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 SEPTEMBER ISSUE

PAGES:

http://laa.rentals/

PRESIDENT'S LETTER

Our annual banquet is this month's meeting. We are looking forward to seeing everyone at this fun and exciting event! We will have LOTS of door prizes that will be given away, so you will want to be there to have your chance at receiving one. Not only is this a time we get together to celebrate the times of being a landlord, but it is also the time that we elect board members. We have a very good group of people working together for you on the board presently, and I recommend every one of them to be nominated and elected for another term. However, if there is someone that would like to contribute his or her talents and be on the board, please let Tony Weyker know so you can be put on the ballot. We would love to consider you also! Advertisers will be there to help answer questions. There will be good food, lots of door prizes, and a great time to be had by all. The cost is $20.00 per person, which includes, beer, soda, tax and tip and food will be served buffet style. Many new members have joined our organization at the banquet over the years (including me), so bring a guest! It's a great time for someone new to see our group and begin networking.

In October, we will have the new fire chief as a guest speaker. I have had a positive meeting with him and like so many other city department heads, he truly wants good communication and a working relationship with all of us. Please send me any questions you may have ahead of the meeting. This way he can be prepared. Like we have asked in the past with speakers please have your questions generic. Your personal specific questions and concerns can be asked one on one after the general meeting.

Its your choice if you want to wear a mask. If you are sick or just not feeling well, then by all means please stay home. We are trying to make this comfortable for everyone.

Respectfully yours.

Jim Longo

President LAA

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!

September 17th

Banquet!

October 15th

Fire Chief guest speaker

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

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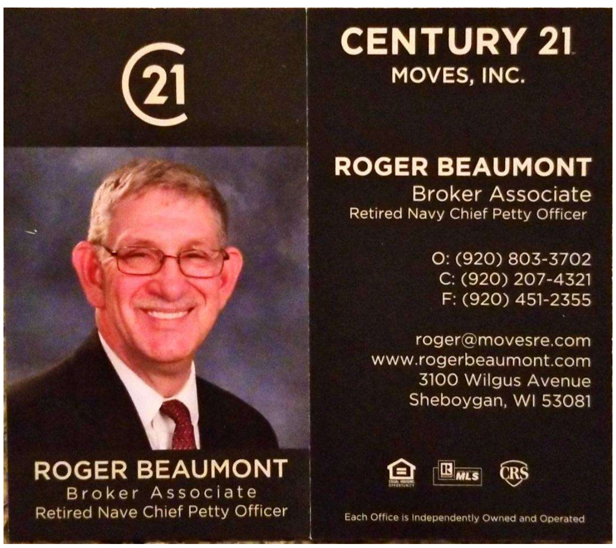
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LAKESHORE APARTMENT ASSOCIATION BANQUET

YOU ARE CORDIALLY INVITED TO ATTEND THE LAKESHORE APARTMENT ASSOCIATION'S ANNUAL BANQUET AND ELECTION OF OFFICERS

WHEN: THURSDAY SEPTEMBER 17, 2020

WHERE: Klemme's Wagon Wheel
120 Wisconsin Dr
Howards Grove, WI

TIME: 5:30 P.M. COCKTAILS-- FREE PINTS OF DOMESTIC BEER AND SODA
6:30 P.M. FAMILY STYLE DINNER

MENU: BROASTED CHICKEN and TENDERLOIN TIPS with MASHED POTATOES, VEGGIES… family style

THERE WILL BE DOOR PRIZES!

Postmark by September 5th please

Keep the above information handy!

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Mail payment & reservation to LAA P. O. BOX 1312 SHEBOYGAN, WI 53081-1312

This banquet is for General Members, Associate Members, Spouses and any friends that may be interested in our organization or having a fun night out.

WHY TRADING CASH FOR KEYS IS BETTER THAN EVICTION

Mark Ainley

Expertise: Landlording & Rental Properties, Real Estate Investing Basics, Personal Development, Business Management

Being a landlord in 2020 has proven to be difficult, especially when it comes to the enforcement of a residential lease. I have preached the word "empathy" a lot in recent months, but there are certain situations in which "empathy" as a landlord doesn't make up for not receiving rent from your tenant.

Utilizing the legal system in Cook County, the county in which Chicago is located, has always been a challenge, even prior to COVID-19. I assume that seasoned landlords in Chicago are not affected as badly with eviction moratoriums as landlords in other areas, because the legal system here is not supportive or utilized to enforce leases or non-paying tenants.

OBSTACLES TO EVICTION

In Chicago, when using the legal system, there are many hurdles to overcome while evicting a tenant. There will be eviction obstacles to overcome no matter what part of the country you live in, but here are some common hurdles that you may encounter some variation of.

DELIVERING NOTICE

To ensure you have the best chance of winning your case, you are required to make sure you hand-deliver the five-day notice (compared to three-day notice in most states). Tenants are knowledgeable as to their rights, and we find that when they are aware that they are being given notice, they may not open the door. You can wait for the tenant to finally leave the home or you can hire a process server for $75-$100. The process server will trace their whereabouts to hand-deliver the notice to them when it is appropriate.

FILING COSTS

The U.S. average for court filing of eviction is around $50. In Cook County, the cost is $287-$500 depending on how many tenants are residing in the property. This isn't so much a hurdle but one of the true expenses of doing business.

SERVING THE SUIT

Once filed, the tenant must be served with the lawsuit. In Cook County, the sheriff must take the first pass at serving the lawsuit. If the sheriff is unsuccessful, the judge at the first court date, upon request, will allow the landlord to hire a process server again for another $75-$100.

This process can take up to an additional two weeks of time. We find the sheriff has about a 40% chance of successfully serving the tenant, which is due mainly to local agencies being understaffed and overworked as well as tenants successfully avoiding the local sheriff.

Related: *I'll Never Evict a Tenant—Here's Why*

TRIAL EXTENSIONS

Even when you get to court with the tenant after they have been properly served, the tenant can ask for a continuance or request a jury trial. If they don't show up to court, the tenant has seven days to file a request for an extension, bringing the case back to court in another two to three weeks. The options available to the tenant can add weeks, if not months, onto the process.

LANDLORD POSSESSION

If the process does go smoothly and the judge grants possession to the landlord, there is more time added here. Once the process is past all the hurdles thus far, the judge will see the tenant is not following the lease and grant the landlord possession at some point in the next 14-30 days.

TENANT REMOVAL

Following the 14-30 days, the likelihood that the tenant will leave is slim. This forces the landlord to file paperwork, for an additional fee of $60.50, with the sheriff to request that the sheriff come out to remove the tenant from the home. The act of filing the fee is not the hurdle but the undefined timeframe for the sheriff to actually come out is where the hurdle really comes in. The sheriff can take anywhere from 60 days to four months to come and evict the tenant.

DAY-BEFORE CALL

Once you've waited two to four months for the sheriff to come out, you will receive a phone call from the sheriff the day before. It will be on you, as the landlord, to make sure this final step is completed. On the day of the actual eviction, there are many things that can go wrong, causing you to have to start back over with the sheriff.

BEST-CASE SCENARIO

When you add up all that time, this is what your best-case scenario may look like.

- 30 days before you file for eviction for a non-paying tenant
- 14 days to get into court
- 14 days to get possession
- 60 days to get the sheriff out

That's a total of 118 days to get a tenant out from the time they stop paying.

WORST-CASE SCENARIO

Anyone who may be reading this from Illinois, or more specifically Chicago, may laugh at my best-case scenario. Below is what is more realistic.

- 30 days before you file for eviction for a non-paying tenant
- 30 days to get into court
- 60 days to get possession, with delays in the court process
- 90 days to get the sheriff out

This brings you to a total of 210 days to get a tenant out from the time they stop paying.

OUT OF POCKET COSTS

The math that I write out for investors quite often is based on what this non-paying tenant can cost an owner over 210 days.

- $300-$500 – eviction filing fees
- $900-$1,800 – attorney fees
- $0-$200 – process server
- $3,000-$4,812.50 – seven months of mortgage
- $875-$1,750 – seven months of taxes (range of $1,500-$3,000 annual taxes)
- $525-$700 – seven months of insurance (range of $900-$1,200 annual premium)
- $0-$700 – utilities paid by landlord (in multi-unit, landlord may pay normally)

That brings you to $5,350-$10,237.50 of total landlord expenses over seven months with no income.

This is just an estimate of actual expenses. Nicer homes with higher mortgage payments can anticipate that this is only half of what they would be up against. You may also have an HOA fee that can add on another $2,000-$3,000 in out-of-pocket expenses.

WRITING THE CHECK

With that being said, this article was written to help you solve the issues with these problem tenants as quickly and efficiently as possible. Cash for keys is a way for a landlord to convince a tenant to vacate a property in exchange for an agreed-upon sum of money.

In the worst-case scenario above, the hard cost will exceed $5,000 and the stress endured can take a toll on other things in your life. It may be in your best interest to strike a deal with the tenant at the 30-45-day mark to leave the following week in exchange for $1,000 or $2,000.

A lot of people, in general, have an issue with this out of sheer principle. People think it is ridiculous to pay a tenant to leave when the tenant already owes them money. The reality is that you will never see that past-due rent. You will end up spending a lot more than you are about to give if you do not follow something like a cash-for-keys process.

BENEFITS OF CASH FOR KEYS

Below are a few benefits of executing a cash-for-keys agreement with your non-paying tenants.

MOVES FASTER

We are humans who like to solve problems or just make them go away now. Some people like to solve complex problems and others just don't want to deal with the stress. My favorite line to investors I just met with tenant collection problems is, "Do you realize that for a couple grand you can make all of your problems go away in the next two weeks?"

BETTER NUMBERS

Above you will see the true costs of a non-paying tenant, and those costs do not even include the turnover expense you will have once you get the tenant out. This is an investment into your next 12 months of cash flow. Figure out the return on your $1,000 or $2,000 check to the tenant versus the actual costs you will have over the time it will take you to get possession back. Be realistic, because a non-paying tenant today may not be out of your place until spring or summer of 2021 if you wait for the courts to solve your problem.

Related: *Cash for Keys: The Controversial Process That Could Save You Major Eviction Headaches*

CONTROL YOUR OUTCOME

My favorite part of cash for keys is that I can control the outcome. I know when the tenant will leave, I can somewhat control the condition they turn the place back over to me in, and I can control the timeline. A non-paying tenant can leave any day with anything they want in the house.

MAY BENEFIT THE TENANT

In many cases, the cash you give to your tenant may provide them with a fresh start. For the tenants down on their luck, these funds can help them with a new start where they can avoid getting their name dragged through the mud in a long, drawn-out legal case. This is where you can still have the "empathy" piece I mentioned in the first paragraph to create a win/win situation for both parties.

IN CONCLUSION

When you became a real estate investor, you also became a business owner. As a business owner, you have to make decisions that can help your business grow, which often more times than not means checking your ego or leaving the emotion at the door.

The new norm is not yet certain in this post-COVID-19 era we are investing in, so you have to be able to pivot. There are many great tenants out there that want to rent your property, so get rid of the ones that are not respectful of your business so you can get someone that is.

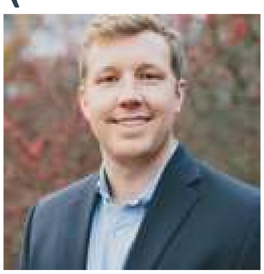
Cash for keys is not new to me, but it is a new concept to a lot of investors that may have invested in landlord-friendly states. Now is the best time to pivot and make the best business decisions you can for your rental portfolio.

Be sure to check with your local attorney regarding the proper documentation to use and any state statutes that may guide some of your negotiations with your tenants.

By Mark Ainley

Mark Ainley is an investor, managing broker, and property manager with almost two decades of experience in real estate. Mark found his way into real estate by purchasing and flipping condominiums prior to the great recession, and since, he has built his own portfolio of rentals alongside co-founding GC Realty & Development LLC (GCR&D), a full-service real estate brokerage, property management and investment firm, and GC Realty Investments (GCRI). He has rehabbed and stabilized over 450 properties and currently manages over 900 investment properties throughout the Chicagoland area. Mark was featured on CNBC's TV show The Deed, which chronicled one of his rehabs. He has also been featured on podcasts like The BiggerPockets Podcast, The Real Estate Mogul Podcast, Joe Fairless, REI Diamonds, and Positive Phil.

HOW TO CALCULATE CASH-ON-CASH RETURN (MADE EASY!)



Brandon Hall

Expertise: Business Management, Landlording & Rental Properties, Personal Finance, Personal Development

An investor came to me not too long ago seeking advice regarding the performance of his portfolio. He figured his portfolio was performing soundly, but wisely decided to seek a CPA's analysis to help him make investment decisions. My diagnosis: While this investor was sophisticated, he was exclusively analyzing investments by evaluating cash-on-cash return.

There's nothing wrong with calculating and using cash-on-cash return—the problem arises when it's your only or primary metric.

First, let's define what a cash-on-cash return is. In short, it's a quick way to analyze an investment's cash flow. Specifically, it produces a percentage that measures the received pre-tax cash flow relative to the amount of money invested.

Related: *The Top 8 Real Estate Calculations Every Investor Should Memorize*

HOW TO CALCULATE CASH-ON-CASH RETURN

Calculating cash-on-cash return is simple. We simply divide the received net cash flow for the year by the amount of cash invested.

$$Cash - on - Cash\ Return = \frac{Annual\ Pre\ Tax\ Cash\ Flow}{Actual\ Cash\ Invested}\ x\ 100\%$$

Not too bad, right? However, it's the variable—annual pre-tax cash flow and actual cash invested—that can be tricky.

UNDERSTANDING ANNUAL PRE-TAX CASH FLOW

Calculate your annual pre-tax cash by adding together:

- **Gross scheduled rent**: The property's gross rents, multiplied by 12. This reflects the maximum amount of income you can expect to receive.
- **Any other income**: Think about all of the other earning opportunities the property may present. Will you allow pets and receive pet income and non-refundable deposits? Do you have parking spaces available? Do you get reimbursed for utilities or charge a flat rate regarding such?

Then, subtract:

- **Actual vacancy**: If you already own the property and you are wanting to produce the cash-on-cash return to understand your property's performance, you will want to use actual vacancy here. The actual vacancy should be measured by the numbers of days your property was vacant multiplied the daily rental rate. Otherwise, use *potential* vacancy—which should always be a conservative number. Multiply your vacancy rate by the gross scheduled rent.
- **Operating expenses**: This ranges from insurance, taxes, maintenance, HOA and bank fees, property management, and repairs.
- **Annual debt service**: For the purposes of learning how to calculate cash-on-cash return, this number will be your monthly payment to cover both principal and interest related to your loan. This does not include insurance and taxes.

Related: *Cash Flow vs. Equity: Which Pays Off for Investors in the Long Run?*

CALCULATING ACTUAL CASH INVESTED

Now let's calculate the actual cash invested. Combine these numbers:

- **Down payment**: Simply the amount of money you pay to obtain the property.
- **Closing costs**: Add up your *net* closing costs associated with obtaining the property. To do this, add up all of the costs you paid (not including your down payment) and then subtract from that any seller or lender credits given to you.

- **Pre-rental improvements and repairs**: Pre-rental improvements and repairs includes anything you pay out-of-pocket to fix prior to renting the units out. (This is the part where the cash-on-cash return metric loses some value—it doesn't do a good job of analyzing returns when you are injecting more cash into the asset after renting out the property.)

WHEN INVESTORS SHOULD CALCULATE CASH-ON-CASH RETURN

Much of the real estate industry, including investors and agents, use cash-on-cash return. Why? Because of the metric's simplicity. Here are some times you should calculate this percentage.

1. IF YOU'RE DETERMINING HOW MUCH FINANCING TO USE

This number specifically drills down to the return on the capital invested. It only considers returns that are driven by the property's net cash flow and doesn't take asset appreciation into account.
Because cash-on-cash return only compares net cash to the actual cash invested, it's a great way to assess the effect of leverage so you can measure different levels of financing. Using leverage decreases your cash-on-cash return.

2. IF YOU'RE LOOKING FOR A SIMPLE RULE OF THUMB

Many investors are not sophisticated enough to use things like the internal rate of return (IRR) or modified internal rate of return (MIRR). These two metrics can be difficult to learn and understand. Yes, they provide more insight—but also require more work.

It's easy to understand how to calculate cash-on-cash returns. It's simply the physical cash you have in hand after 12 months, divided by the physical cash you've invested. Because of that simplicity, it's also a great way to run a "back of the napkin" analysis, and I personally use to quickly screen potential deals. The calculation literally takes 10 minutes or less, and typically gets you within two to five percent of the actual return on equity.

If you're analyzing hundreds of deals a week, something like this makes a lot of sense.

3. IF YOU'RE COMPARING MULTIPLE INVESTMENTS

Cash-on-cash return also allows you to easily compare different investments. You can compare rental property to lending, determine whether you should invest in stocks or bonds, or if you should even start a business. Granted, it doesn't consider risk factors, but the cash-on-cash return does allow for a universal comparison between different investments.

WHY CASH-ON-CASH RETURN IS A BAD METRIC

Despite the fact that this metric provides an effective back-of-the-napkin calculation, investors shouldn't rely on this number.

1. IT DOESN'T INDICATE YOUR ACTUAL RETURN

Did you really think you were going to get through an entire article—written by a CPA!—without discussing taxes?

Your unique tax situation greatly impacts your *actual* return on investment. However, some investors argue that your tax situation doesn't impact the *asset's* performance—it is independent of you. They believe taxes should not be taken into account.

However, the tax impact of investment decisions should absolutely be assessed. Your tax situation may not impact the asset's performance but the asset's performance directly or indirectly impacts your tax situation, and that affects your returns.

Let's say your annual pre-tax cash flow is $10,000, and you have invested $100,000. That's a 10 percent cash-on-cash return. However, if you are in the 25 percent tax bracket, your after-tax cash flow is $7,500—a 7.5 percent actual return.

Further, we have to consider depreciation and amortization. In the example above, if your depreciation and amortization amounts to $8,000 annually, then only $2,000 of cash flow will be taxed. Making our tax liability $500, assuming the same 25 percent rate. Since depreciation and amortization are "phantom" expenses, our after-tax cash flow is $9,500, resulting in a 9.5 percent actual return.

2. IT DOESN'T ACCOUNT FOR EQUITY

Yet another wrinkle: This metric doesn't take into account the equity added from the principal portion of your loan payment. That means it also assumes the entire mortgage payment is an expense. However, the principal portion of your loan payment can't be expensed for tax purposes.

As you can see, because the cash-on-cash return uses pre-tax numbers and doesn't account for principal payments, the return suggested should not be trusted.

3. ADDITIONAL LIMITATIONS

- **Cash-on-cash return doesn't take appreciation into account**. That's why cash-on-cash return is best used for value investing and not speculation. Depending on how you invest, this could be a good or bad thing.
- **It ignores the risk associated with investments.**
- **This metric doesn't take opportunity costs into account**, which more sophisticated investors will find alarming.
- **It also ignores the effect of compounding interest**. Cash-on-cash return may make short-term investments look more appealing and make longer-term investments with a lower cash-on-cash return unappealing. But someone interested an investment that compounds, or appreciates, may be better off taking the investment with a (currently) smaller cash-on-cash return.

HOW INVESTORS SHOULD USE THE CASH-ON-CASH RETURN

The conversation I had with my investor friend led him to believe that the cash-on-cash return is a pointless metric. He then became anxious: Had he been missing out on potentially better returns?

"Don't worry," I told him. Cash-on-cash return is a great metric—when used appropriately.

First, I wouldn't suggest using the cash-on-cash return to evaluate the performance of a property you have held for more than 12 months. Only use this number to evaluate or project the property's first-year performance. After that, the cash-on-cash return begins to lose its value because your denominator—the actual cash invested—will be constantly changing as you pay down the loan and make improvements and repairs. In this situation, I recommend using IRR.

Related: *Introduction to Internal Rate of Return (IRR)*

Second, use the cash-on-cash return as a screening tool to compare investments. Many people claim the one and two percent rules are pointless, and I'd agree. But everyone needs a good screening tool, and the cash-on-cash return will allow you to compare investments efficiently and effectively.

Lastly, use other metrics to supplement the information that the cash-on-cash return provides—specifically, the IRR and MIRR. Yes, these two metrics require a bit more work, but they provide more insight into the performance of the property.

So while the cash-on-cash return certainly has weaknesses, it's a great metric for value investors and serves as a solid screening tool. Using it in tandem with other metrics will provide you with plenty of information to place an offer on a property. And that's what we're all about, enabling you to grow your portfolio.

By Brandon Hall

Brandon Hall is a CPA and owner of The Real Estate CPA. Brandon assists investors with Tax Strategy through customized planning and Virtual Workshops. Brandon is an active real estate investor and a Principal at Naked Capital, a capital group investing in large multi-family projects and manufactured housing. Brandon's Big 4 and personal investing experiences allow him to provide unique advice to each of his clients.

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