

LAKESHORE APARTMENT ASSOCIATION
PO BOX 1312
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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.

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INSIDE THE FEBRUARY ISSUE

PAGES:

- 2 PRESIDENT'S LETTER
- 5 INHERITED TENNANTS
- 9 PROPERTY MANAGEMENT

<http://laa.rentals/>

PRESIDENT'S LETTER

Hello All,

What an exciting time to be in our business! The market and the economy are great. Having set goals and to-do-lists this is a great start of a fresh new year. We have so many guest speakers lined up you will want to be at all the general meetings and bring friends that are not members yet.

Fair housing will be giving us their annual seminar this month. Every year there are changes that we need to be aware of that pertain to our businesses. Many of you have been reading about some of these cases through the country and the high fines that have been given to landlords. Protect yourself and attend the meeting. There is power in having the knowledge.

Speaking of protecting yourself our March meeting will have a local attorney talking about trusts. We work so hard to build a business and develop net worth then we need to protect it. Having an estate plan is a good idea for us all.

Tristian Petit, is the leading landlord attorney in the state of Wisconsin. He puts out a blog that I would highly recommend viewing. Many questions that you have regarding landlording are covered there by him and follow up comments. Check it out.

The city of Sheboygan has let us know about a few of their target areas. If you have houses within a 6 block radius please look carefully at your properties as the city will be doing the same. You want to be proactive. City armory, Van der Vaart and Indiana Ave.

April's guest speakers will include department heads from several different areas including Sherriff, police, building inspection/code enforcement and fire. We will hear the cities plan of target areas and where they feel concerns in neighborhoods. This is all the more reason to have a game plan on each one of our properties and set the goals to complete the necessary items.

May and June we will go thru forms. This has been the most requested event at our general meetings over the last several years. Wow we have an action packed 6 months lined up!

Our organization is only as strong as the number of members we have. This strength keeps on building month after month. We have momentum building let's keep it going. Invite people to join and to our meetings. WE CAN DO IT!

The success of our advertiser program is allowing us to have door prizes every month. Your only chance to receive one is to attend. See you there!

Respectfully yours,

Jim Longo

President LAA

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General Meeting Date:

January 16th – 7pm at Lakeshore Lanes

Board Meeting Date:

January 23rd 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!

February 20th

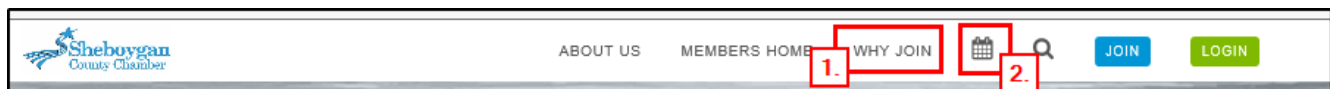
Fair Housing with the City
Planning Department

March 19th


Trusts and Estate Planning

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:



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HOW TO HANDLE INHERITED TENANTS: REVIEWING LEASES, RAISING RENT & MORE

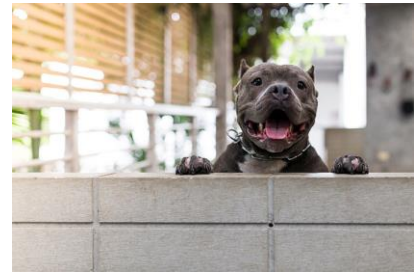


Brandon Turner

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

When you purchase a rental property, it may come with tenants in place, and those tenants will suddenly become YOUR tenants. These tenants are known as “inherited tenants.”

Inherited tenants can be beneficial, as you will not need to immediately spend time filling the vacant unit, and you’ll be receiving income from day one. However, inherited tenants can also be risky, as they were not put in place by you, and you don’t have a clear indication of [how well they were screened](#) or what type of tenant they are.



Furthermore, they may have been poorly trained by the last owner and will need to be re-trained to follow your rules and way of doing business. Or maybe those tenants will be absolutely perfect, and you’ll be thankful to have them.

The truth is, you won’t really know for sure until you begin dealing with those tenants. However, there are a few things you can do to increase the chance of a successful acquisition of inherited tenants. But before we get to that, understand that legally, the leases go with the



property, which means everything about the lease stays the same when you take over. For example, if you purchased a property and the existing tenant was three months into a one-year lease, you would be required to abide by the terms of their lease for the next nine months. Again, the leases go with the property.

REVIEW EXISTING LEASES

Before closing on the property, you will definitely want to review the leases for each existing tenant to verify the income and what expenses are the tenant's responsibility. Do they match the financials that the seller provided?

For example, let's say you purchased a triplex and the seller claimed to get \$500 per month, per unit. If the lease shows just \$400 per unit, you have a problem. This is actually not as rare as you might think, as sellers like to talk about their opinion of "fair market rent" (what they think it COULD rent for) rather than what they are actually receiving. This is known as the "pro forma" rental income. If this is the case, start asking questions and be sure to run your numbers with accurate data, not pro forma numbers.

Related: [7 Types of Tenants That Are Harder to Insure \(& What You Can Do About It\)](#)

Verification doesn't end with comparing the leases to the financials. Leases can easily be altered or forged. Imagine purchasing a property, only to find out (after closing) that the lease was changed by a shady [landlord](#). This kind of thing does happen, so you must verify the terms of the lease with each tenant before purchasing the property. This is done through an Estoppel Agreement.

An Estoppel Agreement is a simple, one-page form that the tenant fills out letting you know the terms of their lease to the best of THEIR knowledge. If the seller of the property will not let you speak with the tenants and get Estoppel Agreements, you might be dealing with a seller who is trying to hide something. If you do get the Estoppel Agreements signed and discrepancies are found, you'll want to make sure they are cleared up before closing.

Sometimes it could be an honest mistake, sometimes a tenant might be lying to try to get lower rent, or sometimes the seller might be a liar. You don't want to buy a property until you understand exactly what you are getting.

An Estoppel Agreement should contain at a minimum:

- The tenants' names and who resides in the unit
- The lease term (including start date)
- The rental amount due each month and the due date
- The security deposit amount
- Who pays which utilities
- Who owns the appliances
- Whether there are any pets in the property
- Whether there are any problems or repairs needed
- Whether there are any other agreements with the landlord

Make sure both you and the tenant sign this agreement, and keep it in their “tenant file.” This way, if a tenant tries to tell you later on that their deposit was actually \$1,000 instead of the \$500, you can back up your claim with their signature on the Estoppel Agreement. It’s hard to argue with that.

PUT YOURSELF IN THEIR SHOES

When purchasing a property that has inherited tenants, keep in mind that they are likely aware of the sale and are concerned about the unknown. They probably have a lot of questions, like “Who is this new owner,” or “Are they going to kick us out,” or “Is my rent going to be raised?” This uncertainty



for the tenant can lead to a frustrating start to your relationship, so put yourself in their shoes and try to make the process as easy as possible on them.

We like to send a letter to the tenant on the day we take over a property, introducing ourselves and the company, letting them know we are the new owners and will be responsible for taking all phone calls, maintenance requests, lease-related questions, and anything else involving their tenancy. In this letter we like to let the tenants know about some of the improvements that will be taking place at the property in the coming months. This can help reassure the tenant that you are not a slumlord, but someone who takes pride in your work.

Related: [What to Do as Soon as You Deny or Approve a Prospective Tenant](#)

RAISING THE RENT ON INHERITED TENANTS

Perhaps you purchase a property with existing tenants and you know that the rents are far too low. This is common, as many landlords are reluctant to raise the rent even as the market rate climbs, leaving long-term tenants with leases far below market rent. When we purchased our 24-unit apartment complex, this was the case. Most units were renting for \$475 per month, when the market rent was a full \$50 per month higher than that at that time. All the tenants were on month-to-month agreements, so we could raise the rent with just a 30-day notice.

But should we? Do we tear the band-aid off right at the get-go in one swoop, or do we raise the rent slowly or only on a few units? If we suddenly raised the rent on all the tenants, it’s likely many of the tenants would move, and we’d be left with a lot of units that needed to be rehabbed and very little income coming in to help with those expenses. On the other hand, if we let the tenants stay at that \$50 per month difference, that is thousands of dollars in potential rent we would not be receiving each year.

There isn't always a clear-cut answer on whether or not you should raise rent. We personally didn't have a lot of capital to handle that storm so we opted to keep the rent the same for most of the tenants for the first year, only raising the rent as we fixed up units and moved new tenants in. Another investor, someone with a lot more capital, may have decided to raise everyone's rent and accept the immediate loss, choosing instead to rehab multiple units and get new tenants in quickly. It's a balancing act and something only you can decide.



By Brandon Turner

Brandon Turner is an active real estate investor, entrepreneur, writer, and co-host of the BiggerPockets Podcast. He is a nationally recognized leader in the real estate education space



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THE PROS & CONS OF HIRING A PROPERTY MANAGER



Jesse Fragale

Today we're talking property managers. My God, these are some of the hardest working, most under-appreciated people in our industry.

We're going to do a deep dive. Watch the video below or read on to learn how to hire the right manager for your rental properties and the reasons you'll be happy you did.



OK, it's absolutely true. I think property managers have some of the toughest jobs out there. And you get absolutely no pats on the back for being a property manager.

It's very rare you're going to pick up the phone and say, "Hey, Tim, nothing's wrong. Just want to make sure you know you're doing a great job!"

Most of the time when you're communicating with your property manager, something has hit the fan. You're dealing with an issue.

I think it's pretty obvious that not all property managers are cut from the same cloth. There are a lot of great, fantastic property managers out there. And there are some that are just... not so much.

What I'd like to do is talk about some of the pros and cons of hiring a property manager and some of the things to look out for when hiring a manager.

WHAT TO LOOK FOR WHEN HIRING A PROPERTY MANAGER

1. INTEGRITY

This is going to sound kind of highfalutin and wishy washy, but the first thing is integrity. Although, it's not something you can really screen for on a job application. It's just something where you have to meet the person, you have to gel with them, and you really need to get referrals from other people.

Anytime I've ever looked for property managers in a given area, I've interviewed multiple managers. It's not to be pedantic or annoying. It's legitimately to try to find somebody that you gel with.

Related: [10 Questions to Thoroughly Vet Potential Property Management Companies](#)

You might find a manager who is a perfectly good manager, but you and him or her just don't see eye to eye or your personalities don't jive. That might just not be the property manager for you.

Try to talk to a few of them, find ones you feel that you connect with, and get referrals from other people that they have integrity and that they're honest. Because at the end of the day, this person better be honest, because they're managing probably your most expensive asset—kind of a big deal.



2. FAMILIARITY WITH PROPERTY TYPE

Are they familiar with the asset type that you have? If you have managers who only do student rental investing and you're asking them to manage a [retail strip plaza](#) or you're asking them to manage an office building, it might not be the perfect fit. So, try to figure out what their area of expertise is and make sure that they know the area and the asset type.

I was in student rentals for a number of years. Still own own a couple today. And the student rental game is somewhat different than their normal multi-rise apartment game. The managers that are in that area oftentimes specialize with student rentals. They understand how to deal with students. And ultimately, that's going to be key for you when you're hiring a manager to look after your investment. You want to know that they're an expert in that area.

3. FLEXIBILITY

I can't tell you how many times I've had managers that have been difficult in [adopting the systems](#) I wanted them to adopt in the management of my properties. So, what I asked them to do is to upload the financial statements into a cloud drive. And I would have them get fed into my accounting system.

Another thing is he would have his own bank accounts, and he liked to move money from his bank account and then pay out what's left over to me. I didn't like that system as much. I'd rather that he put all of the rent into our business account, and from our business account, we allowed him to have access to a small management account. (I say small because we'd only keep a certain amount of money in there.)

Anything above a certain amount or certain repair, he'd have to get an OK from us. Anything below that, he could utilize that amount. He could take money out and spend it on certain things that were under that threshold that we needed done. That worked out for us.

So, having that flexibility was just extremely important to us. And I've had managers in the past that just won't budge on things. And if that doesn't work for you, find a different person again.

Again, this is somebody that's managing one of your most expensive assets. You want to feel comfortable, and you want to feel that they're serving you.

So, that's three of many things I look for in a property manager.

PROS OF HIRING A PROPERTY MANAGER

In terms of why you would want a property manager, a couple of things come to mind fairly easily.

1. SAVE TIME AND PRESERVE ENERGY

A manager ultimately is going to save you time and energy. If you add the most value through finding properties, or acquiring them, or doing something else (maybe you have an actual day job), then having a manager is probably worth it to you.

2. AVOID HEADACHES

Another thing is stress. It's very stressful to manage properties. That's why these people are in the business of it.

To the average person—even the average investor—it can really take a toll on them. It's stressful to have properties that they're worrying about and getting that call at 2 or 3 a.m.

Instead, hiring a manager and delegating that to professionals might be the best thing.

Related: [My Biggest Property Management Nightmare](#)

3. ENABLE GROWTH

Another reason you hire a property management company is because you might be scaling your business. And when you do scale your business, you might be able to utilize that manager to look after multiple properties. If they're looking after multiple properties, you can

start having economies of scale, where the percentage that you're paying in management goes down.

4. GET THE INSIDE SCOOP

Another big reason I like property managers is that they have their finger on the pulse of your market and your building. If you do manage your property (and even if you do routine inspections), you're not going to get a good feel all the time for things that are happening at the building. So, having a manager there that actually is doing this for you is great.

You'll know if something's wrong, you'll know if there are issues with tenants, you'll know what's happening in the building. You're just informed, and that's crucial.



Property managers have this wealth of knowledge that oftentimes people don't tap into. Before I even buy a property, if I'm in a market that I'm not familiar with (or I'm only somewhat familiar with), I will go into that market, look for the property managers, and actually take them out to coffee and talk to them about the market.

I'll say, "Hey, I'm looking at buying this property. I'm looking at these type of rents. What do you think?"

And oftentimes, they'll tell you right away: "I think this is too high. I think this is too low. Oh, you know what? You could probably get a few hundred more for each of these suites."

They are a great piece of knowledge because they see what's happening in that market—even more so than some brokers—because they're the ones dealing directly with tenants. They see where deals are falling from the leasing perspective. And that's crucial information for yourself. You really need to take advantage of that!

CONS OF HIRING A PROPERTY MANAGER

You've probably gathered by now, I'm a little biased. I do like outsourcing management. I think if you hire them properly and you maintain a good relationship, they're such an asset. But there are some cons with management, too.

1. COST

The first con is the obvious cost. Depending on the market, it can be as low as 4 percent of the gross income of the property (the gross rent) all the way up to 12 percent. So, you really have to take that into consideration.

Oftentimes what people forget, though, there's the percentage management fee and in addition to that, there's leasing up costs. When and if they're going out to find new tenants for you, that could run up to a month's rent or half a month's rent. And those numbers can actually really start adding up—that 4 percent all of a sudden is 7 percent if you do the calculation over the year.

It's definitely something to think about. But if you can manage that cost, it's just another expense item. It's a tax deductible expense, obviously, running through the business. And again, in my opinion, I think it's worth it.

And one of the reasons I think that is especially with commercial properties—offices, apartment buildings. They're being underwritten assuming that there is property management. Most people don't think 100-unit buildings or 50-unit buildings are being managed by Tom, the owner—as great of a guy as Tom might be.

2. OVERSIGHT

Now, the other thing that might be perceived as a con is the fact that this person is not going to love your baby as much as you do. That's just the reality of it.

It's your property. It is a totally different type of relationship when you own something as opposed to manage something. So, it's something just to keep in mind. Even if the person is a good manager, they might go that extra mile, but they won't manage it or care about the asset in the same way you do.

In my opinion, that may be perceived as a con, but I think it's just a reality that can be managed. And the real thing about that is you have to manage the manager. You're technically the asset manager. So, you're managing the property manager, and you're making sure that that relationship is good.

You're not disrespectful to that person. You're honest. If you have a good working relationship, good things happen.

I can't tell you how many times over the years I've had a property manager that gave me a little bit of a golden nugget in a market. They found out an owner was potentially selling or there's a conflict with ownership. And that's what happens when you have these good relationships: You get rewarded. Over time, you'll get little pieces of market information that ultimately might result in a purchase for yourself.

So, be good to the managers. They're good to us. The good ones, they are doing God's work out there.



By Jesse Fragale

Jesse is a commercial real estate broker specializing in tenant representation in the Downtown and Midtown Toronto markets in office leasing and investment sales.

Jesse represents clients in various sectors, including tech, start-up, and not-for-profit. As a leasing advisor, Jesse's goal is to help his clients find flexible real estate solutions for both their short and long-term needs. His training in negotiation at Harvard Business School ensures his clients interests are protected and that optimal

deal terms are achieved. Jesse began his career in real estate as an investor in student housing and now focuses on multifamily apartment buildings



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