

LAKESHORE APARTMENT ASSOCIATION
PO BOX 1312
SHEBOYGAN, WI 53082

ADDRESS CORRECTION REQUESTED

LAKESHORE APARTMENT ASSOCIATION NEWSLETTER



The Lakeshore Apartment Association publishes this newsletter for its members. Information included was obtained from sources deemed to be reliable and accurate. No warranty or representation is made as to the

accuracy thereof and is subject to correction. Members are invited to submit articles and ideas for publication. Items are to be submitted by the 30th of each month prior to publication.

Place your rental Ads on our website as a free service with your membership:

www.SheboyganAreaRentals.com

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<http://laa.rentals/>

PRESIDENT'S LETTER

Hello All,

This month we will have a guest speaker Dave Schmitt. When things go well we collect rent and all is good. When we can't or when we have a judgement and trying to find someone this is where a PI / collections person may help. He will explain the services his company offers to landlords. They are very good at tracking someone. Many of the problems of collection is finding the person. This will be a very beneficial meeting.

Mark your calendars for September 19th for our annual celebration banquet. Look for a separate flyer will be coming in the mail.

Your calls, texts and/or e-mails are always welcome.

920-452-7051 or RUFREE1@CHARTER.NET,

Respectfully yours,

Jim Longo President LAA

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General Meeting Date:

August 15th – Lakeshore Lanes –7pm

Board Meeting Date:

August 22nd Klemme's Wagon
Wheel at 6:30pm

LAKESHORE APARTMENT ASSOCIATION IMPORTANT DATES

Monthly Meetings Under Way!

Mark your Third Thursdays for LAA!

7pm at the Lakeshore Lanes

Invite a Real Estate Investor friend!

August 15th

Dave Schmitt – Rent Collection

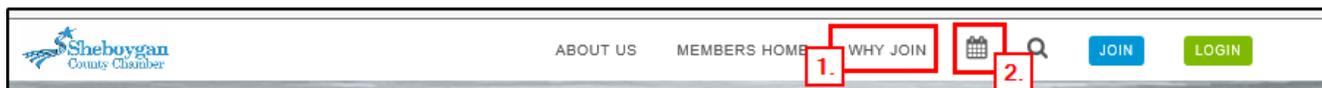
September 19th

SAVE THE DATE for:

2019 LAA Banquet at Klemmes in
Howards Grove (more info to follow)

FEATURED MEMBER BENEFITS:

- LAA has a private **Facebook** page called “**Landlord Connections**”. Get access by sending a Friend request to **David Humbracht** and asking him for “Landlord Connections.” This is a great way to communicate with other members between our meetings. Ask for help or reply to another post! The power of Facebook! - David Humbracht
- LAA is a member of the **Sheboygan Chamber of Commerce**, which means you are too! They have orientation meetings on their calendar that you will to attend one time to unleash the full benefits of the Chamber. Directions: Go to <https://sheboygan.org/> =look at the top bar:



1. Explains why you should consider using the Chamber
 2. **Calendar**... Chamber Calendar -click here to find the next **Member Orientation** event and register
- **LAA advertisers**... new ads for 2019! Many of our advertisers are offering **members-only discounts**... see last page for details!! -more to come

HOW TO UPGRADE YOUR PROPERTY JUST ENOUGH TO MAKE IT PROFITABLE [WITH PICS!]



Alexander Felice

Expertise: Real Estate Investing Basics

17 Articles Written

Over-improvement is a mistake that I believe everyone makes at least once—and usually more than once—before they learn better. I have made this mistake myself and learned from it. And I've also been fortunate to learn from friends and mentors and the mistakes they have made. Having both the knowledge of other people's lessons and the wisdom from having to learn this lesson myself, I am encouraged to pass both on to new investors so they can utilize them, as well.



Let's start with why over-improving a property is less than ideal. It should be obvious, right? As we sink money into capital upgrades, there is a rate of diminishing returns.

Let's look to the extremes for clarification. You don't build a \$10,000 gold-and-marble bathroom in a \$10,000 single-wide trailer home. This is obvious, I hope. But it's also extreme. What matters most is where we over-improve at the margin. Meaning, should you put Formica or granite countertops in your unit? Should you put in fancy appliances or leave them white or black? Should you paint the exterior? Maybe you've thought about installing solar panels on the roof?

It's hard to calculate how to maximize a return for each individual upgrade and to sort it all out would be more work than it's worth and ultimately not that useful. What's most important is realizing that for a rental—different from a [flip](#)—is that you don't need or want it to be the nicest house on the street. What we really want is to just be slightly above market-average quality, bring in top-of-market rent, and to last for the (very) long haul. Uninspiring, I know. But this is about making money, not getting on HGTV.

Rentals are not about creating emotional demand to drive sales. They are about creating a long-term viable living situation for multiple people over a very long period of time. This means passing on most fancy fixtures or complicated appliances in exchange for simple but functional fixtures and appliances. For instance, I recommend installing chandelier lights only and skipping on fans for all but the nicest of rentals. You'd be amazed how fan blades break. Water dispensers in fridges is another common skip for my units. Is it nice to have? Sort of. But it adds plumbing, extra complexity, and something that often breaks but will never create an increased return on investment. Same goes for under-sink garbage disposals. No one will pay more for this stuff, but it will for sure cost you more. So, skip it!

Over-improving is probably most common among new investors. It's just easy to get excited! It's the first one. We want to be super proud of it, and we really want the new tenants to like it. I'm not suggesting or advocating not to care about your [rentals](#) or demand they are nice facilities. There is a space where you can make a rental look nice and have it be a great place to live without spending more than you have to. And it can be made fairly "tenant-proof" without having to make large sacrifices in quality.

RISKS IN OVER-IMPROVEMENT: WHAT'S THE BIG DEAL?

RETURN ON INVESTMENT IS LOWER

I would be inclined to think this is obvious, but perhaps it's not. If you over-improve your property, the payback period is longer, and your return on investment in the short-term is lower. This means it takes longer to get your money back, and the improvements are less efficient. Unless you intend to live forever, maximizing your time efficiency is critical.

CAN'T REFI OUT YOUR INVESTMENT

Let's say you intended to buy a \$50,000 home and put \$35,000 in rehab into it. After that cost, the house is *super* nice. Nicest house on the block. The place looks fantastic. You find a tenant at \$50 a month above market rate, almost instantly. Life is easy, right?

Then, the appraisal comes back, and the house is worth \$90,000. You've still created equity, but if Fannie Mae says you can borrow only 75 percent of that \$90,000, you're left with a [loan](#) of \$67,000. You left \$17,500 in that deal that you can't extract, and you only earned an extra \$50 per month for all the

improvements. The rental next door to yours has only \$65,000 in a similar house and rents for \$50 less per month. You may own the superior home, but they own the superior asset. Remember, buy houses, never homes.

HIGHER COST TO MAINTAIN IMPROVEMENTS

You went all out, you built the nicest rental. And man, the tenants love it. Who do you think is responsible for the \$2,500 refrigerator you provided though? If your rental warrants buying a \$2,500 fridge, then you have to. But if you buy a fridge far nicer than the next door neighbors, you may kick yourself later. The nicer a house is, the more your tenants will enjoy it. And the nicer they will expect it to stay. Again, it's important to have a well-maintained and respectable rental, but know the overhead you sign yourself up for, especially for above market-average improvements. Putting frameless glass showers in a house that doesn't need it is asking for trouble. If you have installed a garbage disposal, you *will* get calls when it clogs or breaks. And if you put expensive ceiling fans in kids' rooms, you may have broken blades.

Here might be a better example: Imagine picking up a 10-year-old BMW 740i—BMW's flagship sedan. The \$140,000 car was fully loaded when new. Now it's got 120,000 miles on it, and you can get it for a few grand, so you think it's a deal and buy it. When the maintenance comes, you get a little dose of reality. Your \$10,000 car needs \$6,000 in routine maintenance—ouch! You think, how could this be? The car was only \$10,000!?! That's because the maintenance requirements and costs of the car stay mostly static (or increase) while the value of the car depreciates. If you put a high-end stove in a cheap rental (or any large margin between the cost of repair and repair warranted), your long-term overhead will suffer more than the upfront cost.

So, we know *why* we shouldn't over-improve, but how can people avoid this trap?

STOP CREATING THINGS YOU LIKE

It's certainly a common in practice, and some people even proclaim this proudly as they



describe their buying style: "I would never buy a house that I wouldn't personally live in." That statement makes my blood boil. So, let's really unpack how short-sighted it really is. We are investors, not renters. Immediately, entering this scenario we have a different mindset, motive, and strategy than a tenant would. Why would we handicap a tenant base to requirements that are designed for an investor? What we like, or would live in, is irrelevant.

Two of my rentals are previous [house hacks](#) that I lived in. Now, I made a sacrifice to live in these houses and would likely never be willing to move back to a similar house. Imagine if as my wealth and house tastes increased, I insisted on my rental houses doing the same. That's an unsustainable growth pattern. Now, maybe the person who made that statement originally meant they would not buy something so dumpty that they're embarrassed about it. This is not the worst position to take by any means. No one wants to be a slumlord, I don't think. People like to be proud of their portfolio for sure. Again though, this is a dangerous thought practice, because this type of thinking can creep into your decision making when improving houses.

Are you going to convert a half bath to a full because you personally would want a two full baths? Will you put in stainless appliances because you don't like white appliances? My partner and I buy scrap piles of wood plank floors from lumber liquidators dirt cheap, then mix and match them to do a whole house. Now, it definitely *looks* mixed and matched (though definitely not ugly), but in the grand scheme of things for our rentals, it's not make or break. And it only costs 20 percent of what we would normally spend. I personally would never have them in my house, and you probably wouldn't either. Yet my rentals are all occupied at the top spectrum within market rent. My costs were low, and tenants are happy. Easy! Remember it's not about what you like. It's about what the market demands, the market rent rate, and how you can get there while minimizing costs. Here is another example: I have a house now that had a problem with the deck that took me a little longer to fix than I had liked. I apologized to the tenant, but she couldn't have cared less—she didn't use the deck! What she did ask of me was to remove the old chain link fence on one side of the property. The cost to do that was very low, while the cost of the deck was very high. But I had thought the deck was a big problem. I forgot the rule: Don't build what I like; build for the tenant.

THE TENANT DOESN'T REALLY CARE ABOUT THAT HOUSE

Let's be real clear about something: You own the house, and you're the one who will care most about it—forever. You know why so many casual landlords have trouble managing their rentals or handling their property manager? Because those people don't care about the house! The tenant won't care. The property manager definitely doesn't. And eventually, something goes wrong and it all falls apart.

Now, remember this when you're rehabbing. For example, does the tenant need hardwood floors or will vinyl plank be fine? It's important to get this right, because the spread in cost between the two is significant, but the income disparity might be nil. Now, it's tempting to say, "But a tenant who likes their unit might stay longer or treat it better!" But it's a weak argument. And just because you can say it, doesn't make it true in real-world application. The fact is, the floors need to last for multiple tenants, kids, spills, (maybe) dogs, and neglect.

The first tenant might love nicer floors, but the next might not care. Always plan for the tenant who won't care. They are the majority. For any renters reading this right now, would you pay more for more expensive floors, a nicer fridge, or a garbage disposal? Unlikely! You want to pay for market rent based on the size of the house, the location, and certainly some personal appeal. But no one pays premiums on fixtures beyond what the market average demands, so don't purchase them for your rental properties.



It's Exciting in the Beginning, But the Profitability Comes From the Mundane

In my opinion, buying houses is as fun as things get. It's challenging, stressful, dramatic, and creates an aura of possibility! This is a good thing. But excitement is emotional, and emotions make terrible money decisions.

It's very easy to get excited about transforming a distressed house into something beautiful that you love, but it's more important to transform it into something useful. Emotional excitement is also the fastest way to over-improve your unit with no resulting benefits. On the other end of that spectrum, you don't want to be apathetic about the rehab either. Apathy is how slumlords are created. We must care deeply about the condition of our properties, but we need to be reasonable and diligent in our investments. Improving the unit as if it's been done 1,000 times before is ideal. No one over commits on something boring. Once the excitement is gone, **our commitment to creating a lasting property will come to the forefront of our decision making.** And that's what's most desirable.

WHERE TO SET THE GOAL POST

I've made plenty of comments on what not to do, but how do you know exactly which improvements you should be doing and which you shouldn't? This part is fairly easy actually. The goal is neither to skimp nor is it to spend frivolously. The goal should be to make necessary improvements and then maximize value on any luxury improvements—meaning spend what you *have to* first. The extra stuff is fine as long as your investment goes a long way.

For instance, is it efficient to upgrade to stainless appliances when white appliances are normal for the neighborhood? Well, if you can get a good discount on scratch-and-dent stainless appliances for a very small premium, it might be worth it! Alternatively, it's probably not wise to put marble tile in the bathroom of a mobile home.

Finding comps for a rental is similar to finding comps for rent price or for a home appraisal. Knowing your neighborhood is critical for this reason, as well. If you know your house is in a C neighborhood, then you can upgrade appropriately. If you don't know what the neighborhood warrants, then you're guessing. Guessing is expensive. Craigslist and Zillow can be your best friends here. Check rentals in the area, and scan through pictures of comparable rentals. If you can match or slightly beat those houses while staying in your budget, then that should be perfect. If you improve more than the average, you may get a tenant faster—but they will be getting the deal, not you.

There are just a few quick upgrades that I've found either spending more on or looking for a value on are worth consideration:

1. ***The first is appliances.*** I highly recommend trying to find used appliances—or at least scratch-and-dent models from the big box stores. Now, don't make a big hassle out of doing it, but if you can find an upgraded set easily for a little extra cash, it'll probably be worth it. Usually if I can find a stainless set of appliances for an extra \$200–\$300 over what the cost of white ones would be, I'll cough up the extra dough.
2. ***Replacing a roof?*** The cost difference between three-tab shingles and architectural shingles, for most houses, is minimal. Go with the architectures. Not sure of the difference? Architectural shingles are rated to last longer—usually 10 years longer than their three-tab counterparts. Ten years for \$500?

Yes! Also, they look much nicer than traditional shingles. Usually on a \$5,000 roof, I have to pay an extra \$300–\$400.

3. **Paint all your houses the same color!** A few years ago, my [contractor](#) and I decided on one color we like, so we buy it in five-gallon buckets and paint all the houses the same scheme. It saves money, saves time, gets you a tiny bit of economies of scale, and you never have to worry about deciding on color again. If you do this and you don't have a very solid contractor relationship, I recommend that you keep the paint just in case.
4. **My personal favorite:** A few years ago my [contractor](#) showed me a trick he had been doing for years. He goes to lumber liquidators and buys returned plank floors in "remnant" bundles. It's usually 300–700 square feet total, and it's certainly not enough to do a whole house with. It's also unsightly to install different flooring in each room. So what he did was, he started buying bundles with different finishes but in the same sizes and shapes. This way, he could mix and match them on one floor. If you're like me, you probably think this sounds bizarre and ugly, but you may be surprised. We do this in most of our rentals now. It's unique. People love it. And after furniture and rugs, it doesn't stand out like I originally thought it would. The best part? We spend a fraction on flooring compared to what we would have if we were buying the entire floor at new prices and in proper amounts.



Cell phone shot from a recent example below. Not bad!

SUMMARY

Over-improving is a tricky problem, because it usually stems from emotional decisions. Under-improving is also a problem, but that's less from emotion and more from apathy—or sometimes people are just being cheap. Cheap is not good! Frugal can be good, but don't be cheap.

I hope no one reading this wants to be apathetic, short-sighted, or cheap. Since this is for new people, remember that emotion will present itself as a real issue to contend with. Follow these guidelines, include your team in decision making and strategy, and produce a great product with proper costs, and you'll have no other option but to succeed.



By Alexander Felice

Alex has spent his career in sales and finance industries and now invests in rental real estate along with working in the underwriting department at a bank in Las Vegas. Alex is an expert in long-distance single family rental real estate, debt and leverage strategy, and financial analysis. He spends most of his free time teaching investors through writing and coaching to ensure their best possibility of success. Alex has been buying real estate for nearly three years and currently owns eight single family houses. He also helped fellow investors directly purchase over 20 properties in 2018. Alex’s writing can be found at BrokelsAChoice.com, and more of his story can be heard on the BiggerPockets Podcast episode 301.

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HOW TO RAISE THE RENT ON YOUR TENANTS AS PAINLESSLY AS POSSIBLE



Brandon Turner

Expertise: Landlording & Rental Properties, Personal Development, Real Estate News & Commentary, Real Estate Investing Basics, Business Management, Flipping Houses, Mortgages & Creative Financing, Real Estate Deal Analysis & Advice, Real Estate Wholesaling, Personal Finance, Real Estate Marketing, AskBP

522 Articles Written

The first step to raising tenants' rent is finding out if it's even possible. When a tenant is in a lease, the rent is fixed for the term of that lease and cannot be raised until after the lease is over. This is why rent raises are most common upon the renewing of one's lease.



If you are in a month-to-month agreement with your tenant, you can likely raise the rent on the tenant as long as proper notice has been given. (Usually it's 30 days', but sometimes 60 days' notice is required. Check with your landlord-tenant laws as to the required notice to change the terms of a month-to-month agreement.) Also, if you are in an area with rent control, where the government

controls rental prices, check carefully with your local laws. There is a good chance you won't be able to raise the rent at all.

When Raising Rents, Take a Cue From Marketers

Try this trick often used by marketers: Don't tell them what the new rental price is going to be, but give them three price options to choose from. Think about it. **Almost every big business offers three price tiers:**

- Small, Medium, Large
- Basic, Premium, Platinum
- Bronze, Silver, Gold
- Regular, Premium, Plus

By offering three choices, individuals tend to compare the choices given, rather than comparing the price to other businesses. A coffee at Starbucks may be ridiculously priced, but by giving the customer options—the “Tall” for \$3.25, the “Grande” for \$3.75, or the “Venti” for \$4.25—people rarely even consider the \$0.99 cup of coffee they can get at the local diner across the street. Instead, they choose from the options they have been given. Of course, there are other reasons a person pays \$4.00 for a drink, but the pricing tiers help to take attention off the price and give people the power to choose what price they want to pay.

Additionally, that Venti drink priced at \$4.25 doesn’t cost Starbucks much more to make than the Tall drink at \$3.25, so the higher-tiered product just produces more income for the company, as some people will always choose the “premium” option, and others will always choose the “regular” option. This way, Starbucks can make a profit on everyone, while still allowing the customer a choice. And you can do the same with rent raises.

The Lease Renewal Decision Form

To raise the rent, simply send a Lease Renewal Decision form such as the following.

Lease Renewal Decision Form
Date ___/___/___
Dear _____,
Thank you for your tenancy at _____! We've really appreciated having you here this past year and look forward to continuing our relationship with you. It is a privilege to be able to work with you and we thank you for your business.
According to our records, it appears that your lease-term is coming up at the end of next month and, as such, we need to discuss your future plans with you and make sure we are all on the same page. Due to naturally increasing expenses for the owner, it is necessary to gradually increase rent over time. Therefore, a slight bump in your monthly rental rate will take place soon. However, we would like your input on where to go from here.
Please choose from one of the following options for your future at your home. Simply circle the option below you would like to choose, and send this form back to us. We will prepare a new lease with the proper information and mail it to you within seven days.
Sign a new one-year lease at \$_____ per month, which will begin on _____ and end on _____. This is an increase of \$_____ per month.
Sign a new six-month lease at \$_____ per month, which will begin on _____ and end on _____. This is an increase of \$_____ per month.
Sign a month-to-month lease agreement at \$_____ per month, which will begin on _____. This is an increase of \$_____ per month.
Although we hope you'll stay with us forever, if you do not plan on renewing your lease and staying with us any longer, please let us know immediately. Our state law requires tenants to give _____ days written notice to vacate before the end of their lease. Therefore, please return this form and let us know your plans by _____ so we can make plans that work for everyone.
Once again, thank you for your residency here at [address or apartment complex name]; we look forward to many more years of working with you.
Sincerely,
Management

Of course, some tenants may still call and complain about the rent being raised, or they may even decide to move, but most likely they will simply chalk it up to one of the realities of renting. Over the past decade of raising the rent on approximately 100 or more tenants, we've only ever had one tenant call to complain (a grumpy old man in his 80s), so we compromised and agreed to give him six more months before raising his rent.

See? We're not all bad guys!



By Brandon Turner

Brandon Turner is an active real estate investor, entrepreneur, writer, and co-host of the BiggerPockets Podcast.



LAA ADVERTISER DIRECTORY AND DISCOUNT INFORMATION FOR LAA MEMBERS

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HomePro Inspections Inc.	Home Inspector	Dave Brading	920.889.2120 dave@homeproinspections.biz	\$50 radon test with inspection
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