 2 weeks. Success!

It's not about how much rent you get. Sure, you may get lucky and find a qualified renter at the high end of the range, all you need is one, right? Good for you and the owner. What if you don't? In a market where most properties rent in a week and you're still on the market for weeks to months at a time, you are asking too much rent for the value offered. You're helping other properties in the area rent their properties first – this was the case in the example above. Thank you to those owners and property managers who try for too much rent! That's no rent or income to the property manager / owner which is what this is all about, right? You will never recover lost rent for the weeks and months it's vacant. It's far better to rent it sooner for cash flow and income than to have it vacant. So, make sure your price is right in the sweet spot for that property so as to get more applicants and or interest resulting in getting it rented sooner not later providing cash flow / income for the owner.

If you, your friends, or family need a property manager that understands the details of pricing rentals for the residential rental market, please contact me. I love referrals.