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Property Management

How To Self Manage Your Rental House In Long Beach, CA

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About

I'm a 40-year veteran of rental property investing and management. In my real estate career, I have dealt with over a thousand tenants and over 300 property owners. Many of my first property management clients dating back to 1990 are still with me.

At Belmont Shore Land Co. we currently manage close to 200 rental units with the total value about \$85,000,000. We are not a large company, but it was never our intention to be the biggest. Our goal is to be the best! The following e-book will contain information that I hope you can use to better manage your investment... important stuff that I've learned over the past 40 years working in the trenches.

I am providing this information with no obligation...no hidden agenda. Why am I doing this? Well, I figure some day you may have the need for a property manager.

Feel free to send me an email earl@belmontshoreland.com with any questions or thoughts you have.

Earl Mehl



Tyler Mehl

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What's the future for rental house investments in Long Beach?

The future of rental income and property appreciation looks very bright. Tenants in rental houses tend to stay an average of 6 or more years in our experience. Because they stay so long there tends to be few vacancies as a result. The prices of houses in east Long Beach where we do most of our business have increased about 10% over the past 12 months.

We expect the trends in rents and home price appreciation to continue so the future looks very good. The demand for rental houses is very strong. When we put a house up for rent, we receive multiple applications in a very short time period.

Because of recent events the outlook for house rentals is even stronger. State and local laws have set limits on rent increases and eviction rules for apartments. Houses have been exempted. As a result, house rentals have all of a sudden become a "favored class" of income properties.

To make this investment even more attractive rental houses still offer many of the traditional benefits of real estate investing including tax write-offs for depreciation, the lower capital gains taxes for houses owned more than one year, lower interest rates for mortgages, the ability to refinance a property and use the proceeds for any purpose with no tax consequences, the ability to trade into larger properties with no tax consequences and, finally, the ability to pass this investment to heirs usually without tax consequences and the heir's ability to write off the depreciation based on the higher value of the property at the time it was inherited.

I know of no other investment that offers this "bundle" of financial benefits. The only downside is that it takes a larger down payment than most other investments and this asset is not liquid if money is needed right away. Management can be a headache but there are a few good companies that do it right.

A few years ago, Warren Buffet in an interview indicated that he considered rental houses to be an excellent investment. The only reason he didn't buy rental houses was because he couldn't hire management to take care of all the individual houses. He noted this could be the best investment for an individual who could buy one or more of these.

Finally, there may be a time when you decide to sell your rental house(s). However, if you hold on for the long haul this investment will surely provide you with a world-class wealth building asset. I suspect you may already know this.

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How do I determine the market rent for my house?

Our best source for this is “Zillow”. Most people looking for rentals today start with this website. It has property details and pictures by area.

You can also check out Realtor.com. This contains rentals that are posted on the Multiple Listing System. After this I would suggest contacting local realtors who might be willing to help and, lastly, checking local newspapers that may contain “for rent” ads.

So, this may involve a little detective work but it’s important to get this right. Setting the price too low could bring a mountain of inquiries which can complicate the process. Setting the rent too high could discourage some otherwise high-quality tenants or it could attract some unqualified applicants who are hoping you don’t screen them too carefully.

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I know my rent is low. How is the best way to raise it?

First, try to determine about how low the rent is. The answer could affect how you approach raising the rent.

The good news is that at present there is not rent control for single family rentals so if a large increase is decided upon you can do this. This law could change at any time. I don’t believe owners of rental properties owe tenants a subsidized rent unless there is a reason for this. Many owners will let the rent fall below market a few hundred dollars for tenants who pay on time, take good care of the house and cause few, if any, problems. However, it's not uncommon to find a rental house renting hundreds of dollars under market. The reasons owners allow this to happen are too numerous to list here.

There are a couple of ways to get rents near market. One way is to do one large rent increase to whatever amount you decide upon. This could very well result in the tenant deciding to move but you probably know that and are willing to deal with the vacancy.

The other more gentle way to do this is to inform the tenants of what you are doing and why. Then propose a plan to raise the rent by a said amount every so many months until the rent reaches a certain amount. The tenant won't be happy about this but they will probably look around for another rental and, in the process, find out they had a "smokin" deal.

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My tenant never calls me so I keep the rent low. Good deal, right?

Not a good deal. I have seen an owner have to spend over \$30,000 to renovate a small 850 square foot house because they didn't bother to visit the property. The tenant was smart enough not to request repairs so the rent was never raised. The property was abused over a period of years to the point that it was not habitable.

Keep your property in good condition and keep your rents near market. If you can't do that you should probably sell it. Lastly, if your property falls into disrepair, you could become the victim of a lawsuit. Recent legal cases indicate that you could face a jury trial and end up paying legal fees in the tens of thousands even if you lose the case.

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Best ways to advertise my vacancies?

I mentioned Zillow above. This website has become a favorite place for people looking to rent. It used to be free but it now costs less than \$10 per week. It's well worth it. You can post full property descriptions and pictures. You might also use a sign but there are risks of vandalism and fraud so be careful with this.

A good Zillow ad should be all you need. These ads are also post on some sister websites.

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How important are credit checks in screening tenants?

This is the single best screening technique for finding a quality tenant. You do have to know how to read the credit report. It will tell you about the applicants debt paying habits, their previous addresses for comparison to the application, amount of debt and monthly payments, any financial judgements, bad debts, and contact information for previous landlords.

It's a good idea to ask all applications about their credit before you run the credit check. If they indicate they have credit issues you should have a discussion before you go any further. This saves time and money.

Do not bypass the credit check. There are lots of good actors out there. Also, beware of the offer to give you a large amount of cash deposit or the promise to pay several month's rent in advance. This might be their attempt to bypass the credit check. If you don't have access to credit checks this is a good time to join an Apartment Owners Association. They offer this credit checks for a modest fee.

You should charge all applicants a credit check fee. This discourages people who have bad credit from submitting applications when they know their credit is questionable. We charge applicants \$25 per adult.

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What are the best “pet policies” for rental houses?

We recommend you take an indoor cat or small and medium dog. Aggressive dog breeds should be avoided. Most people who rent houses have or want a pet. If you don't allow them tenants will figure a way to get one. Everyone now has a “service animal” so you might as well accept pets and charge for them.

Our experience has been that quality tenants tend to bring a good pet situation.

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Should I include appliances when renting my house? If so, which ones?

We recommend you not provide refrigerators, washers and dryers. Stay out of the appliance business. We usually provide a stove. If you have appliances already in the house you can make them “complimentary”. That is, the tenants can use them but they will have to be responsible for repairing or replacing them.

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Should I take application fees from applicants? If so, how much?

Yes, this discourages people who know or suspect they have bad credit or other issues that would disqualify them. This will cut down on the number of unqualified applicants. Even better, let every perspective applicant know you are “tough on credit” so any credit problems should be discussed before they apply. For example, if they tell you “I have a number of credit collections on my credit report but I always pay my rent”. Tell them politely that they will probably not qualify. This saves time and trouble for all parties.

We take a \$25 application fee for each adult occupant. We do not take multiple application fees as many do. One at a time, first come, first serve.

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What are the most important amenities for a rental house?

Curb appeal, laundry hookups, air conditioning and all the other things you would find important in choosing a rental house. Fresh paint, nice shutters or mini blinds, vinyl or hardwood floors, manicured landscaping, etc. Nicer the house the nicer the price the nicer the tenants.

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What are the benefits of joining an Apartment Owners Association?

Well worth the price. Credit checks and other screening tools such as eviction and criminal history. They all have a publication with numerous articles regarding taxes, repair and maintenance tips, asset management, contractor referrals, product referrals, legal issues, and more. The annual dues are very reasonable.

These days with all the government regulations you better keep yourselves informed.

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How to avoid lawsuits?

Did you know that your rental insurance policy does not cover mold and some other toxic substances. If you get a tenant complaint and don't address it you could be in for a nasty lawsuit. The cost of defending yourself could easily run \$30,000 or much more if you win. If you lose the sky is the limit.

Also, be aware that if you do have insurance coverage that there is a limit of liability. If the court awards the individual who sues you a judgment in excess of your coverage you have to pay the difference out of your pocket.

Liability insurance is presently not extremely expensive. Think about increasing your liability coverage.

Did you know that several of the provisions in your lease may not be enforceable. For example, I am aware of a lawsuit in which the judge found the Arbitration Clause was not enforceable because it was against public policy.

The same legal reason was given for not enforcing a lease provision requiring a tenant to waive their right to a jury trial.

The lease you sign with your tenant may not protect you. Add to this all the recent laws restricting your rights to set rents, give tenants notices to move, disallowing pets, abstaining from Section 8 Housing Programs, etc., etc.

I am not making a political statement here...just describing a new environment in which you must now operate. Managing residential income is a whole new ballgame. Single family homes are currently exempt from some of these restrictions which apply to

apartment building with 2 or more units but it seems the writing is on the wall. Landlords are facing higher taxes and fees and more regulations.

How can we help?

Feel free to send us an email with any questions or thoughts you have. We hope you found this e-book useful.

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