LAKESHORE APARTMENT ASSOCIATION
PO BOX 1312
SHEBOYGAN, WI 53082

ADDRESS CORRECTION REQUESTED

LAKESHORE APARTMENT ASSOCATION 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

INSIDE THE OCTOBER ISSUE

PAGES:

http://laa.rentals/

LETTER FROM THE EDITOR

It's my anniversary! I've been a member of the Lakeshore Apartment Association for 2 years exactly. Ok, I'm not sure about 'exactly' but close enough.

I've seen many changes already. We are no longer in the basement of a bowling alley but instead we are now on the main floor of a bowling alley with the other humans!

We added many new members and advertisers, we've expanded our monthly meetings and had some incredible guest speakers.

Most importantly for myself, I have met many new people that know way more than I do. I have asked for and taken their advice to improve my operations. And it works!

I have the advantage of being on the board and being the newsletter editor. I want to include you and make sure you are getting these benefits as well.

This isn't me asking for a favor, since I think its more for your benefit than mine. So for your own benefit and for your fellow members:

Please submit a photo and short bio, member profile or whatever you want to call it to me directly at dlemerson@hotmail.com. I'd like to have a paragraph describing how you got involved in Real Estate, your short-term goals (buying, selling, holding?) and a piece of advice for the rest of us you have learned. Or scrap that and write whatever you feel appropriate. Please don't include anything too specific. 😊

Thanks-
Doug Emerson
Newsletter Editor

BOARD MEMBERS:

President
Jim Longo 920-452-7051

Vice President
Tony Weyker 920-331-0088

Secretary
Larry Strassburg 920-627-8002

Treasurer
Tim Herr 920-980-8886

Board Members
Gary Sixel 920-565-3071
Matthew Schemrich 920-207-6473
Steven Halle 920-918-5783
Robert Schmitt 920-331-0831
Chad Jones 920-627-3615
Doug Emerson 920-627-3684

Newsletter Editor
Doug Emerson 920-627-3684

Order Forms
Gary Sixel 920-565-3071

Past President
Roger Beaumont 920-207-4321

General Meeting Date:
October 17th – Lakeshore Lanes

Board Meeting Date:
October 24th 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!

October 17th

Round Table Discussion / Market Updates

November 21st

Lobbyist Joe Murry on legislation updates

NOTE FROM THE PRESIDENT

What a great banquet. The attendance keeps on growing. This year surpassing last year's record attendance. Which was the highest since I've been a member. This shows all of us that the origination is growing. Thanks to all the efforts from so many people that helped to put this together. Special thanks to Steve Halle for setting up the banquet, David Humbracht leading us in pray, Tony Weyker moderating, Larry Strassburg for bring those nice plants for everyone, Tim Herr for organizing the door prizes and our advertisers being there for you and for their door prizes as well.

We have so many great speakers lined up this next year you will want to keep the 3rd Thursday of each month blocked off to attend and bring guests.

October we will have updates in the market place and round table discussions of your concerns that may benefit us all. The month of November we will have the leading lobbyist in Wisconsin Joe Murry letting us know what is going on with any legislation. Look forward to seeing you soon.

Receive a door prize for each guest you bring to our monthly meetings.

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

920-452-7051

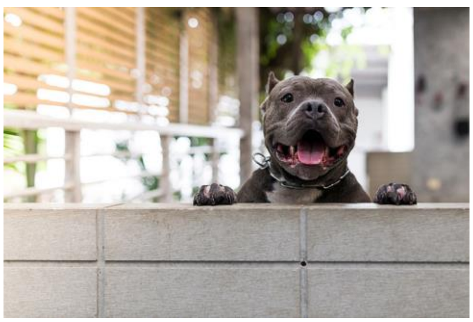
RUFREE1@CHARTER.NET

Respectfully yours,

Jim Longo

3 REASONS LANDLORDS SHOULD BLACKLIST CERTAIN DOG BREEDS

Joseph Asamoah



Fully 68 percent of American households own pets—definitely something to consider when formulating your pet policies as a landlord. Over two-thirds of the population is a huge swath of tenants to exclude.

Still, many landlords opt to not allow pets at all. Because of this, pet owners can be very motivated tenants—they know their options are limited.

At the same time, there are good reasons some landlords don't like pets. Poor house training could mean pet accidents that seep all the way into the subfloor. Claws can scratch up your nice hardwood or shred your carpet. Dogs and cats can scratch at doors and even chew up walls.

A substantial pet deposit and monthly pet rent can usually make up for these issues. But an even more serious issue is the liability associated with so-called "vicious dog breeds." Is it worth taking on all types of dogs if you choose to allow pets?

SHOULD YOU BLACKLIST CERTAIN DOG BREEDS?

Much has been written on pit bulls in rental properties, but I'd like to give my take on why I advise my investment students AGAINST accepting pit bull-type dogs and other risky breeds—even if they are willing to accept pets in general.

CERTAIN BREEDS ARE LARGELY RESPONSIBLE FOR DEATHS

First off, where there is smoke, there is usually fire. These breeds have a bad reputation for a reason.

Many will say the media has some kind of bias against these dogs, and the way they report dog attacks is unfair. However, you just can't get away from the hard statistic that 471 Americans have been killed by dogs since 2005, and 66 percent of those deaths were caused by pit bull-type dogs. All that, even though they comprise only 7 percent of the dog population.

The next most deadly breed is Rottweiler, causing another 10 percent of the deaths.

In addition, there are millions of non-fatal attacks and maulings every year. An attack or death by a dog on your property can cost you BIG TIME as a landlord. Insurers hemorrhaged $675 million in dog bite claims in 2018 alone, and the average claim is on the rise.
Folks, if pit bull-type dogs and Rottweilers are responsible for the vast majority of deaths and damage but are only 7 percent of the dog population, that's a whole lot of risk you can remove from your plate without shrinking your pool of tenants by much.

LANDLORDS ARE OFTEN TARGETS OF LAWSUITS

Second of all, lawyers can and will sue everything that moves. If a dog attack happens on your property and the tenant is broke and/or underinsured, you as a landlord are going to have a giant red target on your back.

Landlords are perceived as having money, and it very well could be shaken out of you in court. And if it's not the first time the dog has bitten someone, they might even have a pretty strong case. Learn from the mistakes and horror stories of other landlords on this issue, so you don't have to repeat them yourself.

If you choose to allow pit bulls, at least have a "one bite" policy in place, so that if the dog ever exhibits troubling behavior, the tenant understands and agrees that the dog MUST be removed from the property. The next bite could be worse.

You should also require that all tenants (pets or not) carry their own renters insurance policy, and if they have a dangerous breed, make sure it is covered. Most standard insurance policies will have dangerous breed exclusions, so it is worth your time to ask for a copy of their policy so you can call and verify. This type of policy might not be cheap. (Remember how much money was paid out last year for dog bites?!)

Your tenant might even be tempted to cancel this costly policy without telling you, so you might need to call and verify that it is still in place periodically. Personally, this is a lot of extra headache and worry that I don't need.

DOG LIABILITY INSURANCE CAN BE CHALLENGING TO SECURE

The main reason landlords should exclude dangerous dog breeds is because getting the liability insurance that covers them is a nightmare. Why is that the case? Well, actuaries are good at math.

Those with a soft spot for pit bulls can make all the excuses they want. They can blame the media for unfair reporting. They can show all the cute photos of "pibbles" who will just lick you to death.

Tell it to an actuary. Anecdotes like this are not the basis for sound business decisions. If your insurance company doesn't like the risk, you probably shouldn't like it either.

THE BOTTOM LINE

Breed does matter.

Of course, a neglectful or abusive owner is going to contribute to the bad behavior of any dog. But as much as pit bull apologists love to say, “It’s the owner, not the breed,” that is not always the whole story.

The truth is breeding matters. That’s why people do it. Breeders have very successfully bred traits into and out of dogs based on the purpose of the breed. Herding dogs herd, hunting dogs hunt, guard dogs guard, and fighting dogs fight. Because of selective breeding, these traits become innate and instinctual.

In conclusion, I advise landlords to avoid dealing with tenants who own pit bulls and vicious dogs if at all possible. Over 1,000 cities in the U.S. have breed-specific laws that ban pit bull-type dogs from the get-go, so it’s not even your call. But there are also situations where Fair Housing forces you to accept tenants with such dogs if they are emotional support animals (ESAs). But that’s a topic for a whole different article.

If you can remove risk from your bottom line, I call that good business. Accepting pit bulls may get you a loyal long-term tenant, but if that tenant comes with a ticking time bomb of liability, is it really worth it?

By Joseph Asamoah

Joe Asamoah, MBA, PhD, is a seasoned real estate investor. He owns an impressive portfolio of superior homes in the Washington DC area. With over 30 years' experience acquiring, renovating, and managing single family homes, "Dr. Joe" transformed what was once a hobby into a highly successful business. In 2003, his real estate investments enabled him to realize a personal goal of financial independence via passive and residual real estate cash flow. A major objective of Dr. Joe's business is to invest in people and properties. Many of his tenants are low-income families that participate in voucher programs. Because of his dedication to the industry, Dr. Joe is a recipient of numerous professional and real estate awards. Find out more on his website JoeAsamoah.com or on his Facebook page. or on Instagram.

6 HIDDEN REAL ESTATE COSTS THAT BLINDSIDE MULTIFAMILY INVESTORS

Gino Barbaro

What motivates people to do the things they do? Someone is either moving toward something pleasurable or trying to avoid pain. My real estate career took off after I decided I had enough with my former business. I was moving away from the pain of that experience, and I was filled with emotion and motivation toward my new venture.

In life, as in real estate, there are real costs and there are hidden costs. For example, a hidden cost of pursuing my new endeavor was entering into uncharted territory. Although it was exciting and uplifting, it created a sense of anxiety and uncertainty in my life (hidden cost).

The toll it was about to take on my family as I transitioned to a new career was also a hidden cost. Ultimately, I had already decided that the benefits far outweighed the hidden costs, and I made my mind up rather quickly to push ahead.

REAL & HIDDEN COSTS IN REAL ESTATE

This article is going to differentiate between "real" and "hidden" costs in real estate. First, I would like to define the normal operating costs in real estate, what a capital improvement is, and finally dive into the hidden costs.

An operating expense in real estate is any cost that is required to keep the property performing. Here is a list of typical operating expenses:

- Legal
- Pest control
- Landscaping
- Utilities (garbage, water, electric, gas, etc.)
- Repairs and maintenance
- Supplies
- Insurance
- Taxes (property, payroll, etc.)
- Management fees
- Advertising/marketing
- Licenses
- Office expenses

Operating expenses are vital to calculate because they affect the net operating income (NOI) of the property. If you would like to learn how to calculate value on a multifamily property, click here. All of these operating expenses have a true value. You know how much landscaping costs when you receive the invoice in the mail.

Capital expenditures, on the other hand, are expenditures that improve the useful life for more than one year. The main difference between the two: Repairs maintain the property, and capital expenditures increase the life of the property. Let me give you a few examples of a capital expenditure:

- Roof
- Driveway replacement (not a repair)
- Appliances
- Hot water heater
- A/C units
- Flooring

It is important to note that capital expenditures fall below the NOI and do not affect the value of the property.

Here is a list of hidden costs in real estate, followed by an explanation of how these hidden costs are real and detrimental to the business:

- Terrible employees
- Amenities
- Apartment turnover
- Capital expenditures
- Fighting the expense creep
- Avoiding repairs

1. TERRIBLE EMPLOYEES

There are different levels of terrible employees, from lazy to incompetent to downright criminal. We experienced the cost of a terrible employee firsthand. When we purchased our second property, we were still newbies and becoming acquainted with building a team and managing the employees. We "inherited" a resident manager with the purchase, and looking back, we should have noticed the huge red flags.

At first, things seemed OK. Once we began to implement our systems and implement new rules, the pushback began. He was uninterested in following any of our changes, and we were met with constant excuses. We finally decided to part ways, but unfortunately, the story did not end there. How did this employee cost us?

We had to evict the resident manager from the unit he was occupying, which cost us legal fees and lost revenue. His laziness and incompetence surely cost us additional revenue losses. Once he was replaced, revenue exploded around 30% within six months. We ended up going to court and spending thousands of dollars on legal fees. I would compare this type of employee to a professional tenant. This guy knew every rule and regulation when it came to employment, and we got schooled.

But the true hidden cost was the time we lost and all the negative energy that was expended dealing with this situation. It's simple to tally up how much he cost us economically, but far more difficult to put a price on our time and our emotional well-being. My recommendation in this situation is to cut out the "cancer" as quick as possible and move on.

2. AMENITIES

The No. 1 goal for offering amenities to tenants is to provide value and to establish a level of service. If you think amenities do not help in securing quality tenants or market rents, then think again. There is a reason why most C properties do not contain a pool or a fitness center. These amenities will cost the tenant and the operator more money.

We only select amenities that match the tenant base. In our most recent acquisition, the property's tenant base fit into the B class, so we decided to renovate the clubhouse, remodel the pool, install a fitness center and build a dog park. This expansion of amenities was due to the fact that our competition offered these services, and we felt we needed these amenities to compete.

There are numerous hidden costs with amenities. Insurance rates will be higher, along with the cost to run the amenities. Maintenance will need to spend precious time throughout the week to maintain the amenities. If your amenities do not allow you to either attract tenants or generate some type of revenue, think twice about allocating funds for your amenities.

3. APARTMENT TURNOVER

Apartment turnover hits you two ways: lost revenue and the expense to get the unit rent ready. The hidden cost is the amount of time it takes the unit to be back "online." If you are renting an apartment for $600 per month, the rent is $20 per day. If the apartment takes two weeks to turn, you've just lost $300, not to mention the $800 you just blew fixing up the unit.

4. CAPITAL EXPENDITURES

Oops! There goes another A/C unit. Watch out, the roof is caving in. These are real life examples of a day in the life of an apartment owner. These hidden costs seem to come out of nowhere. All successful owners set up and fund a capital expenditure account to guard themselves against these unforeseen costs. I estimate $250 per unit per year for capital expenditures. The age and the condition of the property will affect the amount of money you establish as a baseline for your capital expenditures.

On our first deal, our septic fields failed soon after we took over. Fortunately, we had a bit of money saved from the closing to help with the repair. We were fortunate that no other hidden repairs popped up.

5. FIGHTING THE EXPENSE CREEP

If you've been in business for a while, you know exactly what I am referring to. The landscaping bill was $400 six months ago, and you open up the envelope to a $450 bill. Why?!?! My partner Jake refers to this as "the expense creep." Vendors become comfortable with an account and decide it's time to tack on a few extra bucks.

The only way to counter expense creep is to maintain accurate records and review the expenses quarterly (we review them monthly). The solution is to confront the vendor immediately and demand a reason. If their answer is not to your liking, it's time to shop for another vendor. Can you imagine if every vendor employed the expense creep? We're talking serious hidden costs!

6. AVOIDING REPAIRS

This final hidden cost is what I refer to as the "death spiral." Our portfolio is full of properties that were neglected by their owners. What happens when repairs are shunned? The tenant base starts to deteriorate, the rental rates drop — and even worse — the value of the property plummets. Remember, NOI drives the value of multifamily real estate. Once you begin to collect less rent, NOI drops and the value drops. The death spiral has begun, and Jake and Gino are going to purchase your property at a discount.

YOUR TASK

I always declare real estate is all about the numbers, but reflecting back on what I just wrote, I can clearly see how misguided that statement is. There are numerous hidden costs when running a property. Please take all of these costs into consideration when purchasing a property, and factor them into your analysis.

By Gino Barbaro

Gino Barbaro is a father of six and the co-founder of Jake & Gino LLC, a real estate education company focused on multifamily investing. He has grown his portfolio to 674 units in three years and is the best-selling author of "Wheelbarrow Profits".

LAA ADVERTISER DIRECTORY AND DISCOUNT INFORMATION FOR LAA MEMBERS

Business name:	Purpose:	Contact Person:	Contact methods:	Discount if offered:
Century 21 Moves, Inc.	Realtor	Roger Beaumont	920.207.4321 roger@c21rs.com	
HomePro Inspections Inc.	Home Inspector	Dave Brading	920.889.2120 dave@homeproinspections.biz	$50 radon test with inspection
Charlton & Morgan Ltd.	Legal Advice	Andrew H. Morgan	920.458.4566 ahmorgan@charltonlawfirm.com	
Hawley, Kaufman & Kautzer, S.C.	Legal Advice	Kyle P. Kaufman	920.457.4800 kyle@hkklawoffices.com	25% off hourly rate
Diamond Vogel	Paint and Supplies	Andrew Paul	920-458-2186	Special Member Pricing
Bitter Neumann	Appliances Furniture	Dan Radue	920-459-2480	$25 off purchases over $400
Unity of Faith		Dave Humbracht		
Impress Floor Care	Floor Care	Paul Beardsley	920-564-4278	
Heinen Insurance		Lori Heinen	920-458-9724	
Sherwin Williams Paint				
Falls Glass	Residential and commercial Glass	Jeff Selk	920-467-3192	10% off Materials