

# Eastern Michigan Real Estate Investment Association

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May 2013

## From the President

**We recently held the annual board meeting at which time board members were appointed and officers were elected for the current year. The officers elected were as follows:**

**Edward Schultz—President  
Judy Harris—Vice President  
David Oppliger—Secretary  
Rena Kiehler—Treasurer**

**We currently have one open seat on the board and we are looking for a member who might serve. If you would be interested in serving please contact Edward Schultz at 810-385-2332, or any other board member.**

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## Senate Committee passes blight bills the Voice

Governor Rick Snyder announced in his annual State-of-the-State address that he wants to address “blight.” A package of “blight” bills recently passed the Senate Judiciary on March 7, 2013 to address various areas believed to assist with attacking blight. The following is an analysis of those bills.

**Senate Bill 35 (S-1)** would amend Section 4q of the Home Rule City Act, which allows certain cities to establish an administrative hearings bureau to adjudicate blight violations, to do the following:

- Establish additional civil and criminal penalties that could be imposed on a person who committed a blight violation and failed to pay a fine and costs of \$1,000 or more.
- Exclude certain entities that become the owner of foreclosed property from the additional sanctions, under certain circumstances.
- Lower the minimum population from 2.0 million to 1.5 million for a county containing a city with a population of 3,300 or more.

Section 4q allows a city with a population of 7,500 or more in any county, and a city with a population of 3,300 or more in a county with a population of 2.0 million or more, to establish an administrative hearings bureau to adjudicate and impose sanctions for a blight violation. The bill would refer to a county with a population of 1.5 million or more.

A city that creates an administrative hearings bureau must establish its jurisdiction for adjudicating certain blight violations. A hearing officer may impose reasonable and proportionate sanctions consistent with applicable ordinance provisions and assess certain costs against a person found responsible for a violation. Under the bill, if the civil fine and costs imposed were \$1,000 or more and the person did not pay within 30 days after a final decision and order of the hearing officer or (upon appeal) of the circuit court, the person would be subject to the following:

- For a first violation, the person would be responsible for State civil infraction and could be ordered to pay a maximum civil fine of \$550
- For a second violation, the person would be guilty of a misdemeanor punishable by imprisonment for up to 93 days and a maximum fine of \$500, or both.
- For a third or subsequent violation, the person would be guilty of a misdemeanor punishable by imprisonment for up to one year and a mandatory fine of \$500.

**Senate Bill 36 (S-1)** would amend the Michigan Zoning

Enabling Act to do the following:

- Allow a city zoning ordinance to provide that a person would be ineligible for rezoning, site approval, or other zoning authorization if the person were delinquent in paying a fine or costs for a blight violation.
- Excluding certain entities that become the owner of foreclosed property from the bill’s ineligibility for zoning or site approval restriction.

**Senate Bill 37 (S-1)** would amend the Single State Construction Code Act to do the following:

- Allow a city to provide by ordinance that a person would be ineligible for a building permit, a certificate of use and occupancy, or a variance if the person were delinquent in paying a fine or costs for a blight violation.
- Exclude certain entities that become the owner of foreclosed property from the bill’s ineligibility for a building permit, certificate of use and occupancy, or variance.

**Senate Bill 38** would amend the Revised Judicature Act to allow a city to file a garnishment action if a fine or costs were ordered for a blight violation.

**Senate Bill 39** would amend the Home Rule City Act to allow a lien against property involved in a blight violation to be enforced and discharged by the city in the same manner as liens for delinquent taxes.

The additional sanctions under Senate Bill 35 (S-1), and a zoning ordinance adopted under Senate Bill 36 (S-1) or 37 (S-1), would not apply to any of the following that become the owner of a property after foreclosure or after taking a deed in lieu of foreclosure:

- A government–sponsored enterprise or the Michigan State Housing Development Authority.
- A financial institution.
- A mortgage servicer that is subject to the Mortgage Brokers, Lenders, and Servicers Licensing Act.
- A credit union service organization organized under Michigan or U.S. law.

“Government-sponsored enterprise” would mean that term as defined in Federal law (2 USC 622(8)), which refers to a corporate entity created by U.S. law that has a Federal Charter; is privately owned; is under the direction of a board of directors, a majority of which is elected by private owners; and is a financial institution with the power to make loans or loan guarantees for limited purposes).

## Prevent Water Waste by Alicia Marrs, U.S. Environmental Protection Agency

The new housing market is looking better than it has in years, and the multifamily sector is leading that recovery. According to *Fortune* magazine, multifamily homes comprise an estimated 33 percent of all residential construction today—quite an increase from the 20 percent of years past.

To capitalize on current market conditions, multifamily executives and builders are looking for ways to differentiate themselves from the competition. Many forward-thinking firms have already incorporated environmentally sustainable features, including insulation, energy-efficient windows and ENERGY STAR-qualified appliances. But with much of the housing upswing occurring in draught-prone parts of the country, it's not enough for buildings to be energy-efficient. Today's homeowners, renters and building managers also understand the value of saving water, especially if they can maintain the quality and convenience expected in a new home.

That's where WaterSense comes in. Launched in 2006, WaterSense is a voluntary partnership program sponsored by the U.S. Environmental Protection Agency (EPA) to help protect the future of our nation's water supply by offering people a simple way to use less water with water-efficient products, new homes and services. All WaterSense-labeled products must be independently certified to be at least 20 percent more efficient and perform as well or better than standard models. From performance-tested toilets and satisfying showers to irrigation controllers that only water plants when needed, WaterSense-labeled products have been making waves in homes of all types for several years.

Since the program's inception, WaterSense has helped consumers save 287 billion gallons of water and \$4.7 billion in water and energy bills. WaterSense is hoping to increase those savings numbers by tapping into the burgeoning multifamily market. As of January 2013, units in multifamily buildings can earn the WaterSense label, giving apartment residents, condo owners, building developers and operators a new way to save water, energy and financial resources.

### Certified—with convenience

When originally released in 2009, WaterSense's labeling specification for new homes covered only single-family homes. Builders were invited to join the program and construct residences to earn the WaterSense label. The program got off to a slow but steady start due to the housing market downturn, but the EPA estimates there are now more than 220 WaterSense-labeled single-family homes across the country.

Compared to traditional homes, WaterSense-labeled new single-family homes, condos and apartments can save a family of four up to 50,000 gallons of water per year (equivalent to the amount of water used to wash 2,000 loads of laundry) and as much as \$600 per year in water and energy costs. Consumers can feel good about themselves every time they turn the key and save money every time they pay utility bills. For multi-family buildings where utility costs are included in monthly fees, this means an opportunity for building management to reduce operating costs and keep rents low.

With the plethora of green building certification programs available today, the EPA didn't want to reinvent the wheel. The WaterSense certification process was designed to dovetail with other green building programs such as the National Green Building Standard, the U.S.

Green Building Council's LEED and EPA's ENERGY STAR programs. In fact, some WaterSense-licensed certification providers also participate in the ENERGY STAR Qualified Homes and USGBC's LEED for Homes programs, and site visits required for all of these programs can be conducted by the same inspector or rater.

To earn the WaterSense label, units in multifamily buildings must meet the criteria in EPA's WaterSense New Home Specification (Version 1.1). The specification properties such as laundry rooms and pools. Units must be inspected and certified by a licensed certification provider before they can earn the WaterSense label, providing added confidence and credibility to a building's greening efforts.

### Savings inside and out

On average, about 70 percent of water used at home is used indoors. Apartments and condos that have earned the label will include WaterSense-labeled toilets, faucets and showerheads that have been independently certified to be both high-performing and water-efficient. In addition, these homes will have ENERGY STAR-qualified dishwashers and clothes washers if installed when the unit is built.

An efficient hot water distribution system must be employed to decrease the amount of time it takes for hot water to reach the faucet or shower. This means that residents won't waste time, energy and thousands of gallons waiting for hot water to reach the tap or tub—a selling point for future tenants. Building managers will also provide residents in WaterSense-labeled units information to help them understand and reduce their own water use, which can help instill a "green" ethic in the building and cut down on utility bills.

In order for an apartment or condo to earn the WaterSense label, the building must also have independent heating, cooling and hot water systems for each unit. However, buildings utilizing central hot water systems powered by alternative energy sources (such as solar or geothermal) for at least 50 percent of the hot water needs of residential units may also have units that qualify for the label.

Outdoors, WaterSense labeled apartments or condos must have water-smart landscapes. To help landscapers design with water conservation in mind, EPA created a Water Budget Tool that helps ensure efficiency and regional suitability of plants based on local climate data. If in-ground sprinkler systems or pools are installed on the property, efficient technologies are required to help keep water use low.

### A wise choice

From recent college graduates just getting started to empty-nesters looking to simplify their lives, multifamily tenants know that choosing an apartment or condo is a wise investment for the future. Given today's green and resource-conscious buyers and renter, the decision to provide WaterSense-labeled units is an even wiser investment, not only for the planet, but for your bottom line.

Builders interested in construction WaterSense labeled homes in multifamily buildings can join the WaterSense program as partners and receive the tools they'll need to support their efforts. If you're a multifamily executive looking to add water efficiency as an enhancement for the units in your development, ask your builder to join WaterSense. To learn more about the WaterSense new homes program, visit the EPA homepage.



## Three big plans of attack for reducing expenses

by Mike Butler

If you discover you have negative cash flow, you must take action now to turn it around. Correcting negative cash flow involves doing things NOW to stop the bleeding. It might conflict with a conservative long-term investment game plan, but remember, if you go belly up from negative cash flow, you won't need a long term plan.

### Evaluate Your Liabilities

Review your list of mortgages and monthly debt service. Do you have some 15 year loans? Changing them to 30 year loans increases cash flow NOW. Also, review your interest rates.

Have you played ostrich and ignored the terms of your existing notes and mortgages? Money is cheap now. You should not have any loans higher than 6%. Do you have any seller-financed properties or private lenders? Refinance them with the cheap money available, but before doing so, contact these seller financiers or private lenders and ask for discounts if paid in full now. (I recently got an \$18,000 discount).

Contact each of your seller-financed lenders and be creative. Ask to pay 10 monthly payments now for 2 months of no payments. This gives you two extra months of no payments—more cash flow. Ask them to coordinate to the second position on their properties. This will free up a property to refinance and pay off other debt.

Carefully study your liabilities. Ask yourself questions like, "If I can refinance one house and take the money and pay off x number of houses with smaller balances, can one new loan pay off three old loans?" I am not encouraging you to create a boatload of more debt. The objective of this article is to stop the bleeding.

### Review Your Insurance

Approximately four or five years ago, my insurance was increasing at a rate of 30% per year. Although I had a good relationship with my insurance agent, to stop the bleeding I had to shop my insurance. With a few phone calls, I quickly learned I could get better coverage and reduce my insurance premiums by \$3,000 a month a instantly increased cash flow.

Since then, almost the same thing has happened again last year. Insurance started going up again and with a few phone calls, [I] received as good of coverage with an annual savings of almost \$20,000.00

My experience with insurance companies has been the following: In order to get your business, you will be quoted wonderful initial rates. Then they start creeping up. I have seen this pattern with multiple insurance companies over the last 10 years. Now I expect in the next two or three years to switch again.

### Contractors

I reviewed an annual report of dollar amounts paid to vendors. It was surprising to learn how much was paid to my HVAC company in 12 months. I take care of my vendors and they like doing business with me. I believe I get good service because I pay my invoices/bills as soon as the bill hits my mailbox.

I contacted my HVAC contractor and asked him if he had about 10 minutes to talk (if he was in a hurry, he'll become frustrated). I asked him if I was a good customer and his reply was, "One of my best." I then informed him of how tough our business has been lately and that we're struggling (my objective was to reduce the service run charge by 50%). After he acknowledged that I am a great customer, I asked for his help for the next 12 months by "waiving" the \$50 service run charge. Of course, he balked and talked about his increased gasoline cost, etc. But then I asked him if he could meet me half way and he agreed. Now, service run charges are only \$25 for the next 12 months. Repeat this scenario with your regular contractors and service providers as needed.

## Opening Speakers at ULI Emphasize Need for Innovation

by Suzann Silverman

Can developers be innovative? While it's not the priority since developers need to focus on what their customers want and therefore what makes development profitable, they can benefit from use of innovation, affirmed James Waring, executive chairman of CleanTECH San Diego, during the keynote session of the 2013 ULI Spring Meeting in San Diego. "Innovate Real Estate" is the theme of the Urban Land Institute's big spring event this year. Innovation comes with risk, but it also encourages a search for best practices and the best products, he observed.

As needs change, if you can adapt you'll have a much better chance of surviving, added Greg Horowitz, co-founder & director of global enterprise for Global CONNECT at the University of California at San Diego, invoking Charles Darwin's theory of survival. "Built to evolve" should be the mentality, rather than "built to last," he pointed out.

He noted that being innovative does not require shifting thinking 180 degrees. A slight—even 5 percent—change in perspective may allow you to think in a completely new way. He and his fellow speakers invoked Silicon Valley, where innovation is encouraged and failure is simply a reason to abandon an experiment and move on. "Don't copy Silicon Valley. Steal the elements of Silicon Valley and make it unique," advised Paul Saffo, futurist & managing director of Foresight, Discern Analytics.

But the discussion was not entirely conceptual. On a more practical level, the speakers noted that the real estate industry could help drive trends to make them more beneficial. For instance, while Jessie Knight, chairman & CEO of SDG&E, the local power company, pointed to his company's partnership efforts with major homebuilders to encourage energy efficiencies within new homes, Waring pointed out that plans to increase the number of solar rooftops from 70,000 to 270,000 would be more effective were grid management improved so credit was actually awarded for the solar use.

The speakers extended their message to municipal thinking, as well, declaring that a natural progression is to transcend city, regional and state borders. "Borders don't want to exist," declared Saffo. He said government tends to resist this, but regions naturally form their own entities, centered around "productive residents" rather than "citizens," and ignoring this will weaken the country. The comments arose from the welcoming remarks of San Diego mayor Bob Filner, who spoke proudly of the first bi-national Olympic bid, a joint effort of San Diego and Tijuana, Mexico, which cross national borders to operate more naturally as a region.

## Justices question landlord obligation in arguments

By the Voice

Whether a landlord has a duty to take action to protect residents and guests from a criminal was subject to intense questioning by the Supreme Court during arguments. The justices seemed clearly to imply by their questioning that the landlord and the landlord's security guards did, but also seemed to back off a more expansive position that a landlord should take a more active role in providing security.

The questioning came about on the first day of oral arguments in March, in *Bailey v. Schaaf* (SC docket No. 144055), involving the injuries suffered by Devon Bailey who was shot by Steven Schaaf and left a paraplegic.

Mr. Bailey was a guest at the Evergreen Regency Townhomes in Flint when residents and others saw Mr. Schaaf, who trespassed on the property, brandishing a gun and threatening to kill someone. Several residents called the police. At least one also notified on-site security guards, but they did nothing to stop Mr. Schaaf or notify the police.

Mr. Bailey sued Mr. Schaaf, but also the complex and its owners. While the trial court held the building did not have an obligation to take steps to protect Mr. Bailey and others, the Court of Appeals rendered a split ruling, finding both for Mr. Bailey and ordering a new trial, but also saying he had failed to state a claim against the landlord.

Gary Supanich, arguing for the landlord, said a landlord has no control over the possible criminal acts. A landlord does owe a duty on times within his or her control, such as ensuring steps are not icy, he said, but cannot have control over the action of individuals.

But Justice Brian Zahra challenged that assertion, saying if the landlord has a duty to warn of a potential hazard, why should that principal not be applied when the landlord knows of the potential for an illegal act.

And Chief Justice Robert Young Jr. asked if the issue was not one of what a landlord can do, but what the landlord must do in the situation. After all, the owner of a grocery store has to take steps to protect shoppers if there is a spill in the aisles, he said.

But, a grocery store is open to anyone, Mr. Supanich said, whereas a complex such as the one in question is not. Such a place is only open to residents, their guests and authorized persons, such as delivery people. Mr. Schaaf was none of those.

Justice Mary Beth Kelly asked if the close nature of the building in fact did not "create more of a special relationship" with the tenants and their guests, meaning the landlord needed to take action.

The justices and Don Fulkerson, lawyer for Mr. Bailey, seemed to agree that a 2001 decision in *MacDonald v. PKT*, where Pine Know owners were held to have an obligation to respond to a situation where patrons were being pelted and hurt by sod being thrown by others, applied in this situation. The *MacDonald* case held that a merchant had to respond to situations where patrons could be hurt while on their property.

But when Mr. Fulkerson argued that landlords had to go beyond responding and undertake a guard against such incidents, he ran into hard questions as well.

Under that basis, Mr. Zahra said, there would be a disincentive for any landlord to do anything to provide any kind of deterrent.

And Ms. Kelly said Mr. Fulkerson was better off not raising the point. If the idea was simply extending the holding in the *MacDonald* case to this and similar situations, the court could probably agree.

Going beyond that creates a more problematic situation, and Mr. Young said it could provide "perverse incentives for lawsuits."

## The Power of Persistence by Doug Page

I don't know where you rank Calvin Coolidge among America's presidents, but he gets my vote for one of the best quotes ever:

"Nothing in this world can take the place of persistence. Talent will not; nothing is more common than unsuccessful people with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent."

Indeed. More and more lately, I find that *following up* pays big dividends.

### RENTERS DO DEMO.

In the summer of 2010, I approached a guy who had been trying to sell his house for a while, and I made a reasonable offer at \$75k. The seller didn't like it and decided to rent the house instead. I said okay, may I check back with you in a year? Sure.

One year later, I called and asked how it was going with the renters. Everything was fine; in fact, they just signed up for another year. May I call back again? Sure.

Another year later I called, and the seller said, "Your timing is perfect. The renters destroyed my house. Make me an offer," He wasn't kidding about the destruction. The renters even stole the vinyl flooring.

Bottom line: I paid \$45k for the house. I'll have more work to do, but the renters did half the demo.

The secret to this deal? Making those phone calls without fail—that is, not relying on memory.

I simply made a note in my planner for the coming year. It's an old-school, printed, Franklin Covey planner. You could use the calendar on your Smartphone instead. Just be sure you back up your data regularly.

### FRIEND LENDS MONEY.

I've borrowed hard money to do rehabs, and that's fine when the numbers work. But I wanted to find my own private lenders for less expensive funding.

Unfortunately I had no success with trying to find lenders by sending out direct mail and hosting presentations at a restaurant. I spent weeks of time and thousands of dollars and had nothing to show for it.

I considered hosting more events. Persistence, right? But sometimes you need to adjust your strategy and persist in a different direction.

So I refocused my effort on seeking lenders among family and friends. I had contacted them years ago, and no one lent me money, but I knew some of them had to have money earning a lousy 1% in a savings account. I emailed a reminder that they could earn a lot more lending to me.

Surprise! One of my best friends, a guy I've known for 35 years, had a new girlfriend who loaned me \$125k. She's happy with the high rate of interest I'm paying her, and I'm happy that it's less than the going rate for hard money.

### PROS PRACTICE PERSISTENCE.

I hope this article doesn't sound like I'm bragging. There are plenty of times I bang my head against the wall and the deal doesn't happen.

But persistence ultimately does pay off, not only for me, but also for real estate pros in REIA—guys who have been doing this a lot longer than me.

Another REIA member told about a stubborn seller who kept refusing an offer that he kept sending, month after month after month. Then he sent a lower offer, and the seller immediately called to complain; "I thought we had a deal!" Which he then proceeded to close.

**Be persistent !!!**

## Top Renovations: How to Improve the Value of Your Rental Property

Owning and operating property is a constant battle to keep units in tip-top shape to make them attractive to current and prospective tenants. Tenants want a unit that feels new. They know they are not the first to occupy a space, but they want to feel like they are.

But where do you start? What renovations will attract good tenants, while also increasing the value of your property? The old cliché, “Kill two birds with one stone,” works perfectly. Focusing your efforts on two rooms will take your unit from average to awesome in no time.

### **Kitchen**

The kitchen is critical in making your unit stand out to would-be renters. While other rooms may serve a variety of purposes depending on preference, the majority of tenants will utilize a kitchen. And according to Remodeling.com, kitchen remodeling projects have a cost value ratio of 74.6%—the highest of any room. The changes do not have to be drastic or cost a lot of money. Small changes like re-facing cabinets or investing in new and stainless steel appliances can make a huge difference. If a larger undertaking is needed, brand new cabinets, granite counter tops, kitchen islands and high quality flooring will transform your unit.

### **Bathroom**

Don't risk the dreaded “and then we walked into the bathroom” words from prospective tenants. It's often the last place a potential tenant will walk into. Be sure you leave prospects with a good thought in their heads, that this is where they want to call home. This also does not have to be a huge investment; a new faucet, a refinished bathtub, elegant fixtures, better lighting, or new flooring will instantly give the unit a cleaner and newer feel. Which is exactly what a renter wants to feel when they walk into their potential new home.

### **A Place To Call Home**

Keep in mind the people you are renting to are looking for a new place to call home. What are things you want out of your home? Probably that it is clean, new, and something you are proud of. So when making renovation decisions, see the unit as if it were your own home. Imagine you will need to cook, eat, shower, and sleep there. When it meets your living standards, it will meet your ideal tenant's standards.

## Questions and Answers

**Could it be a violation of the federal fair housing laws to have a community that will only rent to individuals 21 and over?**

Some states protect “age” and depending on how they define that—old, young, any age—there it could be a problem. Because of the familial status protection, those 21 and over folks would have to be accepted even if they have children in all states.

**What happens if we have a current resident whom is hoarding? Can they be asked to leave because of this?**

No, a resident cannot be asked to leave because of hoarding, no more than a resident could be asked to leave because they are hearing impaired. If the condition of the premises becomes a risk to the resident or neighbors, then there is a duty on the part of the landlord to engage in an interactive dialogue with the hoarder and institute a plan for remedial activity. Note that this dialogue and plan execution could take days if not weeks or even months.

**Are there requirements that must be considered by the local ordinance or codes when considering exotic type animals?**

If it is against the law/code to have certain animals, then it is not reasonable to require the landlord to accept such. The person with an exotic service animal would have to see if a waiver is possible from the authorities and if that does happen, then the landlord would likely need to accept such.

**If a resident informs you they have MCS (Multiple Chemical Sensitivity), do you take it at face value? Do you have a right to ask for documentation?**

Since they have disclosed the nature of the disability (which an applicant/prospect/resident is never required to do), and since it is not a visible disability, confirming that should be reasonable.

**Is there a list of illnesses that are considered disabilities under Fair housing?**

This is the definition from the HUD.gov website:

“Federal laws define a person with a disability as “Any person who has a physical or mental impairment that substantially limits one or more major life activities; has a record of such impairment; or is regarded as having such an impairment.”

In general, a physical or mental impairment includes hearing, mobility and visual impairments, chronic alcoholism, chronic mental illness, AIDS, AIDS Related Complex, and mental retardation that substantially limits one or more major life activities. Major life activities include walking, talking, hearing, seeing, breathing, learning, performing manual tasks, and caring for oneself.

## Keys To Great Relationships With Tenants

by Aimee Miller

Keeping clients happy and satisfied is critical to the success of any business. In property management, your business is “closer to home” than many other businesses and consequently the importance of happy end-clients—your tenants—is amplified.

There are various reasons why a tenant may leave a building, and it’s your job to proactively keep them satisfied and guide them to staying for as long as possible. Holding on to tenants is more cost-effective than having vacant units, spending your time continually filling vacancies, and dealing with all the associated turnover costs. In addition, happy tenants tell their friends, family and co-workers, and they post positive reviews online. Prioritizing good relationships with your tenants is not just good business sense, it’s GREAT business sense.

To that end, the following are some tips to creating a great, lasting relationship with tenants:

### **Customer Service**

Be responsive, courteous and attentive when tenants have inquiries. This is a simple and reliable way to have great relationships, and it’s what many of your tenants want most.

### **Speed**

If a tenant has a problem or complaint, address it quickly or at the very least let them know right away when you will be addressing it. Tenants can become easily frustrated if their issues are not responded to in a timely manner, making their attitude towards the situation increasingly antagonistic as they wait to hear from you.

### **Amenities**

Amenities are viewed as key benefits by many tenants. Make sure your tenants are aware of all the benefits of living in the building, from free WIFI to upcoming neighborhood plans for new restaurants.

### **Fair Prices**

Everyone likes to be treated fairly, and renters soon become aware of the going rental rates in the area. Giving your tenants value with a rental price that is slightly below market value can be a powerful retention tool. If you need to increase rental rates, give your tenants the respect of an explanation as to the underlying reasons for the increased rates.

### **Respect Their Privacy**

You may on occasion need to access a tenant’s unit for one reason or another. If you do, give them plenty of advance notice and make sure they are aware of the specific time you’ll need access. Do your best to limit this type of access to once annually.

### **Cosmetic Improvements**

Aim to continually improve the property with cosmetic improvements that enhance aesthetic appeal. This helps the tenants have pride in where they live, and shows your attention to detail. Even something as simple and easy as fresh flowers in the lobby can make a difference. For longer-term tenants, remember to offer a fresh coat of paint or a professional carpet cleaning every few years.

## Defining Normal “Wear & Tear”

As a property manager, figuring out what exactly wear and tear constitutes is a constant battle. Every case can be slightly different.

When dealing with people living in a property you manage, there will always be some wear and tear on items within the unit. However, not everyone has the same definition of wear and tear, and lines will have to be drawn in order to get you and your tenants on the same page. So, while we discuss what wear and tear is, the best way to make sure there’s no grey area is to have an open dialogue with your tenants to make sure they understand what things are considered damages and what are not.

The importance of open dialogue and communication with your tenants cannot be overstated. Always make sure to have your tenants fill out a form listing the quality of items in the unit, so that there is a written record in case it needs to be referenced. Another good practice is to keep records of the items in each property so that each item’s age can be tracked. In that way, if newly installed wooden cupboards look overly-deteriorated within a year, for example, you’ll have proof to present to your tenants during your discussions or negotiations.

If tenants know what will be considered damages right from the start, they’ll be less likely to complain if some deductions are taken out of their security deposit to replace the things that were damaged. It’s important to list the reasons that money was taken out and the purpose those funds then served. Tenants will be much less hostile if you carefully spell things out regarding the use of their money. And remember, in discussing wear and tear with tenants, always be courteous and avoid sounding accusatory.

So what exactly signifies wear and tear, you ask? Well, according to uslegal.com it is when there is “unavoidable deterioration in the dwelling and its fixtures resulting from normal use.” This can range from a carpet wearing down to paint chipping away from the walls. Both of those examples come about from normal use of the apartment and not from aggressive tenants. Damages on the other hand usually involve some kind of human intent from holes in the wall to curtains being torn and ripped at the end of their stay. Our advice is to stay vigilant and to keep consistent, organized records of everything. Be sure to work *with* your tenants, not *against* them.



## 5 Ways to Grow Your Property Management Business by Aimee Miller

Here are 5 tips to help grow your property management business and increase profits throughout the year.

### 1. Increase Your Visibility

Marketing is a vital part of every business, and property management is no exception. Getting your listings into more websites, keeping your Facebook page updated, optimizing your website, launching a blog, starting a YouTube channel, updating your company sign on your buildings, writing articles for the local press, sponsoring a local event, offering a tenant referral program—all these things will boost your visibility and get you in front of more building owners as well as potential future tenants.

### 2. Increase Employee Efficiency

One of the largest expenses for any business is its employees. Explore ways to increase your staff's efficiency. What new training would make them more productive and more valuable to your business? Calculate whether the hiring of a dedicated maintenance worker can save you money on contractors and handyman services. Save money and make your business run more efficiently by finding multi-skilled employees, who perhaps can take on the tasks typically associated with multiple employees.

### 3. Treat Expenses As Investments

When maintaining a property, putting a little extra money into doing a better repair the first time around will save you money in the long run. When updating appliances, get the better version. It will last longer, need less repair, and attract better tenants. Although it may be tempting to cut corners, if you treat expenses as investments you'll be reducing your effort, time and money on future maintenance needs.

### 4. Reduce Unit Turnover

One of the best ways to grow your business is having a solid foundation of good, steady tenants and minimized turnover. Lease renewal is key to having a predictable and stable revenue flow. Low turnover also frees up your time so that you are not bogged down with cleaning, painting and fixing up empty units, nor with promoting vacancies, nor with negotiating leases. Instead of spending your time maintaining the status quo, you'll be able to spend your time building your business.

### 5. Develop New Revenue Sources

If you really want to get creative, you can think up clever ways to add new revenue streams to your business. In residential properties you can set up a concierge service. In commercial properties, set up a business center. Be creative and set yourself apart from the competition!

## 3 Tips For Closing Lease Agreement Loopholes by Aimee Miller

Lease Agreements can be tricky documents. A poorly written lease exposes you to surprise loopholes that can allow a tenant to end a lease early. There are legal ways to break a lease that cannot be entirely written out of a lease agreement, but writing a smart and tight lease agreement makes breaking a lease harder and advertises a sudden vacancy on your hands or significant legal fees.

Follow the 3 tips below to write a lease agreement that is free of tricky loopholes and will keep you protected.

### 1. Know The Law.

Every state and many major cities have different (and often complex) laws concerning property management and tenant rights. Familiarize yourself with your local laws so you know exactly what must be included in the lease and what can be excluded. Knowing the law is one of the most important things you can do when writing a lease. The law heavily favors tenants, so knowing your rights is critical to writing a tight lease. To establish a good foundation for a lease, do your research and hire a lawyer to iron out any complex clauses.

### 2. Make It Clear.

The laws you put into your lease are typically written in confusing legalese. Writing in clear and simple language, as much as you can, keeps you and your tenants on the same page. Anything you add yourself that is unique to your property must be extremely clear for it to stand up in court.

### 3. Clearly State The Rent Payment Agreement.

It is very important to note the exact cost of rent and due date in the lease to avoid any misunderstandings. This includes explaining how you deal with the laws regarding withholding rent. For example, in most states, it is legal to withhold rent if your apartment lacks proper heating. To safeguard your business in an emergency, you could consider adding a clause guaranteeing the availability of space heaters (assuming you allow them) during heat loss to avoid losing rent to this law.

The loopholes in lease agreements can cause unneeded stress and difficulties to the job of property management. Follow the three tips above so that you and your tenants will be clear on the lease agreement details, and on each others' rights. Your building owner, clients, and your tenants will thank you.



## Economy Watch: Home Prices Continue Upward Trajectory by Dees Stribling

More evidence that the housing market is in recovery mode: CoreLogic reported on Tuesday that home prices nationwide, including distressed sales, were up 10.5 percent in March 2013 compared to March 2012. According to the company, that's the largest year-over-year increase since March 2006. The month-over-month increase in March was 1.9 percent.

Take distressed sales out of the equation, and the result is almost the same, with U.S. home prices increasing year-over-year by 10.7 percent in March 2013. On a month-over-month basis, excluding distressed sales, prices were up 2.4 percent in March. Per CoreLogic definition, distressed sales include both short sales and REOs.

"For the first time since March 2006, both the overall index and the index that excludes distressed sales are above 10 percent year-over-year," Mark Fleming, chief economist for CoreLogic, noted in a press statement. "The pace of appreciation has been accelerating throughout 2012 and so far in 2013, leading into the home buying season."

### Job opening edge down

The Bureau of Labor Statistics released its latest JOLTS on Tuesday—Job Openings and Labor Turnover Summary—as it does every month following the report on the employment situations. According to JOLTS, there were 3.8 million job openings on the last business day of March, down a bit from 3.9 million in February. The hires rate (3.2 percent) and separations rate (3.1 percent) were little changed in March.

The number of job openings, which is one measure of the health of the employment market, has essentially moved sideways in recent years. As more job openings appear in some industries, others disappear in the other industries. For example, according to the BLS, openings decreased over that last 12 months for nondurable goods manufacturing and federal government, while openings increased over the year for accommodation and food services.

The quits rate is another indicator published by the BLS every month in JOLTS. Quits are generally voluntary separations initiated by the employee, and so the quits rate can serve as a measure of workers' willingness or ability to leave jobs. In March, the rate didn't budge, coming in at 1.6 percent. Lately the quits rate has been stagnant; the number of quits was little changed over the 12 months ending in March for both private employers and government.

### Consumer credit increases

The Federal Reserve said on Tuesday that U.S. consumer credit increased at an annualized rate of 5.75 percent during the first quarter of 2013. Revolving credit was little changed, but non-revolving credit—mainly student loans—increased at an annualized rate of 8 percent. In March, consumer credit increased at an annualized rate of 3.4 percent.

Wall Street didn't spike too much on Tuesday, but there was enough upward movement to set a record for the Dow Jones Industrial Average. The index was up 87.31 points, or 0.58 percent, to close above 15,000 for the first time ever. The S&P 500 gained 0.52 percent and the Nasdaq advanced 0.11 percent.

## For Renters, Housing Costs Up, Incomes Down By Dees Tribling

The cost burden of renting continues to increase for a large share of U.S. households, according to the latest Center for Housing Policy's Housing Landscape report, which is published annually. The findings were based on the most recently available American Community Survey data, which is from 2011.

The report focused on households with adult members working at least 20 hours a week, and who make no more than 120 percent of area median income (these are "working households," in the Center for Housing Policy's terminology). In 2011, about 44.5 million U.S. households met this definition, with 21.9 million owning their own residence and 22.6 million renting. About 60 percent of all renting households meet the center's definition of a working household.

The report found that roughly a quarter of working households spend more than half of their income on housing, which counts as a severe housing cost burden. The share of working households with a severe housing cost burden increased significantly between 2008 and 2011, rising from 21.8 percent to 23.6 percent.

Declining incomes have exacerbated housing affordability problems especially for working renters, according to the report. The median housing costs of working renters rose nearly 6 percent between 2008 and 2011, while their median incomes fell more than 3 percent over the same period. The problem is even worse for low-income households: eight in 10 working households earning less than 30 percent of the AMI were severely burdened in 2011 by housing costs, a much higher share than for other income groups.

Between 2008 and 2011, the share of working households with a severe housing cost burden increased significantly in 24 states and decreased significantly in only one state, namely South Dakota, which is experiencing an energy boom and rising incomes overall. Among the 50 states and D.C., California, Florida, New Jersey, Hawaii and New York had the highest share of working households with a severe housing cost burden in 2011. Among the 50 largest metro areas, Miami-Fort Lauderdale-Pompano Beach; Los Angeles-Long Beach-Santa Ana; New York-Northern New Jersey-Long Island; and Orlando-Kissimmee-Sanford had the highest share of working households with a severe housing cost burden in 2011.

## Special Report: Fair Housing Changes by Jessica Fiur, News Editor

Are you up to date on the Fair Housing requirements? In a recent webinar co hosted by Grace Hill and AppFolio Property Manager called "Fair Housing: What's New for 2012," speaker Nadeen Green senior counsel, For Rent Media Solutions, provided an overview on some of the new Fair Housing requirements that property managers should be aware of.

One of the newest changes involves the LGBT community. "There are now some very specific housing rules for those in the LGBT community that are in place for those tied to HUD properties," Green said.

For example, now people cannot be discriminated against or denied housing because of sexual orientation, gender identity, or marital status. Additionally, owners cannot ask about sexual orientation. Currently, the rules regarding sexual orientation only apply to HUD housing; however, Green cautioned that this is likely to move to other property types in the near future.

But, said Green, this should be a "non issue" when it comes to finding residents. What should be an issue? Green said there are only three important questions to ask when finding a qualified resident for a community: Is the person's income appropriate for the housing? Will the person be able to take care of the apartment? And, will the person abide by your community rules? (Green noted that this last question does not necessarily apply to persons with disabilities—PwDs—who do not have to take care of the apartment themselves and can instead arrange for others to do so.)

Another new issue in Fair Housing is domestic violence. Because, statistically speaking, domestic violence victims are usually women, there could be a gender bias when, for example, victims of domestic violence need to be evicted.

According to the new legislation, property managers now have to allow victims of domestic violence to change the locks, allow them to terminate their leases and allow them to remain in the apartment despite a domestic violence incident that would have otherwise been a lease violation.

There have also been Fair Housing updates concerning service animals. According to Green, the ADA passed a ruling that specified guide dogs would only be permitted; however, this ruling only refers to public spaces. When it comes to residential areas, many other service animals are permitted. Some examples include miniature horses, which could help guide the blind; iguanas, which could assist with depression; and monkeys, which could assist those with physical disabilities.

"The good news is that the residents have to pick up the waste," Green said.

One surprising change to Fair Housing is the evolving view of the criminal background check on lease agreements. Though typically standard in the multifamily industry to include this on all applications, Green said this might be changing because of disparate impact. Green explained that disparate impact is the adverse effect of a prac-

tice that is non-discriminatory in intention, but that disproportionately affects individuals in a group protected by law.

"[The criminal background question] disproportionately affects Hispanics and African Americans, so we as an industry might not be able to do criminal background checks," Green said.

Emails to potential residents could also lead to unfair practices.

"Some believe we are using emails and the names attached [to the email addresses] to discriminate," Green said. She suggested responding to all emails promptly and keeping the messages to everyone professional.

A hot topic in the industry that isn't part of Fair Housing—yet—is hoarding. "This isn't a Fair Housing issue, but it's an issue," Green said. If a property manager finds that a resident is a hoarder, the property manager should attempt to reasonably accommodate the resident and give specific timelines and instructions.

What's the easiest way for property managers to make sure they're not in violation of Fair Housing policies and that they don't discriminate against protected groups? Don't even think about it.


"We just need to look at people as human beings as they walk through that door," Green said.

### Around the nation The Voice

"New EPA guidance gives long-term tenants direct access to the bona fide prospective purchaser defense and greater protection from liability for historical contamination."

"Newly issued guidance by the U.S. Environmental Protection Agency (USEPA) suggests that prudent long-term tenants of commercial and industrial properties should conduct environmental due diligence before entering into a lease, and that lenders who are looking to a tenant's interest in a lease as security for a loan should ensure that the loan documents require the borrower-tenant to provide all legally required notices, cooperate with environmental authorities, and take reasonable steps with respect to hazardous substance releases...The Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq. (CERCLA), imposes liability on 'owners' and 'operators,' categories which typically do not include a tenant that had no role in causing a contamination problem. However, a tenant may become liable for historical environmental problems either by controlling the property to such an extent that it is deemed a 'de facto owner,' or by exercising a level of control over the remediation of the hazardous substances at issue to such a great extent that the tenant becomes an 'operator' under CERCLA."

Source: JD *Supra* Law News; [www.dsupra.com](http://www.dsupra.com)




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**Matthew M. Wallace, C.P.A., J.D.**  
*Attorney & Counsellor at Law*

Matthew M. Wallace, P.C.  
709 Huron Avenue  
Port Huron, MI 48060  
Fax: 810.985.4108  
Website: [www.wallaceclaw.com](http://www.wallaceclaw.com)

Phone: 810.985.4320 Email: [matt@wallaceclaw.com](mailto:matt@wallaceclaw.com)



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[OPPLIGER@SBCGLOBAL.NET](mailto:OPPLIGER@SBCGLOBAL.NET)



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FAX (810) • 987 • 1317  
E-Mail: [patty@hurontitle.com](mailto:patty@hurontitle.com)



**Catherine Bott**  
ceo

936 Military St.  
Port Huron MI 48060

810.984.1415  
[president@sspm.biz](mailto:president@sspm.biz)  
[www.sspm.biz](http://www.sspm.biz)

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**Eastern Michigan Real Estate  
Investment Association**

3051 Commerce Dr, Ste 5  
Fort Gratiot, MI 48059

Phone: (810)385-2332  
Fax: (810)385-8875

Email: [jgalbraith@innovativehousing.org](mailto:jgalbraith@innovativehousing.org)

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## E.M.R.I.E.A. ADVISOR

Our office is located at:  
3051 Commerce Dr, Ste 5  
Fort Gratiot, MI 48059

Phone: (810)385-2332  
Fax: (810)385-8875

[www.emrha.org](http://www.emrha.org)

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