



## **The importance of increasing rents in an investment property - by Russell Gullo**

August 06, 2015 - Upstate New York

Russell Gullo, R. J. Gullo & Co., Inc.

So, you have owned a multifamily investment property for a number of years and you have decided not to increase your rents because you have the best tenants, they are never a problem, you think your tenant may leave because you haven't improved your property for years, your tenant lost their spouse or job and you feel bad for them and the list of reasons goes on and on.

You may not realize the importance of increasing your rents annually. The value of your multifamily investment property is determined by the income stream (Net Operating Income) N.O.I. that it produces. There is a direct relationship between the N.O.I. and value. If you don't increase your rents, it's real simple you don't increase your value.

If you don't increase your rents not only do you not increase your value you may lose value. Why? Because you have operating expenses that increase like property taxes, insurance, utilities, etc. So if your N.O.I. does not increase your value does not increase.

Real estate investments are a business, the number one mistake that owner's make, is that they fall in love with their properties and make decisions like not increasing rents with their hearts and not their heads.

Every year as an owner you should conduct a Rental Survey which will determine how your rents compare to your competition. This analysis can be used to determine if you can increase your rents based on the condition of your property in comparison to competing properties. Such things as condition, square footage, amenities, age, location, etc., are viewed to see how you stack up to your competition.

You need to determine what improvements need to be made to your property to be competitive and to be in a position to increase your rents annually. That's right, annually.

The leasing or renewal of a lease involves the art of negotiation. Tenants want to feel like they are getting some thing in return for that rental increase that you are passing on. You can use this Rental Survey to determine your increase. Something as simple and inexpensive as putting crown molding in a unit can warrant a rental increase.

People don't understand how their value is determined when they decide that they want to sell. Most real estate agents/brokers who are not multifamily investment property specialists will ask owners when procuring a listing, what do you want for your property? Rather than conducting an investment analysis by analyzing the numbers, coming up with the N.O.I. of the subject property and then arriving at a value.

Many people who invest in multifamily investment property use a rule of thumb known as a cost per unit, when acquiring or selling. This is only a rule of thumb and doesn't tell the whole story and

should never be used for purposes of developing a value by itself. Why because it can be very misleading. For example you may have two buildings that are next to each other same age, same number of units, same condition, but different rent schedules because one owner increases their rents every year and the other owner has never increased their rents. At time of disposition these two buildings will not be valued the same because of the different N.O.I. that each produces, hence the importance of increasing rents.

So, if you are interested in creating wealth using multifamily investment property, you need to manage your properties like a business and increase your rents on an annual basis in order to increase your value. If your rent increases are in line with the market place (again the importance of conducting a Rental Survey annually) your residents won't move once they see that your competitive.

Russell Gullo, CCIM, CEA, is a certified exchange advisor, president of R. J. Gullo & Co., Inc., West Seneca, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540