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# FOR RENT

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## Is It Really Worth It? Rent Increase

Most property managers are asked every month by landlords to increase rents. Managing thousands of rental homes over the years, I discovered that mandatory rent increases are not always a sure thing. If you poll landlords, the majority would say their investment is underperforming, rent values are up, and they need more money to offset rising operating costs. In my experience, 7 out of 10 (70%) of rent increases are met with strong resistance from tenants. I am in no way suggesting that a tenant's opposing view to a rent increase should impact a landlord's decision. However, data collected by our firm revealed that tenants opposing a rent increase assert the following reasons:

1. No upgrades/improvements were made and there was a significant amount of deferred maintenance.
2. Competition in the marketplace does not justify a rent increase.
3. I cannot afford the current rental rate.

When I am pleading my case to landlords not to increase rents, I point out two important reasons.

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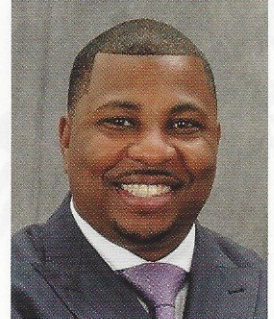
**1. It does not make financial sense.** The average rent increase is roughly 5%. As a random example, let's assume a \$1,000 monthly rent. The landlord's monthly increase would be \$50, and annualized, it's \$600 gross to the landlord. This scenario assumes that the tenant accepts the increase and pays monthly as agreed. (The landlord always assumes tenant(s) will accept a rent increase and won't move out.) The cost of make-ready repairs, leasing commissions, and lost rents could exceed \$2,000 or two times the monthly rent. In this example, the landlord's staggering turnover cost to rerent the rental unit is nearly four times the annual rent increase. It would take the landlord approximately four years to recover the turnover cost. Additional hidden turnover costs that may alarm the most seasoned landlord include: potential vandalism of the vacant unit, lawn service, utility charges, city fees, and

time invested. These hidden costs could double or quadruple your landlord's turnover cost, which ultimately impacts their cash flow.

- 2. Stick with the proven tenant you know.** There is no reason your landlord should gamble with a new tenant when the existing tenant is a proven bet. Landlords only renew leases with tenants who have not violated the terms of the lease and pay rent as agreed. Replacing the "Good Tenant" with an "Unproven Tenant" could prove to be a terrible decision. A "Good Tenant" has demonstrated the ability to pay rent on time, and despite a thorough background check of an "Unproven Tenant" – there is always a risk. The quality of the current tenant and how much your landlord wants to keep them should always be considered.

Before your landlords raise rents, help them evaluate the potential cost of increasing rents. To minimize this potential hazard, I offer three recommendations:

1. Review each file for increases on an individual basis, avoiding an across-the-board, mandatory rent increase. This allows you and the landlord to evaluate property condition, rental market, availability of good tenants, and the quality of the current tenant.
2. Keep rents flat for the first renewal period to absorb some of the cost associated with filling the vacancy. This allows your landlord to receive uninterrupted cash flow for a longer period. When rent increase is unavoidable, sharing market data with tenants is always helpful when marketing a rent increase.
3. Recommend to your landlord to be flexible with rent increases. Today's tenants are more knowledgeable of rental rates and how far their dollar can stretch. Be prepared to negotiate rent increases and offer incentives when possible. 



**Antonio D. Gipson** is founder and President of JoGip Investment Group, LLC, parent company to JoGip Property Management, one of Dallas' leading property management firms. He is a ten-year NARPM® Member of the Dallas Chapter. Antonio has extensive knowledge on the latest industry trends and is a speaker/guest panelist for real estate groups and property management related topics. He is business trained, receiving his Bachelor of Business Administration from Sam Houston State University. For more information, visit [jogip.com](http://jogip.com), email [antonio@jogip.com](mailto:antonio@jogip.com) or call (214) 742-RENT.