

THE BLACK BOOK CHECKLIST –

How to negotiate a rental increase





Checklist: How to negotiate a rental increase

Step 1: Check the current going rate

Put yourself in a potential tenant's position by conducting your own research.

Browse the rental property market for similar properties in the area and consider where your property sits.

Be sure to compare apples with apples: if your property is an unrenovated two-bedroom apartment in a complex of four, don't compare it with a brand new hi-res building that boasts a pool, gym and sauna. Instead, look for properties that have similar features and benefits to your property and take note of the asking rents.

Notes:

Step 2: Confirm vacancy rates

Vacancy rates are important to know because they tell you whether properties in your area are in demand or oversupplied.

Obviously, in demand properties will rent more quickly and for higher amounts than those properties that are in oversupplied areas.

As a guide, a vacancy of less than 3% is generally considered a "tight" rental market and above 3% is considered "oversupplied".

Notes:

Step 3: Scope out actual availability

Statistics offer a good base to start from, but when conducting your research, it's also important to find out how many similar properties are actually listed on the market.

Vacancy rates might reveal that your suburb has a low vacancy rate of 2%, but if that suburb is home to 10,000 people, you could still be competing against dozens (if not hundreds) of similar homes.

Remember, if your investment property is located in a sought-after area and supply is lower than demand, you will be in a prime position to negotiate a strong rental increase.

If there is a glut of similar properties on the market and you're all competing for a small rental pool, it might not be worth raising the rent and risk losing your current tenant.

Notes:

Step 4: Discuss options with your property manager

After performing your own due diligence it's time to discuss your options with your property manager.

This should happen roughly every six months, or as the lease comes up for renewal.

Some people choose to DIY property management to save a few bucks, but that strategy has never made sense to me. Here's why:

I look at property management fees as being a cost of doing business (and a small cost at that). It saves me the headache of attending to maintenance issues or following up if a tenant does not pay the rent. So, rather than resent the fees, I appreciate the work that property managers do when things need attention.

In my very early days of investing, I tried DIY property management once and after my own personal experiences, I can say that property managers earn every cent they make. I have learnt my lesson and will never manage a property again.

Notes:

Step 5: Offer a staggered rental increase

With your property manager's input and your own research under your belt, you should have a fair idea of the market rent your property can achieve.

Consider both the current rent you're charging and the fair market rent and use these figures to decide what course of action to take.

If you are concerned that your tenant may move out if you hike up the rent, you could offer a staggered rental increase whereby they sign the lease for 12 months, but the rent increases after six months. This creates a win-win for both parties.

Example:

- Tenant is paying \$280
- Research shows you that fair market rent is closer to \$300
- You offer 12 month lease, with rent increasing to \$300 after 6 months

Notes:

Step 6: Show appreciation

While I understand that keeping your rents competitive is one way to make sure your tenants are happy, there are other things you can do to demonstrate your appreciation – ways that don't cost you a fortune in the long run.

Maintaining the property in good condition and responding promptly to repairs is one strategy you can use to ensure that your tenants appreciate the property and treat it as if it is their own.

You can also send a card and a bottle of wine at Christmas as a small token of your appreciation.

Notes:

Additional comments