

The Backus Bulletin

"Your Management, Your Way"

August 2018

Keeping a Cash Reserve for Your Investment Property

You never know when something can happen that will require a large amount of cash, such as a disaster where the property is located, a major maintenance expense, an unexpectedly long vacancy, or a problem with a tenant that leads to legal action and damage. As your property management company, we work on preventative measures to keep this to a minimum, but we cannot control Mother Nature, unexpected maintenance on a property, or anticipate the future actions of tenants. Therefore, it is important as an investor to create and maintain a cash reserve. Many factors impact rental property financially.

Emergencies and Disasters

No one can anticipate the unknown and often, it can depend on where your property is located, i.e. fire, flood, tornado, hurricane, etc. The first thing that can offset and help your money reserves is to have a good landlord policy that addresses fire and disaster issues. Even then, it probably will not cover everything.

Major Replacement

Major maintenance often depends on the current condition and the age of the property. You may have bought an older property, one that has been well maintained, or one that you purchased to fix up. Consider the condition of the property, the age of the roof, gutters, fencing, appliances, paint inside and out, flooring, and more. Then, make a

chart and prepare a plan of future replacement costs. Just remember that major maintenance can occur on any property, new or old.

Vacancies

There is no doubt a vacancy requires a cash reserve. To think the property is never going to be vacant is unrealistic. Even the best properties can become empty. It is less costly to keep the property vacant until we find the right tenant. It is important to keep an eye on the market where you own rental property and know when it is a difficult market. Location and condition of your property can make a big difference. If your property is in a less desirable area or is not in the best condition, it is a good move to plan a bigger reserve.

Eviction

Eviction generally leads to vacancy and damage. Proper tenant screening is another way to reduce the need for reserves. However, it is impossible to know when a tenant is going to have personal problems and become a problem even when they have been good tenants. Again, a realistic attitude that it can happen is important and to investigate what legal costs can be.

The question now is to address how much to keep for the unexpected. Sit down and review your property for all the factors in this article and possibly others not covered here. Generally, the recommendation is that you keep at least 3-4 months in reserve for a vacancy or major repair. At \$1,200 a month, this would mean \$3,600-\$4,800. Then, if you have a problem

occur, you already have funds available. Add to your fund monthly or as often as possible.

If you are unable to keep a healthy reserve, investigate and develop a backup plan of where you could obtain emergency funds. If you need help in planning, call us and we are happy to assist you. Plan now to protect your investment.

Important update: Low flow water usage changes

The Monterey Peninsula Water Management District will be

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Backus Properties

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Announcements & Services

THINKING OF SELLING?

We hate to see you go, but please give us a call if you are considering this possibility. Although we do not solicit listings for sale, we have been very successful at accommodating our clients. This last year we have sold 27 properties in Monterey, Salinas, Highway 68 and throughout Monterey County ranging in price from upper \$300,000's to \$1.2 Million. Because we know the properties for sale, and have a relationship with the tenants in place, the disclosures and inspections are handled smoothly and accurately.

We can also easily give you an idea of current value if you are considering the possibility, but need more information to make a decision.

Some of the properties sold in the last year are:

- 21445 Riverview Ct., Salinas, CA 93908
- 336 Cayuga St., Salinas, CA 93901
- 54 Chestnut St., Salinas, CA 93901
- 40 West St., Salinas, CA 93901

WHAT CAN WE DO TO MAKE OWNING A RENTAL PROPERTY EASIER FOR YOU?

We won't know unless you tell us! Don't forget we have an "Eviction Protection" plan for \$20.00 per month that covers the \$1,000-\$1500 attorney fees if you have to evict a tenant. We also have "Rent Protection" at 2% additional management fee that means we will pay the rent if the tenant does not pay on time or not at all. Call or email our office: info@backuspm.com or 831-455-2052.



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providing information about mandatory conservation requirements that kick in on January 1, 2019. The requirements apply to multi-family housing and common interest developments of four or more units. All units (other than privately owned condos) must have water efficient toilets, showerheads, and faucet aerators. Common laundry rooms must have high efficiency clothes washers installed, and common area irrigation is required to have automatic irrigation controllers set to water according to the District's regulations (Wednesdays and Saturdays before 9 a.m. or after 5 p.m.). Pressure regulators are also required for the buildings.

There is no need to panic about these requirements, but any unit in a four or more unit building that turns over from now on will be evaluated for necessary changes / upgrades and accomplished as needed.

California voters: Vote NO on Proposition 10. This is in regards to rent control.