

Orlando Investment Properties

Determining Rents

1st Quarter 2008

Setting the rental value can be a tricky process. It is an art and a science combined, with many factors to consider. Even after careful evaluation, the amount of rent is subject to change if rejected by prospective tenants.

Supply and demand

Supply and demand is a major factor that determines the amount of rent. Generally, if the supply is low, the demand is high and conversely, if demand is low, the supply will be high.

For example, if there is one other property of similar size and amenities in the neighborhood for rent, it substantiates a competitive price. However, if the same neighborhood has twelve other properties for rent, it puts a different light on the rental value, even if your property has a few more amenities. Asking for top dollar and competing against numerous properties does not make economic sense, particularly if the property remains on the market for several months. This will definitely affect the return on investment (ROI).

Real estate is immobile, but people are mobile. When rent is too high in one area, people are willing to

move and commute a greater distance. This is particularly apparent around large cities or areas where rents have become extremely high. A prime example of this is the San Francisco, CA market – many people are willing or forced to travel great distances to affordable housing in outlying areas because city rentals are too high, and they can rent larger properties, with more amenities, for less if they are willing to commute.

Rental housing is also a stratified market. Low, medium, and high rents have different vacancy factors. For example, properties that command a higher rent are in the income range of people who generally will purchase a home, therefore, there are normally fewer numbers of people who rent. This does not mean a higher valued property will not rent – people rent for many reasons, but there are different ratio values for different economic levels, and lower income properties normally have the higher numbers of renters.

Use comparables

It is important to use comparable properties in the current rental market. This usually means similar size, amenities, and neighborhood desirability. Specific items to

consider are square footage, lot size, bedroom and bathroom count, appliances, heating and air, parking, RV Access, etc. There are also “desirable” neighborhoods that people want – areas where there is low crime, better schools, community activity, etc.

What not to use

Do not use rental values contained in an appraisal. Although the property value may be in the right ballpark, appraisers use values for properties already rented and the highest possible rents to justify the loan. The pitfall here is that the property could have rented under rental market value at a different time and the same rent may not

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apply today. When buying, check the "current rental market," how long the properties have been on the market and what has "recently" rented.

Do not base the rent on the purchase price, trying to justify the investment. The price of the property and the current rental market are often separate issues. Perhaps when purchasing the property, rents or expectations were higher. Rental markets can swing just like the stock market, up and down.

Remove emotions when renting a property. For example, if the property was previously a personal residence, personal memories can distort the true picture of the rental value.

Common sense must prevail

It does not pay to sit on an empty property with the attitude, "I am holding out for higher rent." Run the numbers – long vacancies create more financial damage than adjusting the price and renting the property with the least amount of time possible. Work with our company and the rental market to achieve success for a successful and happy New Year.