

# The Backus Bulletin

*"Your Management, Your Way"*

## So- WHAT NOW? WHAT HAVE WE LEARNED?

June 2020

After 42 years in property management, I really thought I had seen it all, but I never imagined that we would have a crisis and the government would give permission to tenants to delay rent.

In 1980 mortgage interest rates hovered around 16% so you can imagine what sales were like. However, rents were very healthy because people were not buying houses. Cash was still accepted for rent and a three part ledger board was used for receipts. Statements and lease agreements were both one page legal size documents. Statements were done by hand and most communication was by mail because long distance calls were very expensive.

In the late 1980s, vacancy rates in Texas, Colorado and some other states were running around 30%. It was common to not ask for a security deposit and to offer a free month's rent. That is currently the case in some parts of Florida. Computers were starting to come into use and generally cash was no longer accepted for rent. Most rents were paid by personal check.

In the 1990's, owner statements became computerized and leases were no longer hand written. Transferring information by fax was very common but communication through email less so.

Between 2000 and 2005, rents increased very gradually because many tenants were able to move into home ownership. Housing prices were going up at about 10% per year. There was a big push for rent control around 2006-2007 but that disappeared in 2008 with the housing crash. All information was stored in the computer data base with paper filing becoming less common. Newspaper

advertising was still the most common way of finding new tenants. Advertising was paid separately by owners. Average tenancy was about 2.5 years.

During the crash of 2008 +/-, rental rates stayed stable in the lower ranges and actually went up in the more expensive houses. The only reason we could think of was that home owners were losing their houses to foreclosure, but were used to a large payment and a nice house. Average length of tenancy increased.

Since 2010, electronic payment of both rent and owner proceeds have become the most common form of payment. Email is the most common form of communication. Personal checks are no longer accepted with rent being paid by money order or electronic transfer. Over half of our tenants do not have home phones and cell phone numbers seem to change more frequently, so email is even more important. All marketing to new tenants is done online.

Rents started back up again around 2014 and have gone up an average of 5% a year since then. Because vacancy rates have remained very low (probably because there have been no significant housing starts since 2008) we have been able to increase the criteria and security deposit amounts. All of this is market driven. Average tenancy is about four years.

So then we come to 2020 and all bets are off. Although it does seem that all of our clients will escape any significant losses, the whole process

has taught us a few things:

- The saying about keeping two months of costs in reserves is still a good one. Our turnovers are generally less than a month, but it is safer for clients to keep at least two months of rental income in reserve.
- Keep rents close to market. Many owners feel if they keep the rent low they will keep good tenants and reduce turnover. However, as long as the rent is not over market, tenants will not incur the cost of moving if they cannot rent a similar home for less. By keeping rents close to market, you avoid the problem of being stuck with a low rent if rent control is instituted. Low rents can significantly affect price in multiple unit buildings.
- Stay on top of the changes in tenant law. We are on top of that issue constantly. We attend seminars and conventions for that very purpose. It is helpful if owners keep it on their radar as

*(Continued on pg. 2)*

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well, so when we call with possible changes it does not come as a complete surprise. Reading my newsletters is a good start to that!

- If we recommend giving a tenant notice to vacate, pay attention. We do our best to screen for good tenants but sometimes good tenants turn bad. If they start causing problems, the sooner they are vacated, the better. Tenants that pay their rent late or are not keeping the property up, seldom turn the situation around. In multiple unit buildings you may lose good tenants. There is no convenient time to evict, so do not procrastinate. The recent AB-1482 law makes it much harder to evict a tenant (other than for nonpayment of rent) in multifamily housing. This could perhaps become the case in single family homes as well.
- Within the office, we have found that we can handle the renting process with less contact than before. During the Covid 19 quarantine, we did not allow anyone into the office at all. We are now installing a “Dutch” door to separate the entrance from the office area so that we can greet people and exchange paperwork without them coming into the main office space.

Over the years there have been many significant changes in the landlord-tenant laws and in property management operations. Just a few years ago, the time needed to change rental terms or give notice to vacate increased from 30 days to 60 days for some tenants. Each time we think “this is never going to work,” but we always adapt/adjust the operation to see that we follow the law but keep our clients interests on top.

Thank you for listening to this ramble. I would like to say “now we really have seen everything,” but I know I would be proven wrong. It will be interesting to see what the future brings, but owning rental property has always been a very healthy long term investment and I expect that will be the case for generations to come.