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# Transform Your Mobile Home Park: Rapid Performance Enhancements With Technology

By Frank Rolfe



Whether you own a single mobile home park or a portfolio of properties, enhancing performance is essential for creating a welcoming environment and maximizing profitability. Recent technological advancements allow you to instantly pinpoint park inefficiencies and hold management accountable. This guide will provide an expanded perspective on how to leverage technology to swiftly optimize your mobile home park's performance.?

## Rapid Home Inventory Audit

For a start, give your park manager a call and inform them of an immediate audit for all unoccupied home inventory. Request a minimum of three photos from different angles–outside, inside, and the surrounding yard–of each vacant property. Ask that these images be taken using a smartphone and sent to you within an hour.

Expect some resistance at this point; your manager might claim to be too busy. Insist on its urgency, emphasizing that the task would only take a few minutes. Be prepared for a plethora of excuses, but remain firm that this audit is the day's priority. The resistance likely stems from the manager's awareness of the park's less than stellar state.

When the pictures arrive, brace for the potential disappointment. They might reveal unkempt yards, missing window shutters, or cluttered living spaces. Uncovering these hidden issues is the first step towards improvement. Express your disappointment to the manager, demanding that they rectify these issues within two days, and insist on new photographs as proof. To ensure such negligence doesn't recur, make it a habit to demand updated pictures every one to two weeks. This consistent auditing process doesn't cost anything and only takes an hour, yet effectively puts an end to managerial negligence.



### Thorough Advertising Audit

Next, conduct an advertising audit. Your manager may claim that there's a "home for rent" sign or banner prominently displayed. To verify, request an immediate smartphone photo of the sign. Extend this scrutiny to print advertisements—ask for a photograph of your ad in the newspaper. Should they lack a newspaper, instruct them to purchase one and send you a photo. Often, you'll find ads that are missing or poorly executed. By insisting on photographic evidence, you eliminate the room for such oversights.

### Virtual Park Drive-through

Make use of smartphone video capabilities for a virtual park tour. Ask the manager to record a video starting from the park entry and continuing down each street. Videos offer a more comprehensive and revealing perspective than photos. They make it harder to hide issues like non-functioning cars or overgrown vegetation, offering a more unfiltered look at the park's current state. However, note that transmitting videos may take slightly longer than photos.

### Continual Vigilance

A common mistake among park owners is assuming that a once-caught, lax manager is now reformed. This assumption is often far from the truth. Maintaining regular unexpected audits keeps your manager vigilant and deters complacency. Conducting an audit once and discontinuing the practice sends the wrong message; it conveys tolerance for managerial laziness.

### Conclusion

Smartphones are invaluable tools in modern mobile home park management. By employing them relentlessly, you can facilitate immediate improvements in your park's performance without leaving your home. In a single day, you can make strides towards creating a better living environment and ensuring managerial accountability—an instant gratification worth the effort!



*Frank Rolfe has been an investor in mobile home parks for almost 30 years, and has owned and operated hundreds of mobile home parks during that time. He is currently ranked, with his partner Dave Reynolds, as the 5th largest mobile home park owner in the U.S., with around 20,000 lots spread out over 25 states. Along the way, Frank began writing about the industry, and his books, coupled with those of his partner Dave Reynolds, evolved into a course and boot camp on mobile home park investing that has become the leader in this niche of commercial real estate.*



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# Top Energy-Saving Tips For Manufactured Home Investors

By GoFresh Homes




Summer is HOT: That means sunshine, soaring temperatures, and sky-high energy costs. Unfortunately, for all the fantastic things summer offers, larger bills are not one of them. But lucky for you, we have the top energy-saving tips for manufactured home investors.

## Top Energy-saving Habits For Summer

Investors, below are some renter-friendly suggestions to help lower energy costs.

- **The thermostat matters.** When you're not home,or the property is vacant, set the thermostat to auto, or upgrade to a programmable or smart thermostat. That allows you to set a schedule for your ac unit that automatically adjusts the temps throughout the day. This small step can save you lots of money on cooling costs by reducing energy usage.
- **Check the AC filters.** Dirty filters reduce air conditioning efficiency which causes it to overwork and use more energy than needed to cool your home. To keep your AC unit in tip-top shape, regularly clean and replace that filter.
- **Ceiling and portable fans.** Fans are an excellent way to circulate cool air in your mobile home and help reduce the need to run your air conditioner so hard. Switching your fan to run counterclockwise in the summer helps create a breeze and makes you feel cooler. In the winter, change your fan rotation setting to clockwise to help circulate the air.
- **Seal leaks and drafts.** Leaks let cold air escape, and adequately filling the gaps around windows and doors help prevent this. It also helps your air conditioner work a little less to maintain comfortable temperatures.
- **Heat gain.** Heat gain occurs when the sun's rays penetrate your home through the windows and doors, making it harder to maintain a comfortable temperature inside. Reflective window film, blinds, or curtains work wonders to keep the sun rays out and keep the home cool. Give blackout curtains a try. They are an affordable way to cut temperatures and keep unwanted light out.

There are other ways to help keep your manufactured home more energy efficient. Some changes are inexpensive and easy, and others may take more work. However, the cost savings benefits and increased energy efficiencies are well worth it! Check them out below!

## More Energy-saving Tips To Cut Costs In Your Manufactured Home Investment

Investors, consider making these energy-efficient changes to your properties!

## Top Energy-Saving Tips For Manufactured Home Investors Cont.

### Energy-efficient Roof Coverings

Cooler roof coatings can lower the temperature inside your home, reflect sunlight up to **85%**, cut down on smog, and reduce the cost of electric bills by decreasing air conditioning costs. Consider installing or painting the roof white to save on energy costs. It also helps curb climate change.

### Mobile Home Roof Insulation

Installing insulation in the manufactured home's roof cavity can be time-consuming. However, it can save up to **15%**. If the home has a sloped roof, this allows more room to add insulation in the ceiling, so consider swapping it out if needed.

### Home Interior Energy-efficient Tricks

A lot of energy is wasted inside of the mobile home. The following areas are known culprits for wasting energy and raising bills.

- Doors and windows
- Walls and lighting
- Kitchen and bathroom
- And furnace and appliances

There are several ways to address these areas and help lower energy bills.

### Energy-saving Tips In The Kitchen

Replace all appliances with Energy Star appliances, which can reduce energy use and costs by **10-50%!** They are eco-friendly and help reduce greenhouse gas emissions, fossil fuel reliance and decrease water consumption.

### Energy-efficient Lights

Take a minute and walk through the home and replace all the light bulbs with energy-efficient options. Did you know that most homes use **10-12%** of a home's energy on lights alone?



# Top Energy-Saving Tips For Manufactured Home Investors Cont.

### Energy Star light bulbs:

- Use **90%** less energy than standard bulbs
- Last up to 15 times longer
- Save around $55 in electricity costs over its lifespan
- Meet strict quality and efficiency standards
- And produce **70-90%** less heat, so they cut energy costs associated with home cooling

**Fun fact:** If every home in America replaced one bulb with an Energy Star LED bulb, it would save approximately **$580 million** in energy costs and prevent **7 billion pounds** of greenhouse gas emissions annually.

Another energy-saving tip to remember is to turn the lights off when not in use and unplug appliances. In addition, keep all fixtures clean to boost lighting output. These simple changes all help reduce the cost of the energy bills in your manufactured home.

### Inspect The Furnace

The furnace in manufactured homes pulls air directly into it through a removable grill. Therefore, cleaning and replacing the filters inside is vital as it reduces energy costs and helps your furnace to run efficiently. In addition, inspecting the squirrel cage blower on top of your furnace for dirt and debris helps reduce costs.

Squirrel cages are known for their superior energy efficiency, durability, are reliable, and remain relatively quiet. As a result, they are desirable devices in the HVAC industry.

### Manufactured Home Windows

Windows with a fiberglass frame offer the most insulation. Triple-pane glass, Low-E coating, and window tinting also help. Other options to consider include vinyl and composite window frames and storm windows. Storm windows also offer better protection from the elements.

### Cooling The Mobile Home

Air conditioners not only cool the air in your home but also reduce humidity. Lowering the moisture in the manufactured home can lower AC costs and help the system run efficiently. As we mentioned above, installing a cool roof or painting your roof white can also help stop the heat before it enters your home, reducing how hard your AC unit works to keep it cool.

### Flooring, Crawl Spaces, And Ducts

Chances are the manufactured home already has insulation, but there is always room to add more. Insulation provides resistance to heat flow, helping to lower heating and cooling costs by an average of **20%**. So adding it to attics, floors, crawl spaces, and so on will help reduce air leaks around the home. In addition, hiring a professional who can install blown fiberglass is recommended. Blown fiberglass is better as it helps cut down on corrosion, saving you from issues down the line.

Crawl spaces are often neglected, but adding skirting around the manufactured home also helps hold in heat.

### Water Leaks

Water damage can cause all types of issues with your manufactured home. To keep the energy efficiency on point, ensure the site you place the home has proper drainage and that all points where water can seep in, such as the roof, are properly sealed. If you do notice any leakage, fix it asap.

### Manufactured Homes Are Built From The Inside Out

Unlike site-built homes, manufactured homes are built from the inside out until you eventually have a single, unified home.

A specialized crew completes each process.

- Utility hookups, cabinets, wiring, and door installation are completed simultaneously.
- Egress windows and the right doors must be installed to meet fire and safety codes.
- Customizable options include upgraded flooring, exterior/interior finishes, energy-efficient alternatives, and more.
- Finally, customers choose a wrap or siding before the home is moved.

This information is a generalized step-by-step process of how manufactured homes are built. Every company has specialized designs and models of its own. However, each must adhere to the federal government code of construction standards and carry a safety inspection certificate.

GFH does not endorse one manufacturer over another, as several fantastic home manufacturers are available. However, before you buy a home, we encourage you to do your homework, as everyone has their unique taste and geographic location.

**Understanding manufactured home construction is vital.**

Homes are built from the inside out, using a step-by-step process that follows strict safety guidelines. In addition, you can customize your home to the foundation – oh yes, a basement!

Please check out the provided links for factory tours with an overview of how the plants construct their homes. Again, we do not endorse one manufacturer over another but encourage you to do research.

**Make Your Manufactured Home Investment Count- Energy-efficiency Matters**

Soaring energy prices can drain your and your tenants bank account, so following these top energy-saving tips for your manufactured home can help cut costs and leave money for the things you love. Remember to pay attention to your thermostat, keep lights off when you're not using them, cut down on costs in the kitchen by making mindful decisions, and check your home's interior and exterior to ensure everything is in place, especially if you have an older manufactured home.

If you're investing in newer manufactured homes, they are built with energy efficiency in mind, unlike older mobile homes built before 1976. The new houses are eco-friendly, use less waste, and are built to HUD standards. So whether you're investing to sell or rent out, these tips can help you make the most of your property and money.

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Kurt Kelley - President

# "The Duty To Serve -- A Cruelly-Unfulfilled Promise and Mandate"

By Mark Weiss




The June 2023 edition of "MHARR – Issues and Perspectives," addressed one of the two major post-production factors – discriminatory and exclusionary zoning mandates -- underlying both the HUD Code manufactured housing industry's failure to achieve significantly higher levels of production in the face of an ongoing affordable housing crisis and the consistent failure of federal government "affordable housing" grants, funding and other programs to "reach the ground" with respect to HUD Code manufactured housing. The latter phenomenon was examined and documented in MHARR's July 2022 White Paper, "The Exploitation of Federal Housing Finance and Mortgage Funding Assistance Programs and Potential Solutions."

With this column, we address a second major factor which continues to suppress industry growth and the real-world availability of government funding and programs within the HUD Code market – i.e., the failure of Fannie Mae, Freddie Mac and the Federal Housing Finance Agency (FHFA) to implement the statutory Duty to Serve Underserved Markets (DTS) directive with respect to the nearly 80% of the HUD Code manufactured housing finance market represented by personal property or "chattel" loans.

It is important to recall that the DTS mandate was included in the Housing and Economic Recovery Act of 2008 (HERA) as a remedy. Specifically, it was made part of HERA and adopted by Congress to remedy the miserable track record of Fannie Mae and Freddie Mac when it came to providing secondary market and securitization support for loans on certain types of affordable homes -- including HUD Code manufactured homes -- even though their respective charters obligate the Enterprises to promote and provide homeownership opportunities for very low, low and moderate-income American families. DTS, therefore, directs Fannie Mae and Freddie Mac to provide such support for consumer loans within three specified affordable housing markets, one of which is HUD Code manufactured homes. It also designates FHFA, the federal regulator for Fannie Mae and Freddie Mac, as the federal agency responsible for ensuring compliance with the DTS mandate – i.e., DTS' "enforcer."

It is also important to recall that Congress, when it enacted the DTS mandate, was well aware of the contours of the manufactured housing market and the important role that chattel loans play within that market to provide consumer financing for the industry's most affordable homes. Based, then, on specific input from MHARR as well as the Manufactured Housing Institute (MHI), Congress included a proviso in the DTS mandate which specifically authorized the inclusion of manufactured home chattel loans within the DTS programs required to be developed and adopted by the two mortgage giants. The statutory DTS mandate, accordingly, embraces, encompasses and includes both manufactured home real estate financing and personal property financing which, again, constitutes the vast bulk of all current-day manufactured housing consumer loans.

So, what have Fannie Mae and Freddie Mac – with FHFA looking on – done with manufactured home chattel loans under DTS? The answer is as succinct as it is devastating. Quite simply, the mortgage giants, with FHFA's acquiescence, have done exactly nothing under DTS with respect to chattel loans since the mandate's enactment 15 years ago. Despite false starts, promises and proposals spanning much of the past decade-plus, neither Fannie nor Freddie have ever supported or securitized manufactured home chattel loans under DTS. To be certain, there have been references to chattel loan "pilot programs" in DTS plans proposed by the mortgage entities over that time. And some have even made it to the "approved plan" stage, having been blessed by FHFA, like the Freddie Mac chattel pilot scheduled for the final year of its 2022-2024 DTS "implementation" plan. But, somehow, so far, all of those proposed chattel programs have managed to wash-out prior to implementation.

The odds, therefore, do not favor the current Freddie Mac proposed chattel pilot. Even if it somehow manages to go forward, though, the 1,500 to 2,500 loans currently slated for DTS support (i.e., purchase) would only amount to a marginal fraction (i.e., 1.7% to 2.8%) of the approximately 88,000 manufactured home chattel loans that could be originated in 2023 based on 2022 production levels and the 10-year-plus

historical proportion of consumer chattel loans within the manufactured housing market (i.e., 78%) based on U.S. Census Bureau data. Meanwhile, consumers would lose out because roughly 98% of manufactured home consumer chattel loans would still be made at unnecessarily high interest rates (with the lack of DTS support meaning greater retained risk for lenders, combined with a less-than-fully-competitive market), while the industry (and consumers) would continue to suffer from suppressed production levels due to the unavailability or unnecessarily limited availability of fully-competitive, lower interest rate personal property loans. And that is even if the proposed Freddie Mac chattel pilot goes forward. If it does not, 100% of the chattel consumer financing market would continue to be totally unserved.

And how do those real-world impacts play out? For consumers (and potential consumers) it means that chattel loan interest rates for manufactured homes – currently ranging as high as 10.8% for qualified borrowers with lower credit scores (according to publicly available data) --will continue to far exceed mortgage rates for site-built homes, which currently average 7% (again, according to publicly available data). This differential represents a number of factors, including, but not limited to, the risk that manufactured home chattel lenders must retain on portfolio because of the lack of any secondary market or securitization for such loans. But it also reflects the market distortion that necessarily flows from a lack of full, or even adequate competition within the chattel financing market (as was acknowledged by Freddie Mac itself in its 2022-2024 DTS Plan). The absence of a functioning secondary market or securitization structure, accordingly, keeps new and additional loan originators out of the market, leaving Berkshire-Hathaway-affiliated 21st Mortgage Corporation (21st) and Vanderbilt Mortgage Corporation (VMC) as the dominant lenders for manufactured home consumer financing in general and chattel loan financing in particular – albeit at unnecessarily high interest rates – thanks to their access to a virtually unlimited supply of capital via the Berkshire Hathaway megalopoly.

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For consumers, then, the failure to implement DTS within the manufactured housing chattel market means higher-than-necessary interest rates on purchase loans, fewer potential sources for that financing and, therefore, fewer purchasers who can qualify for the more limited and costly financing that is available. Fannie and Freddie, accordingly, by their failure to implement market-significant chattel loan support, are: (1) keeping lower-income qualified consumers out of the manufactured housing market altogether; while (2) driving those who do remain in the market into what some have termed "predatory" loans at needlessly high interest rates. For the HUD Code industry, it means fewer customers and fewer homes produced and sold.

None of this is what Congress intended when it enacted DTS. In fact, Congress' objective was just the opposite.

Meanwhile, as the affordable housing opportunities provided by HUD Code manufactured housing (documented most recently by a July 2023 Harvard University Joint Center for Housing Studies analysis) go underutilized in the midst of an affordable housing crisis, the most damaging effects are being felt by American minority groups. Despite the Biden Administration's supposed policy emphasis on "equity" in housing and home financing, the homeownership rate among African-Americans (as of 2022) stands at 45.0%, some 4.1% lower than its previous peak in 2004. Similarly, the homeownership rate for Hispanic-Americans remains more than a percentage point below its previous peak of 49.7% in 2007. All of this confirms, again, the findings of MHARR's July 2022 White Paper, indicating that notwithstanding the billions of dollars in housing programs promoted by the Biden Administration, such funds still fail to "reach the ground" with respect to HUD Code manufactured housing.

So, while HUD wastes billions on affordable housing programs that simply do not work, the answer to the affordable housing crisis (or at least a large part of it) sits right under HUD's nose in the form of manufactured housing which HUD itself regulates. Why then, does HUD itself not press for the full implementation of DTS? And why is HUD -- through the Federal Housing Administration (FHA) -- dragging its feet on critically-needed reforms to the FHA Title I manufactured housing program, a program that Ginnie Mae has itself admitted is producing negligible levels of loan originations?

The "problem," then, is straightforward. There is a lack of housing that is inherently affordable and available to Americans at lower and moderate-income levels. The "solution" to that problem is similarly straightforward. Federally-regulated manufactured housing is the nation's most affordable source of housing and homeownership, as determined by HUD research. Yet, the "solution" to this national problem is not as broadly available to Americans as it should be or needs to be because of exclusionary zoning, as addressed previously, and because of the failure and outright refusal of Fannie Mae and Freddie Mac to implement DTS within the HUD Code chattel lending sector in defiance of Congress and the law.

So, what can – and should – be done to remedy this defiance? There are many industry organizations and entities which claim to represent and speak on behalf of the individuals, groups and interests that are most directly and grievously harmed by Fannie and Freddie's blatant refusal to serve the vasty bulk of the manufactured housing consumer lending market under DTS. All of those organizations and entities have a central role to play in bringing maximum pressure on Fannie and Freddie for the full, market-significant implementation of DTS. Unfortunately, as of now, this has failed to materialize. For the sake of the industry and its consumers, this must change and change soon.

MHARR -- despite the fact that it does not receive any funding from the industry's post-production sector – is on record as having done more than other national groups to keep these post-production issues (i.e., discriminatory zoning exclusion and lack of full, market-significant DTS implementation within the consumer chattel financing market) alive and a key public policy focus since the enactment of their relevant enabling laws.

MHI, by contrast, claims to represent the industry's post-production sector, including finance companies, retailers, suppliers and others. As such – and again, unlike MHARR -- MHI collects hefty dues from these businesses in order to effectively address matters impacting the post-production sector, specifically including the availability of consumer financing. Furthermore, MHI, with industry members' hard-earned dollars, boasts a well-funded Political Action Committee (PAC), as well as funding levels that can support litigation when and if needed.

So, what has MHI done with that funding with respect to DTS and the lack of consumer loan support within the predominate chattel lending sector? The sad answer is, not much. Much of MHI's funding appears to be wasted on dead-end show-projects, such as proposed legislation that is likely to go nowhere in the current political environment in Washington, D.C. A good example is MHI's current "energy" bill (H.R. 3327), that stands a scant chance of going anywhere any time soon. Worse yet, corrective legislation would not even have been necessary had MHI joined with MHARR years ago to force DOE

to work with HUD and the Manufactured Housing Consensus Committee (MHCC) on energy standards as required by the original legislation on that subject. Instead, MHI – joining with energy and "climate" special interests – sought and then cooperated with the disastrous DOE "negotiated rulemaking" that helped bring DOE's egregious energy standards to fruition. MHARR, by contrast, stood alone, casting the only "no" vote on that horrendous proposal.

Instead of such misdirected and most-likely meaningless projects, MHI should demand congressional hearings (as MHARR has already done) regarding the failure of Fannie Mae and Freddie Mac (and in certain respects, FHFA) to fully implement the DTS mandate. As part of such hearings, Fannie and Freddie should be required to testify and explain, among other things, why they are thumbing their nose at Congress by not implementing the DTS mandate with respect to the vast bulk of the HUD Code manufactured housing financing market.

And what of the self-proclaimed manufactured housing "consumer" groups and organizations, such as MHAction, CFED, turned Prosperity Now, Next Step and others? These groups know full well that Fannie and Freddie have failed to implement DTS for the vast bulk of the manufactured housing consumer finance market and, therefore, for the vast bulk of manufactured housing consumers. Yet, other than paying occasional lip service to the need for DTS chattel lending support, they have done more to: (1) push Fannie and Freddie toward the comparatively small manufactured housing land-home sector; (2) promote more costly manufactured housing-real estate hybrids with virtually no market share; and (3) focus on DTS community-related mandates which have little to no positive impact on the availability of affordable manufactured homes, in part because of discriminatory and exclusionary zoning laws as detailed in the June 2023 MHARR Issues and Perspectives.

Rather than such emotionally pleasing yet largely market-inconsequential efforts, these groups – to truly benefit their supposed constituents – should instead join with MHARR and the industry in demanding complete congressional oversight hearings on the failure of Fannie and Freddie to implement DTS for the benefit of the vast bulk of manufactured housing consumers.

Further, what of the individuals and entities that claim to have an interest in the manufactured housing industry, such as MHInsider and ManufacturedHomes.com? While producing written (and other) content related to industry issues, these entities (and others) have largely failed to expose Fannie and Freddie's defiance of the DTS mandate with regard to consumer chattel loans. Indeed, both have given Fannie and Freddie a platform to tout their purported efforts under DTS, while failing to emphasize that after 15 years, some 80% (or more) of the HUD Code market remains completely unserved.

And what about those who ostensibly stand for the interests of land-lease community owners and operators? Communities are directly and negatively impacted by the failure to implement either enhanced preemption or DTS within the chattel sector. Indeed, of the nearly 80% of manufactured home purchasers relying on chattel financing, a large proportion make use of the often more cost-efficient ownership model offered by land-lease communities. But where are these supposed representatives, supporters, stalwarts, or others? How many have taken HUD, Fannie, Freddie and the others to task for their never-ending failures? How many have taken concrete action to demand and pursue actual remedies? At the very least, they must press their national association (MHI) to do much better than it has to date.

The time for standing on the sidelines is – and should be – over. After more than a decade and a half, it is time for DTS to be fully implemented. And all should be focused on demanding congressional oversight hearings to stop the defiance of the law by Fannie and Freddie (and others) that has lasted far too long.



*Mark Weiss is the President and CEO of the Manufactured Housing Association for Regulatory Reform (MHARR) in Washington, D.C. He has served in that position since January 2015 and, prior to that, served as MHARR's Senior Vice President and General Counsel.*

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# 8 Property Amenities That Are Profitable & Save Renters Money

By Max Glassburg/YARDI BREEZE



The right property amenities will keep renters engaged and more likely to renew their lease with you. Let's look at some amenities that are not only profitable but desired by residents.

### 1. High-speed internet & cable bundle

According to the 2022 NMHC Renter Preferences Survey, a whopping 89% of renters are interested in included high-speed internet. The only property amenities ranked higher in the survey (by a margin of 3% or less) are in-unit washers and dryers, air conditioning and soundproof walls.

A growing number of multifamily apartments, HOAs and condo communities have implemented bulk packages for internet and cable to meet the demand for this amenity.

Here's how it works: Through a revenue sharing agreement with the internet/cable provider, the property management office takes a cut of each sale. Likewise, residents get to pay less than the market rate for high-speed internet and television services. However, new FCC rules prohibit broadband providers from entering certain revenue sharing agreements, so make sure to educate yourself before pursuing a bulk package scenario. The section below offers a quick summary.

#### RECENT UPDATES TO FEDERAL LAW

In 2022, the FCC decided that it's unfair for property managers to allow only one internet/cable provider in their building. That means multifamily operators are no longer able to restrict residents to their preferred provider. Some people don't want TV or feel the high speeds offered by the bundle are not necessary. They might simply want to choose a different provider. In short, it's illegal to restrict the resident's options if other providers are available.

### 2. Smart amenities

Wondering which smart amenities renters *really* want? The NMHC Renter Preference Survey provides some guidance. Here's the list, starting with the most-desired property amenities.

#### SMART THERMOSTATS

This popular property amenity is profitable for you because more renters want it than any other piece of smart technology. Outfit your properties with them and you'll be able to command higher rates. Renters will love the ability to set and change the temperature from anywhere, helping them save on energy bills.

#### LEAK DETECTION

Leaks are expensive. When you and your residents can detect them early on, you reduce the risk of water damage, save money and keep everyone happier overall. Yardi Breeze Premier users have access to Yardi Utility Billing, a comprehensive program that automatically recovers expenses, monitors consumption, identifies leaks and more.

#### SMART SECURITY ALARM SYSTEM

Safety always comes first. Residents will sleep better at night – and when they're away from home – knowing a smart, Wi-Fi accessible alarm system has their backs.

#### VIDEO DOORBELL

Like the previous amenity, a video doorbell is a great safety feature. Is that the pizza delivery or someone trying to sneak into the building? With a video doorbell and intercom system, residents will always know who's at the front door.

#### SMART LIGHTS

The cost of electricity has risen in recent months, much like the cost of everything else. Simple but effective tech, like lights that automatically shut off when no one is in the room, helps residents and your building save energy and money.

#### DYNAMIC GLASS WINDOWS

Not all glass is made equal. Dynamic windows filter out harmful UV rays and provide better insulation in all seasons. Many have a tinting feature that lets in sunlight even when fully activated in

bright light. It simply makes incoming light more comfortable and reduces glare. They're a simple, green, money-saving property amenity your entire community can enjoy.

### KEYLESS SMART LOCKS

Many property managers charge a fee to replace a lost key or door lock. It's extra work for you or your maintenance team, and residents are likewise disgruntled when they have to pay those fees. Why not eliminate the risk and improve building safety with keyless entry? They require a little bit of upkeep, so use your property management software to create a regular maintenance schedule to change the batteries and inspect them as necessary.

### VOICE ASSISTANT INTEGRATION

Some people love their Google Home and Alexa devices. For those that use them, the integration works seamlessly with a lot of the smart tech on this list (e.g., thermostat, lights).

### 3. Renters insurance

At this point, insurance is almost a requirement for multifamily operators who want to run a sound, solvent business. There's no easier way to protect yourself and your residents than by offering affordable renters insurance. The best time to offer it is when an applicant has been approved and is going through the online leasing process. Some prospects will have their



own insurance, but anyone who isn't insured will be able to sign up for your policy in just a few quick steps.

### 4. EV charging station access

With a federal ban on gas-powered vehicle production by 2035, not to mention a California law to the same effect, plug-in hybrids and electric vehicles (EVs) are the future. Some multifamily buildings provide charging stations as an optional property amenity for residents. There are many services that will install EV charging stations in parking spots that residents can pay to use.

### 5. Additional storage

Need a profitable property amenity that appeals to almost every renter? Onsite storage is an easy way to increase profits at little cost to property owners. Some residents use the extra room to store their bikes and other bulky items that would otherwise clutter the apartment. As renters accumulate more things, they may start looking for a bigger living space. You stand a good chance of keeping them around longer if they have extra storage space.

### 6. Extra parking

Dedicated parking isn't a given in the multifamily world. If you offer extra parking, you might have a profitable property amenity on your hands. You might choose to include the cost of a parking space in the rent, but you might also make it optional. Residents without vehicles will appreciate not having to pay for a space they don't need, leaving you with ever more opportunities to provide affordable parking for those who need it. Renters with valuable, vintage or multiple vehicles will be especially appreciative.

### 7. Pay-per-use pet washing station

If there was ever an easy opportunity for a profitable property amenity that saves pet owners time and money, this is it. Let pet parents wash and dry their furry friends for a small fee at an all-in-one pet wash station. You can either charge for access to a dedicated room in your building or provide a wash station that accepts credit cards. Offering this amenity will satisfy residents with pets and emotional support animals by allowing them to avoid the mess and hassle of washing and drying their pets in the bathroom.

### 8. Recreational activities

Even if you provide free-to-access property amenities like basketball, tennis and pickleball courts, there are ways to make them profitable for your community. Use the courts for resident engagement and community building. Host tournaments with a small buy-in for each team. Once you know what your residents like to do recreationally, capitalize on it by improving their renter experience and generating a little extra income for the property.

As always, survey your community before adding new property amenities. Find out what your residents are willing to pay for, then set out to make those amenities worth the cost.



*Max Glassburg is a senior marketing writer at Yardi. He is usually found writing blog content for Yardi Breeze and especially enjoys connecting with clients and sharing their successes with the real estate community. In his spare time, he is probably working it on the guitar.*



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# ‘Bidenomics’ is a Marketing Term

By Veronique de Rugy




*Photo credit: Jon Tyson at Unsplash*

Politics is sometimes little more than marketing. As evidence, behold the sudden use of the term “Bidenomics” by Democrats to describe administration policies of the past few years. Indeed, what’s being branded as “new” is nothing but the same old program of big spending, big regulations and big cronyism. The only difference is that it’s on a much bigger scale. The administration will need all the marketing it can get to sell these ideas, especially to a public that’s been giving it approval ratings in the thirties. But no marketing effort should distract us from the economic realities of the past two years.

Begin with Bidenomics’ hallmark: record spending. The president likes to claim he’s cut the deficit, but his allies in a unified Democratic congress have enacted $5 trillion in new spending over the decade. In an old-fashioned move, they have put most of it on Uncle Sam’s credit card rather than engaging in the politically unpopular move of paying with new taxes and spending offsets. As a result, annual budget deficits will grow over the next 10 years to around $3 trillion. For perspective, remember that just before the pandemic, the annual deficit was around $1 trillion.

This is no partisan argument. Looking at the spending trajectories under different presidents and Congresses, one realizes that this has been going on for a long time. Each administration and Congress irresponsibly outspends its predecessors, and each kicks the can down the road for future generations to deal with. This includes Republican presidents like Donald Trump and George W. Bush. Yet, this president took it to another level with an over-the-top embrace of the fiscal irresponsibility of the $2 trillion American Rescue Plan, which turned modest post-pandemic inflation into a 40-year inflation record.

If Bidenomics is about building up the middle class – as the president claims – it isn’t cutting it. Since 2021, real wages have fallen every month. Unsurprisingly, the fight against inflation has raised interest rates and mortgage rates, putting pressure on millions of household budgets.

And while Bidenomics has allegedly created some 13.4 million new jobs, this number should be taken with a grain of salt. Most are what David Stockman, one of former President Ronald Reagan’s budget directors, calls “born again jobs.” That’s because they aren’t actually new – they are simply the product of reopening the economy after the terrible COVID-19 lockdowns. Many of the remaining jobs were created by the same inflationary infusion of cash that overheated the economy. This is nothing to brag about.

While few people (other than rabid ideologues) deny that most of the inflation surge was created by Biden and Congress’ extravagant spending, some of it was the result of a continued comfort with constraining the available supply of goods and services. Take, for instance, the administration’s early support for COVID-19 lockdowns and mandates coupled with its refusal to remove the Trump-era tariffs that were helping to keep prices elevated.

Further contributing to high prices is Biden’s reversal of Trump’s productive regulatory reforms and imposition of additional regulations. These include new environmental standards along with additional restrictions on the supply of energy and health care.

## 'Bidenomics' is a Marketing Term Cont.

A Hoover Institution study of Bidenomics looked at the impact of taxes, regulations and spending. The authors found that "in the long run, Biden's full agenda would reduce full time equivalent employment per person by 3 percent, the capitol stock per person by about 15 percent, real GDP per capita by more than 8 percent, and real consumption per household by 7 percent." Meanwhile, the failure to reform immigration and address the crisis at the border deprives the labor market and employers of the additional workers they need to produce more.

There is one area, however, where Bidenomics has been extremely successful: favoritism. The administration's industrial policy has aggressively subsidized preferred industries such as semiconductors and electric cars, sheltered special interests from the accountability of consumers through mandates and bans, and boosted the fortunes of its union friends. Most of this took place under the cover of reviving the manufacturing sector and making long-term investments in sectors vital to our national well-being – and, of course, competing with China. As The Wall Street Journal's Andy Kessler noted, "All that's missing from his 'new Washington consensus' is Soviet-style Five Year Plans."

Bidenomics will make a few fat cats happy, but the result will be higher prices, slower growth and fewer jobs. The rest of us will be left with a sour taste in our mouths, slimmer pocketbooks, and heightened worries for the future.



*Veronique de Rugy is the George Gibbs Chair in Political Economy and a senior research fellow at the Mercatus Center at George Mason University. To find out more about Veronique de Rugy and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate webpage at www.creators.com.*



# The Manufactured Home Industry Must Fight Back

By CJ Dees, PhD



Humans have a natural drive to fight and to overcome, but recently the manufactured home community has lost that drive! We have become an industry with no backbone and little initiative to fight for meaningful representation as a valuable and affordable housing provider. Media outlets, non-profit organizations, and city governments run roughshod over us because we let them! Many of us have taken on the mindset that if we hide in the basement long enough, the misrepresentation of manufactured home communities will go away on its own. Unfortunately, the opposite has happened, and due to our lack of will to voice our own value has saddled us with poor public opinions towards our business models and has encouraged our opposition to become even more aggressive. We have to take a stand, unify our message, and represent our value through every social media and local government avenue that we have access to, in order to fight back.

There are several factors that we need to address in order to create a unified front for representation:

- Currently, we are fragmented. That is the truth of the situation. As it stands, no one representative is able to voice the needs and concerns of the roughly 40,000 moms and pops and upwards of 100 institutional investors that make up our community.
- Many of us are unaware of the actual laws and regulations that affect us, such as "Grandfathering," Rent Control, etc. which prevents many from building the required knowledge base for self-advocacy and self-representation.
- Media "shaming" has caused many to avoid publicity, as manufactured home community owners are afraid of negative press.
- Positive press is not created or facilitate by industry associations. We have the ability to create as much positive press as we want, but too often, too many leaders wont even address false attacks, such as those of comedian John Oliver in 2019. Knowing that at the minimum we all have the ability answer criticism, post photos, or tell stories, and that we are not even doing that is just a shame.

Reading through the issues above, if you like many others, feel the arguments made by our opposition actually do hold solid weight, you should take your time reading the next few bullet points. The talking points below provide solid counter arguments to the outright false information being used to lobby against manufactured housing.

- Redevelopment of areas into permanent housing facilities (such as apartment buildings) increases the renter's living expenses by nearly 4 times that of the rental cost of mobile home parks. – the survival of the product is via sustainable market rents.
- Rent control accelerates redevelopment and only serves to hurt consumers, not help them. Landlords lose all

incentive to make repairs and improvements due to negative or low return on investment levels.

- Grandfathering laws protect virtually all rights to re-fill vacated lots.
- Mobile home residents can 1) have another park owner pay to move their home to that park, 2) sell their home, or 3) retain and rent their home. That's one more option than any condo or stick-built homeowner has, not one less. They are not "stuck"!

I want to be clear about this next part. We are not doomed to continue to endure this beating from media and misinformation, but we are in a rut, and we MUST do something to get out of it! I've taken the time to list a few simple actions that each and every one of us could take within our communities, which will produce a positive impact and work to salvage our reputations from their disparagement.

- Stop hiding! Start replying when the media unfairly criticizes you or the industry. Frank Rolfe's weekly industry news review shows how he engages with the opposition and misinformation in publicly. He is "snarky" to put it pointedly, but he expects to bait an argument. If you don't want to have the public coming back at you for round 02, just be polite and rely on facts and regulations, but at least try to engage when you see a false statement.
- Reach out directly to your political representatives and let them know the truth about our industry. Otherwise, MHAction or other tenant-led groups will continue to lobby their agendas about apartment living. Be the squeaky wheel and get our wheels some grease!
- Join your state association (MHA) and participate. Speak up at Board Meetings!
- Start advertising the great aspects proactively through formal public relations and on social media. We are the only ones who can provide visibility to the true story of the average American as well as promote the positive impacts the industry is responsible for.

We are a STRONG industry with a weak public relations effort. By not taking individual responsibility to fight for our voice, we have allowed ourselves to get into this mess, but the key point is that we all – every one of us – must put a foot down and start taking control. If we refuse to even represent ourselves, the end result will be more loss of our rights and rent controls. Start Today!



*CJ Dees, PhD*
*A multi-talented freelance writer with a diverse background and a passion for words. Experienced in social media marketing and professional blogging, he has learned to craft his unique insights for a multitude of audiences. An Air Force veteran and current Federal employee, his discipline and dedication are reflected in his writing. Cody is a savvy real estate investor and entrepreneur, always seeking new opportunities. His words not only inform but also inspire, making him a sought-after voice in the worlds of business and content creation.*



# 6 Trigger Words and Questions Every Landlord Should Listen For

By The Editors and David Pickron



Trigger words and questions from potential tenants and rental applicants that every landlord should listen for and consider.

You can hardly turn on a television or read a newsfeed where you don't encounter the term "trigger words." While there are some universally accepted trigger words, like racial or ethnic slurs, most people or groups have their own unique lexicon of words that send them immediately into orbit. Our industry is no different, and over the years the way we identify the players in our game have even fallen victim. In many circles, "landlords" are now more generically referred to as "housing providers," while tenants are now more often called "residents."

As a landlord (I can call myself that because I am one) for more than 20 years, I have encountered thousands of applicants who are looking to rent my property. In looking at them as a potential "business partner," I engage several of my senses to get a read on what kind of potential partner they might be. More important than anything, I listen closely to the questions they ask as we tour the property. The following is a list of the top trigger words or phrases that every landlord, old and new, should intently listen for to ensure they are getting the best possible read on a person for their property and partnership.

Disclaimer: Being presented these questions doesn't always mean the applicant is a definite no-go, but it should put you on notice. Always make decisions from your detailed criteria.

### 1. Are you going to perform a background check on me?

Has an innocent person with nothing to hide ever asked this question?

The likely answer is no. Why would they?

If I have no criminal background history, then I have nothing to fear; run all the background checks you want. As an applicant, if I have something in my past that I am trying to keep from you as my potential landlord, I'd rather know up front, so I don't waste time or money on trying to qualify for

your property. If this question ever comes up, now is the perfect time to introduce your rental criteria. Let the applicant know that you have a standard criteria and that these rules are applied evenly and fairly to all applicants. It's easier to let the criteria work for you in showing exactly where the standard is for qualifying for your property. Make sure the criteria are clear in defining exactly what you are looking for when it comes to disqualifying criminal history. And if you don't have a criteria, consult with your attorney or local experts to ensure that what you are doing in regard to background checks is legal. We have a great detailed sample criteria we would love to send to you. Just email info@rentperfect.com

### 2. Do you require a deposit up front?

I can't tell you how many times I've heard this question, or one similar to it.

I've been asked to spread out a deposit over a few months, or even the entire term of the lease. Whatever form it comes in, it puts me on alert. Why? Because it usually indicates that money is tight and that I may not be a priority when finances are stretched thin. When a medical bill or car-repair charge hits a tenant hard, you may be the last person to get paid, if you get paid at all. Now is the time when you really have to stick to your guns and require that deposit, as it may be the only protection you have moving forward.

### 3. Can I move in immediately?

I've shown properties where the individuals have arrived at the showing with the moving van packed and ready to unload.

This concerns me, as I have to ask them why they are needing to move so quickly. Did they just get evicted? Did they leave their last residence in the middle of the night to avoid being seen by their landlord? Granted, there are times when an applicant just suffered a devastating loss by flood or fire and needs immediate housing. Asking follow-up questions on why they need to move so quickly will help you analyze the situation and make the best decision for you and your property.

### 4. How many people can stay here?

While it might seem harmless, this question could lead to more people living in your property than it can accommodate.

When an applicant sees your listing as a 3-bedroom, 2-bath, it's pretty safe to expect it can accommodate up to 6 people. Establishing the maximum occupancy in an applicant's mind lets them know what you expect and consider as "too many" people in the home. This question is often accompanied by "how long can someone stay and still be considered a guest?" Both of these together or individually are cause for you to ask a lot of follow-up questions to determine exactly how your property will be used. Again, clear criteria can protect you in this area.

### 5. How many pets can I have in the property?

Pets are just part of the business and having a firm policy regarding number or type is a great way of protecting your investment. While you don't want a zoo moving in, having a no-pet or one-pet policy is pretty standard. Make sure to require an additional deposit (see point No. a 2) and collect all of it before move-in. It's beneficial to define what is considered a pet and to clearly communicate what animals are and are not allowed in or on the property. I've seen tenants who tried raising chickens in the back yard use the excuse that, a) they aren't pets and b) they never go inside the residence. Along with violating our lease, they also violated the CCR'S of the Homeowners Association and made me subject to a pretty hefty fine with the city. Clarity, especially when it comes to pets, will save you a lot of headaches.

### 6. My current landlord is a jerk

This trigger word lets me know that I just might be the next "jerk".

Most landlords I meet just want to maintain their property value and make money, and keeping tenants happy is an integral part of that game. No one wants to discourage a good, paying tenant who is taking care of the property; ask your applicant why they feel that way. Often, I hear the current landlord will not return their calls. I see a frustrated landlord when this action starts and, in my mind, it always takes two to tango.

There are countless other things to listen for as you meet with a rental applicant; you likely have stories to tell that top my experiences. Listen intently, ask as many follow-up questions as you need, and communicate your criteria and policies clearly. After all, when you are getting ready to turn your keys over to a sizable asset, knowing who you are renting to is critical to your success in this business.



*David Pickron is President of Rent Perfect, a private investigator, and fellow landlord who manages several short- and long-term rentals. Subscribe to his weekly Rent Perfect Podcast (available on YouTube, Spotify, and Apple Podcasts) to stay up to date on the latest industry news and for expert tips on how to manage your properties.*

# 7 Renter Screening Warning Signs That Aren't So Obvious

Source: Adapted from an article by TransUnion

Most landlords know that credit check and criminal record searches are essential for good renter screening. However, there are many other places that renter red flags can pop up during tenant screening. These less obvious renter warning signs include: asking you to skip screening, wanting to provide you with their own credit report, moving house too frequently, job hopping, long gaps in employment, being in a hurry to move in, and providing missing or inaccurate information.



Learn how to better spot these warning signs below.

Some renter warning signs are as obvious. Frequent evictions, a history of relevant crimes, and lack of income might stick out like an over-sized elephant wearing a red flag for a hat. However, not every potential threat is so easy to see. Some of the most potentially destructive tenant warning signs are tiny by comparison – and shockingly simple to overlook if you're not prepared.

According to the data-science journal PNAS, an average of 2.7 million eviction cases are filed every year, which is about 7% of all filled units. That may seem like good odds. However, with court fees, lawyers, damages, vacancies, lost rent, and repairs, the cost of an eviction can reach $10,000 easily.

Could your small property business absorb this gargantuan hit? Probably not. That's why it's so important to pay attention to the warning signs below and thoroughly screen your rental applicants with a trustworthy provider like AAOA.

### The Big Three: Criminal, Credit, and Eviction Reports

Before delving into the less obvious renter warning signs, it's essential to first cover the basics:

### Understand your Renter's Criminal Background

A criminal background check is crucial to help discover if your applicant could harm your rental property or neighborhood. Not all criminal records may be deal breakers, but it's absolutely essential to know about any relevant criminal convictions, such as violent felonies, that could put your other tenants, neighbors, or property at risk.

A criminal record report typically shows someone's past history with the law. However, not all reports are created equally. It's important to know how in-depth your chosen provider goes.

For example, an AAOA criminal record check for renters scours nearly s 370 million federal and state-level criminal records to find a match for your applicant and can provide detailed results in just a few minutes. Revealing the details of your tenant's past can help you make more confident leasing decisions.

### Go Beyond a Traditional Rental Credit Check

Most landlords already know to run a credit check on rental applicants. Credit reports are a long-standing way landlords assess how a potential renter usually handles debt and financial obligations. According to a AAOA user survey, 90% of landlords feel they have a good understanding of what credit scores mean. However, not all landlords know that credit reports aren't always the best predictors of paying rent on time.

A generic credit score measures someone's general credit-worthiness and is best for things like home or car loans. Designed specifically for rental industry, AAOA's credit score is built to predict negative outcomes of a lease better than a generic score. An AAOA credit score looks at a typical lease term of 12 months and is designed to predict the risk of bad tenant-related outcomes during that period: Evictions and 3+ late payments and Insufficient funds. A low score generally indicates that the tenant is less likely to make his or her monthly payments on time. This information can help you make better decisions.

### Uncover Previous Evictions

People with a history of eviction are three-times more likely to have additional eviction-related events and rental-related collection records as non-evicted residents. This means, a past eviction can be a predictor of a future eviction. As an independent landlord, it's essential to understand your rental applicant's past.

Because of the high risk, many landlords delve into rental track records. Learning more with an eviction report from a qualified provider like AAOA can help you make more informed decisions and decrease the likelihood of an expensive and destructive eviction process in the future.

**Watch Out for These Hidden Renter Screening Warning Signs**

You've read over the reports listed above and you should be ready to hand over the keys, right? Not quite. Beyond the obvious warning signs on tenant screening reports, there are several more subtle red flags that could devastate your rental business if you're not careful.

As they say, "the devil is in the details." If your detailed review turns up a tenant who falls into any of the categories listed below, you may want to take a closer look.

Here are some additional warning signs to look out for:

**1. Asking You To Skip Formal Tenant Screening**

Ok. This one is somewhat obvious. Any applicant who insists you don't need formal tenant screening should raise major red flags. Often these applicants are in a hurry to move. They want to sign a lease right away and may try to rush you or stress you out with a sob story.

It can be tempting to move someone into your unit quickly to prevent costly vacancies. However, asking to skip screening could be a sign that your applicants may be hiding something that will potentially destroy your rental business.. . To ensure your applicants meet your screening requirements, always run a thorough tenant credit report, criminal history check, and eviction check before making any leasing decision. A vacancy can be expensive, but an eviction is always worse.

**2. Wanting To Provide Their Own Credit Report**

You may come across an applicant that wants to give you their credit report directly, instead of letting you get your own copy. At first, this could seem fine or even thoughtful. After all, maybe they recently got one for a loan or for work and they might not want another inquiry on their record. Accepting their report may seem like one less hassle and expense for both of you.

However, think twice before accepting a credit report directly from an applicant. The information may be outdated, inaccurate, or even completely fabricated. Paying the modest cost of a tenant background check is nothing compared to the burden of eviction proceedings.

Let your applicant know that you run your own background checks. Always obtain a report directly from an FCRA-compliant provider like AAOA. Pro tip: Be sure to remind the applicant that by doing a credit check for rental screening, their credit score will not get dinged, as these checks result in a "soft inquiry" that does not impact a tenant's credit score.

**3. Moving Too Often**

Does your rental applicant have a history of moving around a lot If so, it's time to take a closer look and find out why. Do they move frequently for work Do they move because of issues with their landlord or rent payment.

Any applicant who blames moving frequently on their prior landlords should inspire extra caution. If they move frequently for work, they might skip out on your lease early, too. Consider requiring a fee for breaking the lease and a minimum of 30 days' notice for leaving early. Have all policies clearly written out in the lease terms.

**4. A History of Job Hopping**

Someone who changes jobs frequently may also need to change location frequently. This means breaking the lease early and potential vacancies for you. Additionally, someone who frequently changes jobs may be unreliable or have unstable income, which could mean late payments or even non-payment. While it's true that a tenant may still have stable income even with frequent job changes, it's crucial to verify their employment and other relevant references. You can also use LinkedIn to help verify your applicant's employment history.

**5. Long Gaps In Employment**

Perhaps they took a gap year after school to travel, or they were a stay at home parent. Long gaps in employment could be nothing – or they could be part of a harmful pattern that could mean big trouble. Double check to make sure the applicant has a valid explanation for long gaps between jobs. The last thing you want is a tenant with unstable income.

**6. In A Hurry To Move**

An applicant that's in a big hurry to move could be a warning sign. While there may be perfectly harmless reasons why someone wants to sign quickly, be sure to ask your applicants why they're moving and to get an eviction report on your applicant to check their rental history.

**7. Missing Or Inaccurate Information on Application**

An applicant who only partially fills out a rental application should prompt you to ask follow-up questions. Then, if your applicant's self-reported information clashes with what you discover on tenant screening reports, think long and hard e before signing a lease. For example, if a tenant tells you they have no prior evictions but you find an eviction on their screening report, you may want to take that factor into consideration when making your decision.

*A small omission on your renter's application could be an innocent mistake or it could be the sign of a potential scammer who wants to make you their next victim. Help discover if your applicant's actual record matches what they put on the application with a criminal background report and an eviction check. Meanwhile, a tenant credit check helps reveal if your renter really has the glowing financial track record they claim. Designed for independent landlords, AAOA provides flexible options that help you get only the reports you need.*

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# Don't Overlook Non-owned Auto Exposures:
## How Employers Can Manage Risks When Employees Drive Personal Vehicles on Company Business

By: Arch Insurance Company



**Non-owned auto liability claims can cost employers a significant amount of money. Risk managers need to take a proactive approach.**

It may seem like a casual request. A manager leaves to get materials for a repair or sends an employee out on a company errand like a bank visit or post office stop. In all these situations, an employee takes their personal vehicle and the company is at risk for a liability incident.

Employees in all different types of industries regularly use personal vehicles for company business. Most companies offer employees who regularly need to use their personal vehicles for work-related tasks a monthly allowance or mileage-based stipend to help offset the costs of owning, maintaining and procuring insurance for that vehicle.

The practice is common, yet many employers don't consider the liability risks of allowing or even requiring workers to use their personal vehicles for company business. Should a worker have a covered at-fault accident, the driver's personal auto liability insurance policy will cover property damage and injuries to the other party up to the limit of liability insurance purchased by the worker. After that, the employer's commercial auto policy will typically respond, since the vehicle was being used in a business capacity. Most commercial auto liability policies are written to provide coverage for "any auto," or all "owned" "hired" "scheduled" and "non-owned" vehicles. The intent is to ensure that the employer has coverage in place concerning any vehicle used in their business.

"One severe liability accident can result in millions of dollars in loss," said Greg Stefan, senior vice president of Risk Control casualty with Arch Insurance. There are no longer an unrealistic verdicts in a severe auto liability case, as evidenced by a recent $1 billion verdict out of Florida, one of the largest in the history of the country. **Employers need to manage every vehicle and every driver operating on their behalf, which includes all owned vehicles as well as personal vehicles used for business purposes.** These risks, known as non-owned

auto liabilities, can leave a business vulnerable to severe litigation, increasing commercial auto rates and jeopardizing a company's viability.

### The Scope of Non-owned Auto Usage

Employees have long used personal vehicles to complete work-related tasks. But with the prices of commercial auto insurance policies forever increasing, some employers are transitioning away from company-owned vehicles toward employee-owned ones. "More and more employers seem to be making the choice to get out of the business of owning vehicles and simply reimbursing their employee drivers to use their personal vehicles for company business," Stefan said.

An employer who reduces its total vehicle count in favor of placing drivers on allowance in their own personal vehicles may have an up-front reduction in total premium due to the lower vehicle count. However, if not properly managed, the back-end result of severe liability claims involving these personal vehicles can have a lasting impact on their insurance program.

If a worker has an accident that causes damages in excess of their personal auto liability policy limits, the claim against their employer's commercial auto liability policy can still dramatically push up commercial auto rates. In some severe cases, plaintiffs' attorneys accuse employers of gross negligence, leading to punitive damages that may not be covered by an insurance policy.

"Many employers don't understand that they are not reducing their liability simply by removing a company vehicle and having an employee drive their personal vehicle for business purposes. In fact, depending on the circumstances, they may exacerbate their liability," Stefan said.

### Non-owned Auto Liability Risks

The risk of a claim from a non-owned vehicle exceeding an employee's personal policy limits is high in today's claims environment. The cost of auto claims has increased over the past few years as vehicles have started to include more sophisticated safety technologies that cost more to repair or replace if damage occurs. Losses can be so extreme they exceed the driver's personal auto limit and the carrier's primary limit, pushing costs into the excess layers of insurance.

If that wasn't bad enough, employers may find themselves charged with gross negligence. For example, a plaintiff's attorneys may allege that a business owner knew about an employee's poor driving record and failed to prevent them from driving for the company in a non-owned vehicle.

"Consider how a plaintiff's attorney would look at that scenario," Stefan said. "You as the employer knew you had a problem driver due to the poor MVR [motor vehicle record]; you chose to correct that problem by moving the driver out of a company vehicle and putting them on an allowance to use their own vehicle, and then you did not take appropriate corrective or disciplinary actions to manage that driver. This could be the worst-case scenario for the employer, leading to claims of gross negligence."

### Managing the Risks of Personal Vehicle Use

Businesses need to take a proactive approach when employees are driving their personal vehicles for company business. Many employers already closely monitor vehicle maintenance and driving records when employees drive company owned vehicles; they should do the same for non-owned autos.

### Recommendations for Reducing Risk and Losses:

1. Only allow pre-approved employees to use their own vehicles on company business
2. Use Continuous MVR (Motor Vehicle Driving Records) monitoring services on all approved drivers at least 2x/year. This alerts the employer automatically if an employee had an adverse driving incident. Employees with poor MVR's cannot be allowed to drive on company business
3. Have written driving requirements signed by all approved drivers
4. Offer regular employee driver training (15 minute quarterly videos)
5. Limit the types of vehicles and age of vehicles eligible for employee company use
6. Set minimum standards for vehicle upkeep and maintenance
7. Demand zero smart phone usage while driving on company business – employ apps which disable cell phone use while driving
8. Require all employees who drive on company business to have a pre-set minimum amount of personal auto liability insurance coverage –at least $500,000 per incident are recommended



*Greg Stefan is Vice President of Risk Control at Arch Insurance Group. Greg and his team support Arch's underwriting and claims teams in risk selection, claim mitigation, and risk improvement activities. He is also responsible for high-risk liability claim reduction initiatives, including contractual risk transfer, construction defect prevention, and work zone liability management. He regularly speaks at national and regional construction industry conferences, including CFMA's Annual Conference & Exhibition. He is a long-time member of CFMA's Heavy/Highway Committee.*

# Everything Property Owners Should Know About Security Deposits

By Chris Lee





Security deposits can be an important part of renting or owning a property, as it provides protection for landlords against potential damages. Understanding the laws and policies that govern security deposits is essential to make sure owners are meeting their legal requirements and avoiding unpleasant surprises.

**What is a Security Deposit?**

A security deposit is an amount of money collected from tenants in order to cover any potential damages or unpaid rent. Generally, the amount of the security deposit is equal to one month's rent. It is held by a landlord or property manager until the tenancy ends.

**Where Should You Hold the Security Deposit?**

Depending on your local regulations, the funds usually must remain in escrow or a separate bank account. This means they are not available to either party until all conditions have been met.

**How Much is a Security Deposit?**

The amount of a security deposit is generally equivalent to one month's rent. However, the amount can depend on a number of factors. Landlords usually charge higher deposits if they have pets, multiple occupants, a less-than-perfect credit score, or any other identifiable risks. Additionally, landlords may choose to charge different amounts for each tenant in the case of a multi-unit property. It's best to determine the security deposit before signing a lease to ensure you're fully protected if something goes wrong.

Here are a few things you should consider when setting the security deposit amount:

**State Laws**

Although all 50 states allow landlords to take security deposits, many states have a maximum amount you can charge. For example, in Seattle, the total amount of the security deposit and any move-in fees combined can't exceed one month's rent. Most states also require that you give itemized accounts to the renter if you use any portion of the security deposit at the end of the lease term.

In certain cases, having a high security deposit is considered an unfair practice under federal and state fair housing laws. For instance, you can't charge a higher security deposit for families with young children or based on a renter's age, disability, or use of a service animal.

**Property's Amenities**

If your property has a facility that's expensive to repair, such as an elevator or pool, you may want to charge more than one month's rent as a security deposit.

**Competition**
Consider setting your security deposit similar to what other landlords in your neighborhood are charging. In a competitive rental market, if you charge a higher security deposit, you might miss out on a qualified renter who decides to go with a property that has a lower deposit.

Based on these factors, determine a security deposit amount that's neither too high nor too low. A higher security deposit may discourage potential renters who are deciding between your rental and a similar one with a more affordable security deposit. Whereas, if you set a deposit too low, you may have to pay out of pocket if the renter defaults on the lease and vacates early, or if they cause excessive property damage.

**When Should You Collect and Return the Security Deposit?**
Landlords should collect the security deposit before the renter moves in. This will help you reduce your financial risk. Landlords that don't collect the security deposit before the renter moves in may later have to pay for any damages out of pocket. Additionally, you should require the tenant to pay the security deposit in full at the time of signing the lease or before moving in. You should also give them a security deposit receipt and keep a copy for your own records.

Before handing over the funds, landlords are advised to perform a walk-through inspection of the property with the tenant. They should document any existing damages that occurred prior to the move-in. This will help them establish the condition of the rental when vacated for purposes of awarding part or all of a security deposit back to tenants.

Each state has requirements for when security deposits must be returned. For instance, landlords in Seattle have 21 days from the time the lease ends and the renter vacates the unit to return the deposit or submit a written statement detailing why portions of the deposit were withheld. Seattle Department of Construction and Inspections (SDCI) can issue citations or notices of violation to landlords who do not return the deposit within 21 days.

**Are Security Deposits Refundable?**
Yes, security deposits are generally refundable under most state laws. So if the property is in good condition and there's no need for repair when the tenant moves out, landlords have to refund the security deposit to them.

Under Seattle laws, for example, a landlord must refund the tenant's total security deposit if both parties did not sign a move-in checklist when the tenant moved in. However, there are a few conditions in which the security deposit may be non-refundable or partially refundable.

**When Can You Keep a Security Deposit?**
As mentioned, there are a few conditions when a landlord can keep the full amount of the deposit or refund the partial amount. These include:

**1. Lease Break**
Landlords can keep the security deposit if the renter breaks the lease. This includes moving out early or carrying out illegal activities on your premises. So if a renter breaks their lease, you can withhold all or part of the security deposit needed to cover the costs associated with this breach. However, it will depend on the wording of your lease and the particular landlord-tenant laws in your state. Tenants will have to abide by these terms if you have included an early termination clause in the lease they signed.

**2. Property Damage**
Landlords can also retain the security deposit when there's excessive property damage (beyond normal wear and tear). Some examples of such damage include:

- Large stains or holes in the carpet
- Severe water damage to hardwood flooring
- Missing or broken smoke detectors
- Multiple or big holes in the walls
- Cracked or damaged windows
- Broken kitchen or bathroom countertop
- Broken tiles in the bathroom
- Cracked bathroom vanity
- Damaged or broken doors
- Missing outlet covers
- Keys not returned at the end of the lease

**3. Non-Payment of Rent**
Most states allow landlords to keep all or a portion of the security deposit when the renter does not pay their rent. That's because non-payment of rent is considered a breach of the lease. When a renter does not fulfill their contractual obligation to pay their monthly rent, landlords are typically allowed to withhold the portion of this security deposit needed to cover the lost rent.

**4. Cleaning Costs**
Landlords can subtract any excessive cleaning costs from a security deposit before returning it. For instance, if a renter has left garbage all over the place, food in the refrigerator, and several broken appliances throughout the property, then you may be able to retain a portion of the security deposit to

cover your expenditures. You may also be able to withhold a portion of the deposit if a tenant had a pet that used the carpet as a toilet. You can use this amount to cover the cost of cleaning or, if needed, to replace the carpet.

**5. Unpaid Utilities**
You may also keep the deposit if the renter did not pay their utility bills before vacating the property. You can use the amount to cover any utilities they have ignored to pay and were obligated to pay as part of their rental agreement.

What Are Your Options for Using the Security Deposit?

As a landlord, you have the right to use your tenant's security deposit for unpaid rent or property damage caused by your tenant. However, keep in mind that there are restrictions on how you must handle the security deposit when you do use it.

You must first give your tenant written notice of the damages and provide an itemized list of expenses. You must also provide photographic evidence of the damage and give your tenant an opportunity to respond before you can deduct any costs from the security deposit.

When choosing to deduct the amount, you need to provide a full and specific statement explaining the reasons for withholding any portion of the deposit within the state-specified number of days (21 days in the case of Seattle) after the tenant moves out.

**What Are the Laws Regarding Security Deposits?**
Security deposits are regulated by state laws and differ from one state to another. Generally, most states limit security deposits to one or two months' worth of rent, depending on where the rental property is located. It's important that landlords understand the security deposit laws in their area and observe them as required. Penalties for breaking these rules can include paying damages to tenants or having to return the entire security deposit.

**Security Deposits: Landlord Gurus Takeaway**
Landlords should set up a separate bank account for security deposits. This will help you avoid the commingling of funds, protect your personal assets, and create a more professional and credible image for tenants and real estate investors. You can easily create a landlord bank account with **Baselane**, which allows you to create multiple accounts per property. There are no account fees or minimum balance requirements.

You should also document the condition of a unit before the tenant moves in. A move-in inspection checklist will help you to minimize expenses by ensuring tenants pay for the damage they've done to your property. It will also help with avoiding conflicts, including legal battles where a renter claims the damage was done before they moved in.

To send move-out/balance due notices, you can use customizable forms rom EZLandlordForms. The platform offers easy-to-use state-specific checklists and templates that help landlords politely communicate with their renters.



*Chris comes from a family of real estate investors, and remembers well his childhood of helping to prepare apartments between renters. He now manages his own property, apartment complexes, and condos. He has particular insight into the issues around short-term rentals as he manages those for himself and for other owners*

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# Four Innovative Hiring Approaches For Operators Of Manufactured Housing Communities In Tight Labor Markets

By Max Tokarsky



Operators in the manufactured housing communities industry face unique challenges in today's competitive landscape. As owners and operators navigate the complexities of talent management, they must adapt to the changing workforce, leverage technology and find innovative ways to attract, retain and develop their teams. In this article, I will explore practical strategies I have found that can help industry leaders overcome these challenges and thrive in this dynamic sector.

## 1. Utilizing Resources To Optimize The Hiring Process

To ensure a successful hiring process, owners and operators of manufactured housing communities should leverage available resources to improve their recruitment strategies. One approach is to use an applicant tracking system (ATS) that streamlines the hiring process and provides valuable insights into candidate performance.

### PROMOTED

In addition to using a good ATS, incorporating personality job fit assessment tests can further refine the recruitment process. These tests can help a company quickly identify candidates whose personalities are compatible with the job requirements and company culture, which can lead to improved team dynamics and overall performance.

## 2. Implementing Effective Onboarding And Training Programs

Effective onboarding and training programs are essential for retaining top talent and ensuring the success of new hires.

Owners and operators of manufactured housing communities can invest in comprehensive programs that cover industry-specific knowledge, company culture and essential skills. For example, the National Association of Home Builders (NAHB) offers an online course on "Managing Your Manufactured Home Community," which provides valuable insights into property management, legal issues and marketing strategies. By incorporating such courses into your onboarding and training processes, you can equip your team with the necessary skills to excel in their roles.

### 3. Fostering A Culture Of Continuous Learning And Development

One way to achieve a culture of continuous learning and development is by offering employees access to industry-related certifications, workshops and conferences. For instance, the Manufactured Housing Institute (MHI) offers a range of professional development opportunities, such as the Certified Community Manager (CCM) designation, which provides in-depth knowledge of the manufactured housing industry and enhances the professional credibility of community managers.

Another approach involves the development of internal programs that allow individuals at all levels to enhance both tactical and intangible skills. This can be a cost-effective way to promote continued learning by leveraging the power and insights of existing internal resources, like experienced senior staff. For example, I've worked with companies that execute mentorship-like programs designed to help new talent hone important skills they will need before being promoted. Other enterprises schedule regular senior advancement seminars, with peer-led presentations on everything from management techniques to new technologies in the industry.

### 4. Embracing Global Talent And Nearshoring Opportunities

As the global workforce continues to evolve, I believe owners and operators of manufactured housing communities should consider expanding their talent pool beyond local markets.

When seeking out global talent, look beyond the specific job title you have in mind. If you were in the U.S. and needed a construction manager, you'd generally think about someone who came up in the construction industry. When you're recruiting abroad, you might consider someone who has an architectural degree from a top university but could apply their skills to an adjacent industry, like construction.

When looking at résumés, look at those individuals with multinational job experience, even if that experience has always been out of the country or in a different industry. An individual who is familiar with how a multinational project works will be more accustomed to the processes, software and culture; be able to adapt quickly; and may be thinking about new markets where they can leverage those skills. One example I witnessed was when a company hired a highly qualified construction manager based in Mexico. This individual had hands-on experience managing construction projects for a large multinational chain store operator. The construction manager's expertise in design and project management proved invaluable to the company's expansion plans, resulting in more efficient construction processes and higher-quality housing communities. And because he only traveled to the U.S. for site visits and collaboration with the U.S. team, the company realized significant savings on employee compensation without compromising the construction manager's standard of living.

Also, for smaller companies, think big! Having the opportunity to work internationally with foreign counterparts is often highly appealing to even long-tenured, senior-level talent. Don't assume they won't work for you! A smaller firm can shoot way higher than they would imagine shooting in the U.S. I witnessed another success story that involved hiring a comptroller based in Mexico who had previous experience managing the finances of a multinational company. This hire proved to be a game-changer for a small real estate company operating in the manufactured housing community space.

### Conclusion

As the manufactured housing communities industry continues to evolve, I believe owners and operators must adapt their talent management strategies to stay competitive. By utilizing resources to optimize the hiring process, implementing effective onboarding and training programs, fostering a culture of continuous learning and development, and embracing global talent and nearshoring opportunities, industry leaders can attract and retain top talent, drive innovation and ensure the long-term success of their businesses.



*Max Tokarsky, CEO at Aleph Integrated. Building a world where talent and hard work can transcend borders. Read Max Tokarsky's full executive profile here.*

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# How to Dispute Unfair Property Assessments in Six Steps

By James Johnson




## Multifamily owners can avoid excessive property taxes by being prepared with the right research and documentation.

Property tax systems vary from state to state across the country, with differing procedures in each assessor's jurisdiction. Complicating things further, the personalities of assessors and their staff influence the way they interact with property owners or their agents.

It is the responsibility of the property owner or their agent to learn and adapt to the procedures and behaviors at work in their assessor's offices. However, there are universal preemptive steps that property owners in any jurisdiction can take to combat excessive valuations. These property-specific action items and best practices can significantly increase the chances of a successful valuation protest.

### 1. Document Property Financial Statements

In most appraisal systems, income-producing apartment property will be valued using the income approach. Arguably the most important pieces of information the apartment owner can present in protesting assessed values are the property's rent rolls and profit-and-loss statements. The timely preparation and completion of these documents prior to a protest is essential to any discussion of fair market value. Key line items such as potential gross income, vacancy and collection loss, and net operating income can assist in negotiating lower assessed values. Market rent, in-place rents, and occupancy are key indicators on a rent roll and should be shared with assessors, in most cases, to help them determine how a property is performing.

### 2. Conduct Market Rent Surveys

Collaborating with property managers to finalize market rent surveys can provide extremely valuable evidence to discuss with the assessor. Most jurisdictions rely on general market data to compute values across the submarket. Market surveys specific to a property typically entail more reliable data and can be used to strengthen the property owner's market value analysis.

### 3. Vet Comparable Sets

In addition to a market value analysis, many jurisdictions allow taxpayers to present an equity argument. In an equity claim, property owners or their agents will be looking at assessed values of the subject property's set of comparables, which are similar properties in the area that can provide reference points in determining market value. If the appraiser's list of comparables contains apartments not found on the market survey, the taxpayer will have a good reason to request that those be removed from the set being discussed. This strategy

is valuable when an appraiser or assessor is using higher-class apartments in the subject property's submarket, thereby inflating the equitably assessed value.

### 4. Document Deferred Maintenance and Bids

An argument often heard during valuation protests is "my property has deferred maintenance, and therefore should be valued at a discount." This argument will be more likely to succeed if the taxpayer validates their assertions using contractor bids, pictures, or some proof of the amount of maintenance that needs to be done. Obtain bids before the valuation date, detailing work that needs to be done, including the cost of materials and labor. Also before the valuation date, document damages with pictures, if possible. Following this advice will differentiate the subject property from a long list of others claiming deferred maintenance with no support for the cost of repairs.

### 5. Learn Relevant Tax Laws

Property owners should educate themselves about the property tax system in their property's state and specific jurisdiction. Deadlines play a very important role, so make sure to meet and understand them. Missing a deadline can forfeit the opportunity to contest an assessed value, precluding relief for an excessive appraisal. Property tax laws and local regulations can be daunting, and the avenues that lead to success can be easily overlooked. In some situations, the property owner will want to speak with a local property tax professional to explore available options.

### 6. Build and Maintain Assessor Relationships

It is important to realize that the assessor assigned to a protest will likely be someone the taxpayer will be interfacing with throughout the valuation process and potentially for the entire term of property ownership. Integrity and honesty in every interaction with the assessor will help to establish trust and strengthen this relationship over time, which will benefit the taxpayer in the long run. The simple act of beginning a dialogue with the assessor early in the protest process can increase a property owner's chances of reaching a timely and successful settlement.

Advance completion of financial statements that could support a tax protest should be an annual priority for any property owner, as this data is invaluable in arguing for a lower assessment. While this sounds like a routine process for most property owners, the assessment timeline is different in every jurisdiction and may not coincide with your typical year-end financial audit. Finalizing market rent surveys and collecting bids for deferred maintenance will add to the chances of success. Learning the property tax rules and deadlines affecting the property, or having an educated team versed in the state or local market, will directly impact success. Finally, building long-lasting relationships with assessors based on openness and reliability is not only common courtesy, but can make assessors more receptive during the appeal process, and therefore increase the likelihood of achieving desired results.

*This article originally appeared in Texas MultiFamily & Affordable Housing Business, March/April 2022, and is reprinted with permission of the publisher, France Media, Inc.*



*James Johnson is a senior property tax consultant in the Austin, Texas, law firm, Popp Hutcheson PLLC, which focuses on property tax disputes and is the Texas member of American Property Tax Counsel, the national affiliation of property tax attorneys. james.johnson@property-tax.com.*

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# How to Prevent 3 Common Landlord/Tenant Issues That Often End Up in Court

This article originally appeared in the American Apartment Owners Association's RENT Magazine

**You've taken all the right steps to find and vet your new tenant by running a thorough background screening report. You even asked for pay stubs and income tax returns. Everything checked out and you are looking forward to a pleasant, long-term landlord-tenant relationship.**

**But even the most cautious landlord can end up in a dispute with a tenant only to find themselves in court with a time-consuming and costly lawsuit.**

We've rounded up 3 of the most common issues that can disrupt an idealistic relationship along with suggestions on how to avoid them.

The most important thing to remember is the power of communication between you and your tenants. Most potential disagreements can be avoided with an honest exchange between the landlord and an unhappy renter.

### 1. Late or Nonpayment of Rent

It's not surprising that monthly rent is the most common subject of all landlord-tenant disputes. This conflict begins when the tenant starts to make late and/or partial payments or not pay any rent at all. Or they might write checks that "bounce" or blame a "lost" payment on the USPS.

Another ruse is to say that a credit card payment has not been processed properly. To avoid this excuse, many landlords now require their tenants to pay rent via a money transfer to a bank account set up for that purpose.

Sometimes, the tenant will begin to make partial rent payments or stop paying their rent completely in protest should their landlord fail to make repairs or perform regular maintenance.

***How to avoid a dispute:***

When signing a lease, be very clear as to when the rent is due and how many days, if any, you will allow as a grace period. This information should appear in the lease and also be discussed verbally so that there is no mistake as to your requirements or the penalties for late or unpaid rent. Confirm that the tenant completely understands these terms.

Of course, an unexpected financial issue or an emergency may temporarily make it difficult for a tenant to pay on time or in full. Be understanding, but do not allow a tenant to take advantage of your kindness and work out a rent repayment plan they can sign off on.

### 2. Security deposits

Two major issues between the landlord and tenant concern the security deposit. They center around the landlord not returning the deposit in a timely manner at the end of the lease or the tenant receiving only a portion of the deposit when they feel they should receive the entire amount. Disputes about the return of security deposits almost always center around the subject of damages and to a lesser degree, unpaid rent.

In the past, tenants paid the first and last months' rent when they signed a rental agreement and that payment doubled as a security deposit. These days, a separate amount, usually equal to one- or two-months' rent, is paid as a security deposit and is held in a special account.

Many municipalities require the landlord to deposit the money in an interest-bearing account with the interest paid to the tenant when they move out.

Since laws regarding these deposits vary greatly by state, be very sure of the regulations where your property is located. Here are some examples:

| California | Connecticut | Delaware |
|---|---|---|
| A landlord can only legally hold two months' rent as a security deposit and three months for a furnished rental property. | You can ask for two months' rent but for tenants 62 years of age or older, only one month. | Allows one month for leases with a term of one year or more. |
| And in some states, there are no limits as to how much a landlord may require as a security deposit (or a pet fee) as long as it is clearly stated in the lease agreement. | | |

**After the tenant has vacated the premises, you, as the landlord, may use the security deposit to make deductions for:**

- Unpaid rent
- Costs of damage caused by the tenant's failure to comply with their obligations as a tenant but not those considered to be standard wear and tear
- Carpet cleaning requiring more than a common vacuum cleaner (e.g., shampooing, cleaning or replacing the carpets, etc.)
- Labor cost for cleaning and repairs by you at a fair rate

Again, states have specific laws governing the return of security deposits. Educate yourself on those that apply to your location and share the information with your tenant at the time the lease is signed.

***How to avoid a dispute:***

Some tenants think that they can use the security deposit just to cover rent, but that is not what the security deposit is for. Again, you must be aware of your local laws concerning security deposits and make sure that the tenant is informed of the stipulations regarding them.

To avoid disagreements later, do a walkthrough inspection with the tenant before move-in and make a list of any existing problems. You can use AAOA's free move-in/move-out checklist. Both parties should then sign the list.

Take pictures of the property during inspection and again when they move out to illustrate why you are withholding any security deposit funds.

If all or part of the security deposit is being withheld, be sure to document what you used the funds for. Keep any receipt for supplies you had to buy or labor you hired to fix the damages.

### 3. Pet Deposits and Pet Rent

A pet deposit is a payment made to the landlord to cover any potential damages to the property caused by a pet. The property manager must return the pet deposit once the lease ends, just like a security deposit. They can, however, keep a partial or complete portion of the pet deposit if they find any pet-related damage to the property.

Note: Property managers cannot charge a pet deposit for service animals under the Fair Housing Act. This ruling overrides the landlord's normal lease policies on pets.

In addition to the pet deposit, pet rent is an add-on fee to your monthly rent. Property managers may charge anywhere between $50 and $200 pet rent to cover the cost of having pets on their property. This add-on fee is not refundable.

***How to avoid a dispute:***

It is very important that you prepare your rental for a pet to move to avoid future problems.

1. Take date-stamped pictures of the property.
2. Fumigate the property, especially if the former tenant had pets.
3. During the move-out walkthrough, note any damage done by the former tenant's pet(s) and take pictures that can be used to back up your decision.

Bear in mind that you must legally refund the pet deposit in full unless there is damage caused to the property by the animal.

### Conclusion

To avoid conflicts, clearly communicate lease agreements, payment due dates, and grace periods, and ensure tenants understand local laws regarding security deposits. Always do a thorough inspection with the tenant before move-in and keep detailed records of any damage to avoid misunderstandings when withholding security deposit funds. By implementing these strategies, landlords can prevent disputes and build long-term relationships with tenants.



*Nancy Abrams has enjoyed a long career in real estate marketing throughout Southern California and Las Vegas. She formerly represented 19 Merrill Lynch Realty branch offices, property managers The Roberts Companies, new home developers, including master planned communities Peccole Ranch and The Valencia Company and shopping centers for Sandy Sigel of NewMark Merrill.*

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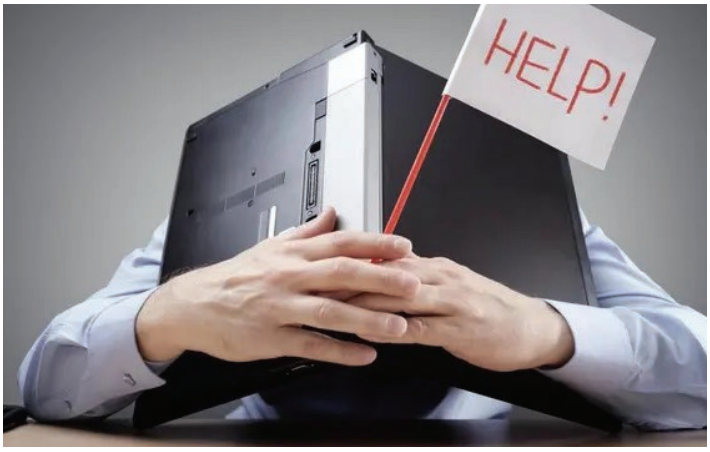
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# How to Solve Your Biggest Asset Management Struggles

By Ebby Bowles




Due diligence, capital expenditure (CapEx) and renovation projects, and budgeting are persistent line items on every asset manager's, acquisition director's, and owner's to-do list. But, they're not always (read: pretty much never) the easiest processes to undergo.

Let's talk about how technology can help you streamline these everyday multifamily tasks so you can spend less time on the nitty-gritty and more time on the big picture of your portfolio.

## Tackling Asset Management with Technology

If you only remember one thing from this article, let it be this: Technology-enabled solutions are created to make your day job easier, not add to the headache of "Ugh, one more software to roll out to our teams?!"

If your current systems make you feel that way, it's not you—it's them.

Let's dive a little deeper into what these processes might look like for you currently and the specific ways the right technology can make them so much more efficient.

### 1. Streamline Due Diligence for Efficient Inspections

Acquiring a new property can be a really exciting time. Unfortunately, it can also be a really stressful time. Due diligence often involves multiple stakeholders, extensive documentation, and tight timelines. Accurate, fast information is essential to sealing deals quickly and favorably.

Unfortunately, traditional inspection methods relying on manual inspections and fragmented data collection lead to delays, errors, and incomplete information—and it's the worst time for nasty surprises.

**The Solution:**

Mobile-friendly tools designed to streamline unit and property walk inspections provide a single place for teams to store high-quality documentation and photos. These solutions can generate real-time dashboards and detailed, aggregated reporting to give you all the insights you need to get the best deal possible.

### 2. Enhance Capital Expenditure and Renovation Project Management

Efficiently managing capital expenditure projects and renovations can be a nightmare. With so many internal stakeholders, external vendors, and moving pieces, CapEx projects can feel more like a juggling act than an asset management project.

Without proper oversight and communication, CapEx projects can easily go over budget, get delayed, and thus increase vacant unit days—creating a negative impact on NOI.

**The Solution:**

Spreadsheets are no longer going to cut it. Your teams need dynamic, collaborative tools that provide full transparency over their project portfolios. Ideally, these solutions would include automated workflows, approvals, and notifications so that your capital projects can get completed quicker, without everyone needing to approve each minor step.

### 3. Budget Effectively for Long-Term Success

Everyone in multifamily knows that budgeting season is often a mad scramble, and most of that chaos comes from getting all stakeholders aligned on an accurate picture of current finances that lines up with long-term organizational goals.

On top of that, market fluctuations, evolving regulations, and unexpected expenses can significantly impact the financial viability of multifamily properties. Without accurate budgeting and forecasting, it's almost impossible to make informed decisions that will optimize financial performance. And, while spreadsheets can track budgets, their capabilities are limited—you don't get any version control, and nothing is automated—making budgeting a total slog.

**The Solution:**

Portfolio budgeting software can leverage historical data analysis and scenario planning to create accurate and realistic budgets. These tools enable faster builds, easier approvals, earlier identification of potential issues, and the ability to pivot

strategies in response to changing market conditions. Plus, they're a heck of a lot more intuitive and easier to manage than a spreadsheet file getting passed back and forth within your team.

### The Bottom Line: Do Better Than Spreadsheets

To reiterate: Technology is ever-evolving, and multifamily owners and PMCs who are early adopters of innovative solutions will rise to the top of the industry. These solutions are designed to make your day job easier, not add to the headache of change management and disparate software systems.



*Ebby Bowles, Content Marketing Manager*

*Ebby has always loved reading, writing, and storytelling. After graduating from College of Charleston in 2018, Ebby started a career in marketing for start-ups and scale-ups and never looked back. She's thrilled that she now gets to share HappyCo's stories across formats and channels for a living.*

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# Recent Court Decision Warns of Dangers of Using Outdated Construction Contracts

By Robinson+Cole's Construction Group on February 10, 2022

A recent decision serves as an important reminder to all in the construction industry about the dangers of using outdated contract forms. In *Hillhouse v. Chris Cook Construction, LLC*, 325 So. 3d 646 (Miss. 2021), the Supreme Court of Mississippi found an arbitration provision unenforceable where it designated that all claims "shall be submitted to arbitration before the Southern Arbitration and Mediation Association." Unfortunately, not only was the Southern Arbitration and Mediation Association unavailable as a forum at the time of the underlying dispute and at the time the contract was drafted, but the organization had not in fact existed for approximately seventeen years prior. The Court ruled that the arbitration forum was a contract requirement and that the Court could not rewrite the contract to select a forum "unanticipated by either party." *Id*. at 653. As such, the arbitration provision was unenforceable, and the parties would have to spend the time and resources to resolve any claims before the appropriate court. Let's talk about how technology can help you streamline these everyday multifamily tasks so you can spend less time on the nitty-gritty and more time on the big picture of your portfolio.

If you only remember one thing from this article, let it be While this specific case is a homeowner case from Mississippi, it is worth noting that Mississippi has a statutory scheme similar to the Federal Arbitration Act (Miss. Code. Ann. § 11-15-101, *et seq*.). As such, the rationale of *Hillhouse* likely extends to other jurisdictions and the construction industry would be wise to heed two warnings from this case that apply generally, including to commercial construction in the northeast.

**First:** the contractor in *Hillhouse* used a form contract that was over twenty years old, serving as a good reminder to carefully review form contracts and make sure they are up to date. In addition to factual changes to contract terms, such as the status of other entities named in the contract, there are also changes in the law that may require revisions to form contracts. For example, states will periodically amend laws relating to prompt payment, indemnity, and retainage.

**Second:** owners, developers, contractors, and design professionals should pay particular attention to ADR provisions. Although most ADR provisions specify the American Arbitration Association (AAA) or JAMS as the forum for arbitration, it is worth making sure that arbitration provisions are up to date and do not specify a non-existent forum. Further, courts distinguish between arbitration clauses that simply require the parties "to arbitrate according to the rules of" a specified forum and those that instead require claims to be "administered by" a specific forum. The enforceability of the latter is dependent on the availability of the named forum, while the former might survive the unavailability of the named forum. As such, the precise language of ADR provisions in form contracts should be re-examined to confirm they are enforceable and serve their intended purpose.

Robinson+Cole

*This article was originally posted to Robinson+Cole's Construction Law Zone blog published on February 22, 2022. Members of the firm's Construction Group continue to follow developments and trends in all areas of construction law and post regulatory and legal developments affecting the industry that are useful to construction professionals, as well as consultants, industry trade groups, the media, and others interested in construction law.*



# Rent Control – Unraveling The Impacts On Housing Markets And Investors

By MJ Vukovich, Executive Vice President, Bellwether Enterprise



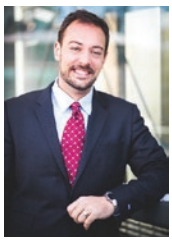

Rent Control is a big topic for all owners of residential real estate. It has become a popular tool for some state and local governments trying to ease the burden of housing costs on their constituents. But what exactly is Rent Control? Does it work, and what does it mean for property owners?

Rent Control goes by many names. Price Stabilization, Anti-Gouging, Housing Cost Controls, and others all describe the same thing: when a government controls and regulates the amounts charged for rental housing. There are a number of areas in the country that have tried to use legislative methods to control housing costs, including California, New York, Minnesota (specifically in Minneapolis and Saint Paul,) and Oregon, among others. Steadily rising rental costs for housing is putting stress on people who live in these areas. Most Rent Control provisions are implemented on a city-by-city basis. For example, Minneapolis and Saint Paul both have different guidance on controlling rents, and there are no other areas in Minnesota that have government rental restrictions. However, in New York and Oregon, there are statewide controls in place. In all cases, whatever governing body is driving the process typically sets a maximum amount of rental rate increase – usually by a percentage – that landlords can impose per year. Sometimes, these maximums can be exceeded if certain costs, such as capital improvements or tax increases, are allowed to be considered as part of the Rent Control law. All in all, the whole goal is to try to create a more stable housing environment for renters by controlling costs.

But does it? Does Rent Control actually help curb housing costs in the areas where it is employed? In the short term, it helps residents who are already in low-cost housing keep their costs low and predictable. However, it doesn't address the issue of generating more housing at the lower price points, nor does it create the incentive to do so. Consequently, the creation of low-cost housing tends to slow down, leading to a greater overall housing shortage and driving up prices for those not already in the current low-cost units. In addition, the inability for owners to raise their rents to keep up with market demand also discourages capital investment into their properties, leading to an overall decrease in the quality of the housing stock. Lastly, the presence of Rent Control creates a strong incentive for owners to find ways to evict current tenants who are protected by the regulation, as those units would be opened up to market pricing. That creates a very negative relationship between owners and tenants and often creates higher turnover rates than areas that do not have these pricing controls.

Consider San Francisco as an example, which expanded its rent control laws in 1995, saw major increases in evictions post that expansion. A study from Northwestern University found that eviction notices increased 83 percent, and wrongful eviction claims went up 125 percent. This contradicts the notion that rent control creates stability for tenants in those units. Furthermore, a stark contrast can be seen in the rent control measures voted for in St. Paul and Minneapolis, MN. While Saint Paul introduced one of the strictest rent control measures in the country (3% cap and restrictions on newly built units), Minneapolis adopted a "wait and see" approach. The result was that Minneapolis had building permits rise 65% while in St. Paul, they fell by 61%. Now, there is legislation to undo the rent control measures in state congress in Minnesota, and the Mayor of Minneapolis will be vetoing the proposals on rent control and is looking for other solutions to help renters.

Rent Control continues to be a divisive issue across the country. Many people struggling to make ends meet in high-cost areas see it as a solution to ease their housing cost burdens, and some in political positions champion its use as a solution to housing stabilization. However, there is debate as to its effectiveness and some serious concern that it treats only one symptom of a housing imbalance without taking the whole of the issue into account. For owners and investors in rental real estate, Rent Control poses a real challenge in convincing partners to invest and can make it prohibitive to do so. That can cause even more issues within a market's housing crunch. If you are considering making an investment in real estate, it's important to know if there are Rent Control laws in place where you are investing and how those will impact your property. Furthermore, it's important to understand if local legislature is considering adding Rent Control measures to the market that you're considering investing in.



*MJ Vukovich co-heads the National Manufactured Housing Community finance platform at Bellwether Enterprise Real Estate Capital. He has financed over $500 million in MHCs as both a principal and lender/broker since 2015 and has been involved in over $1 billion in real estate transactions in his career. He is also a third generation MHC owner/operator, so he understands the business from an operator's point of view and brings that expertise to the table when he arranges financing. Bellwether Enterprise is a full service mortgage banking/brokerage company who is a direct agency (Fannie Mae, Freddie Mac, FHA/HUD) lender and broker to hundreds of lenders nationwide.*

# Steep Production Decline Continues While Post-Production Representation Gives Fannie Mae and Freddie Mac a Pass

By Mark Weiss, MHARR

**Washington, D.C., August 3, 2023** - The Manufactured Housing Association for Regulatory Reform (MHARR) reports that according to official statistics compiled on behalf of the U.S. Department of Housing and Urban Development (HUD), HUD Code manufactured housing industry year-over-year production declined again in June 2023. Just-released statistics indicate that HUD Code manufacturers produced 8,169 new homes in June 2023, a 28.1% decline from the 11,373 new HUD Code homes produced in June 2022. Cumulative production for 2023 is now 43,888 homes, a 28.8% decrease from the 61,659 homes produced over the same period during 2022.

A further analysis of the official industry statistics shows that the top ten shipment states from January 2023 -- with monthly, cumulative, current year (2023) and prior year (2022) shipments per category as indicated -- are:

| Rank | State | Current Month (June 2023) | Cumulative | 2023 | 2022 |
|---|---|---|---|---|---|
| 1. | Texas | 1,422 | 7,345 | 7,345 | 11,163 |
| 2. | Florida | 663 | 3,917 | 3,917 | 4,569 |
| 3. | N.C. | 467 | 2,583 | 2,583 | 3,407 |
| 4. | Alabama | 406 | 2,166 | 2,166 | 4,345 |
| 5. | S.C | 397 | 1,890 | 1,890 | 2,930 |
| 6. | Georgia | 375 | 1,825 | 1.825 | 2,597 |
| 7. | Michigan | 287 | 1,757 | 1,757 | 2,377 |
| 8. | Louisiana | 324 | 1,711 | 1,711 | 2,974 |
| 9. | California | 267 | 1,618 | 1,618 | 2,032 |
| 10. | Arizona | 201 | 1,335 | 1,335 | 1,323 |

The statistics for June 2023 produce one change from last month, moving Georgia into 6th place, ahead of Michigan.

The continuing steep production decline illustrated by these statistics, is the result, in substantial part, of the complete failure of Fannie Mae and Freddie Mac to provide securitization and secondary market support for manufactured housing chattel loans under the Duty to Serve (DTS) mandate. For 15 years since the enactment of DTS, the mortgage giants have failed to provide any support for these loans, despite the fact that they represent some 80% of the manufactured housing market and provide access to the industry's most affordable homes. If DTS were implemented, in a market-significant manner, that factor, in itself, would draw new lenders into the HUD Code financing market and reduce interest rates through increased competition and lowered risk.

Yet despite the fact that Fannie Mae and Freddie Mac continue to flout Congress and the law with respect to the vast bulk of the HUD Code market, the Manufactured Housing Institute

(MHI), representing the industry's post-production sector, in recent remarks to a DTS "Listening Session," "commended" Fannie Mae and Freddie Mac for their "efforts" regarding DTS. So, instead of exerting maximum pressure on Fannie and Freddie to finally begin serving the core of the industry's retail consumer base, the national representative of the industry's post-production sector effectively gave the two entities a pass for their continuing failure to serve the vast bulk of the industry and its consumers. This is unacceptable and only helps to excuse and prolong an unacceptable status quo.

MHARR, for its part, continues to press the Federal Housing Finance Agency (FHF A) for the full, complete and robust implementation of DTS in all HUD Code consumer financing markets.



*Mark Weiss is the President and CEO of the Manufactured Housing Association for Regulatory Reform (MHARR) in Washington, D.C. He has served in that position since January 2015 and, prior to that, served as MHARR's Senior Vice President and General Counsel.*

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# Texas Housing Manufacturers Replenish Payrolls Amid Positive Production Projections

By Bryan Pope, News Release No. 22-0823



COLLEGE STATION, Tex. (Texas Real Estate Research Center) – The production of manufactured homes in Texas increased for the fourth consecutive month in July, according to the latest Texas Manufactured Housing Survey (TMHS), and additional acceleration is expected through year end.

Housing manufacturers responded by increasing hiring activity, pushing the TMHS employee index to an annual high.

"These payroll expansions closely track the current industry outlook," said Wes Miller, senior research associate at the Texas Real Estate Research Center at Texas A&M University (TRERC). "Business activity has rebounded despite ongoing interest rate increases that shocked demand last year. In addition to new hiring, average employee workweeks have picked up over the last few months."

The cost environment remained relatively tame in July, with the TMHS suggesting no change in labor costs as well as declines in prices of raw materials. Price pressures, however, are expected to build as we enter the fall.

"After a significant decline since its December 2021 peak, the New York Federal Reserve Bank's Global Supply Chain Pressure Index has increased the past two months," said Dr. Harold Hunt, TRERC research economist. "There is nothing to panic about yet since the index is below its historical average, but it does indicate that supply-chain problems are showing signs of escalating again."

Housing manufacturers experienced a similar uptick in supply chain disruptions, and they expect these challenges to persist for at least the next six months. Upstream bottlenecks could elevate input costs and increase backlogs. The TMHS backlog index ended a 21-month decline in March and climbed upward through July, impacting retailers and consumers.

"Retailers sold more homes than they received during the first half of the year," said Rob Ripperda, vice president of operations for the Texas Manufactured Housing Association, "and that trend should extend into July as manufacturing plants typically close for a week to celebrate Independence Day. Last year there wasn't a single month when retail sales beat shipments. Solid consumer demand for affordable housing continues to drive new orders and has brought manufacturing production rates back to where they were during the last calendar quarter of 2022."

TMHS respondents plan on accelerating production over the next six months but anticipate falling further behind new orders.

All TMHA members with manufacturing facilities in the state were invited to participate in the sentiment survey, and the survey panel represents 89 percent of HUD-code homes produced in Texas.

Funded by Texas real estate licensee fees, TRERC was created by the state legislature to meet the needs of many audiences, including the real estate industry, instructors, researchers, and the public.

*Bryan Pope | Managing Editor*

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# 2 Secrets to Accelerating Wealth Creation Through Real Estate Investing

By Himanshu Caplash



## How technology and tax deductions improve results, Part 1

Investing in multifamily real estate properties and apartment buildings is a fantastic opportunity to create wealth and financial stability. But if you aren't careful, inflation and taxes can erode your returns.

Sawy investors know the secrets to accelerate wealth creation. I recently had an opportunity to sit down with Tom Wheelwright®, CPA, the best-selling author of Tax-Free Wealth and The Win-Win Wealth Strategy: 7 Investments the Government Will Pay You to Make, to learn more.

"*It is absolutely possible to make more money and pay less tax," says Wheelwright, CEO of Tempe, Arizona-based WealthAbility®. "You just need to understand how the tax law works. And, because real estate investors have access to more tax incentives than just about any other industry, they have a great opportunity to build tax-free wealth.*"

### WEALTH CREATION SECRET #1: USE TECHNOLOGY TO IMPROVE NET OPERATING INCOME

Net operating income, or NOi, is an important factor for both buying a property and setting its budget. Real estate investors also use net operating income to figure out the property's capitalization rate. This, in turn, gives the investor an estimated return on investment of their real estate property. A positive NOi helps a real estate investor get a preferred loan rate and possibly attract other investors or even a new buyer.

***"A Positive Noi Helps A Real Estate Investor Get A Preferred Loan Rate.***

### THERE ARE TWO WAYS A PROPERTY OWNER CAN IMPROVE THEIR NOi ON A RENTAL PROPERTY:

**+ Increase Revenue**

The owner can either increase the rent they charge, reduce their vacancy or some combination of both.

**– Decrease Operating Costs**

Decreasing operating costs always comes down to improving efficiency.

Investing in technology is a great way to check these boxes. Smart video intercoms and companion cloud software, for example, make properties easier to manage and more appealing to renters.

### TODAY'S RENTERS VALUE SECURITY AND THE CONVENIENCE OF KEYLESS ENTRY

Real estate investors who want to attract and keep today's renters need to offer the digital amenities this generation



expects. This includes mobile access credentials and smart phone apps for guest management and keyless entry.

61% of Gen Y respondents to Schlage's Industry Insight Survey 1 are more likely to rent a unit because of electronic access, such as keyless entry. 63% of Gen Y would move out due to a lack of security.

And 1 in 4 residents would pay over $31.00 a month to get the high-tech apartment they want, according to the survey What Apartment Renters Actually Value.2 So, the relationship between the internet-enabled security and convenience that today's renters want and the ability of property owners to keep high-value residents is aligned with improved NOi.




**WEALTH CREATION SECRET #2:**
**USE DEDUCTIONS TO REDUCE YOUR TAXES**

NOi is a great benchmark for the profitability of each property in your portfolio, but it doesn't directly translate into more wealth. Why? It doesn't include some important expenses, including taxes, capital expenditures and interest payments.

This is where Wheelwright and the WealthAbility® team come in. They are on a mission to educate the world about how to permanently reduce taxes - and do it in the way that the government wants it to be done.

*"This isn't about loopholes," Wheelwright says. "The government wants enterprising individuals to invest in tangible, physical things like real estate. Why? The government needs its citizens to have housing and buildings for businesses, schools, health care facilities, and more. It is far more efficient for the private market to supply these than for the government to try to do it on its own. So, the government gives tax incentives to encourage people to invest in these assets."*

One of the ways the government incentivizes real estate investments is by offering tax deductions for many of the expenses associated with running a rental property.

In some cases, you can deduct the full cost of an investment you make in your rental units all at once rather than depreciating the asset over time. These are called Section 179 deductions and include purchases of equipment, vehicles and software within certain price thresholds. Another way is to use bonus depreciation, which we will cover in more detail in part 2 of this article next quarter.

Let's look at how this works with one of the technology systems discussed earlier. Real estate investors can buy a complete access control solution consisting of cloud software and hardware, like a smart video intercom, for example, and deduct up to 100% of the cost in the year it is bought.

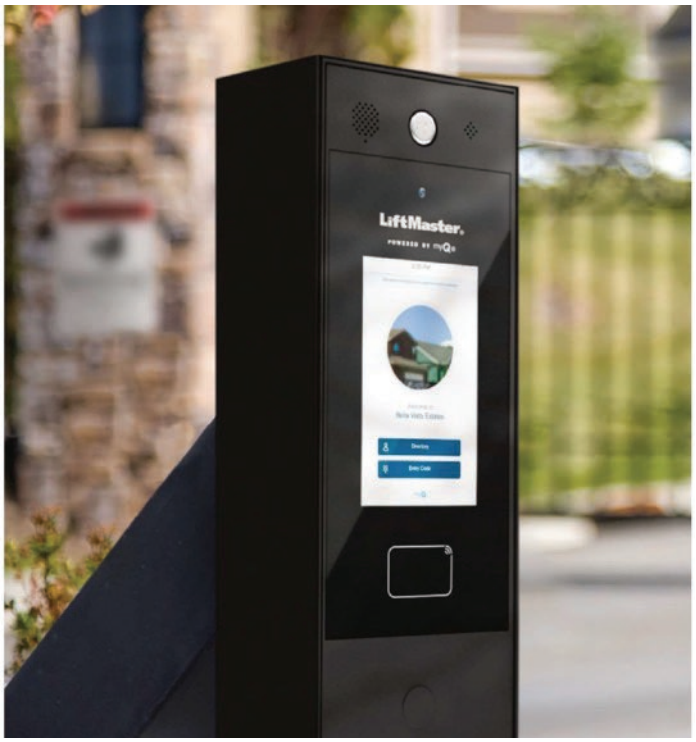
You'll want to work with your tax advisor to choose the best path for your financial situation and goals. The companion cloud technology is a monthly subscription, so you would record this as a monthly operating expense when calculating income.

***In Some Cases, You Can Deduct the Full Cost of an Investment You Make in Your Rental Units all at Once.***

*"It's like having the government pay you to upgrade your rental properties," Wheelwright says. "The government gets better housing for its citizens. Your tenants enjoy the simplicity and security of an automated access control system. And you get to build wealth through your real estate investment more quickly. We call that a win-win investment."*

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## 2 Secrets to Accelerating Wealth Creation Through Real Estate Investing Cont.




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*Source 1: Sch/age's Industry Insight Survey*
*Source 2: What Apartment Renters Actually Value*



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*Senior Product Manager of Access Controls*
*LiftMaster®*

*Himanshu Caplash has over 12 years of experience building real estate technology and consumer electronics across startups and big companies, such as Latch, Intel, and ARM. He holds a BS in Electrical Engineering and an MBA in Marketing & Strategy. For more articles in our series about wealth creation through real estate investing, follow us on Linkedin.*



# Where is the Economy?

By Brian S. Wesbury, Chief Economist and Robert Stein, Deputy Chief Economist
First Trust Portfolios L.P.



**What's going on with the markets and the economy?**

Long-term Treasury yields are up substantially since last Fall while the stock market, after a big rally, has stumbled so far this month. Meanwhile, the real economy appears to continue to chug along – even accelerating! – while inflation has dropped a great deal versus a year ago but will likely go up again soon due to rising oil prices.

What do we make of all this and has this changed our fundamental outlook?

As recently as April this year the 10-year Treasury yield was 3.30%. This morning we awoke to 4.30%, a full percentage point higher. We think multiple factors have played a role. First, the real economy has remained stronger for longer than most expected. The economy grew at a moderate 2.4% annual rate in the second quarter and the early projection from the Atlanta Fed's GDP Now model is that real GDP will be up at a stunning 5.8% annual rate in the third quarter.

We think real GDP growth is more likely to clock in at a 4.0% annual rate in Q3, but even that would be unusually strong. With the exception of COVID re-opening in 2020-21, we haven't had a quarter at 4.0%-plus since 2017.

Meanwhile, inflation isn't going back to the Fed's 2.0% target anytime soon. Yes, inflation is down substantially from a year ago: the consumer price index was up 8.5% in the year ending in July 2022 but a much smaller 3.2% in the year ending in July 2023. But, given the recent spike in oil prices, look for the year-ago comparison to grow to about 3.6% in August. In turn, we are projecting that GDP prices will be up at a 3.6% annual rate in Q3.

If we are right about both real GDP and GDP prices in Q3, it is very hard to see the Federal Reserve standing pat at the current 5.375% level for short-term rates. The futures market is pricing in only a 11% chance of the Fed raising rates by 25 basis points in September as well as a 40% chance the Fed raising by a cumulative 25 bps through November. We think both these odds should be higher and if the market shifts toward our view, then long-term rates should also go up further in the next month or so.

The bottom line is that faster growth and persistent inflation are a recipe for the Fed to either move higher than the market now expects or stay at a higher level longer than the market expects, or possibly both.

In turn, we remain convinced that our call from the end of last year that the S&P 500 would finish this year at 3,900 remains a solid forecast. When we plug a 10-year Treasury note yield of 4.30% into our capitalized profits model, it spits out a "fair value" estimate for the S&P 500 of 3,126. We are not predicting a drop that low in stocks, but this method makes us comfortable keeping a target of 3,900.

In addition, we are not waving the white flag on our forecast of a recession and think the conventional wisdom has lurched too far and way too fast against the odds of a recession. Many investors think that with an unemployment rate of 3.5%, the economy is somehow invulnerable to a recession. But we think this theory is wrong; recessions almost always start when the jobless rate is at or near a low.

Recessions are ultimately about mistakes, about too much optimism given underlying economic conditions and the need for economic activity to adjust back downward. Consumers are soon going to be without the temporary extra purchasing power generated by COVID spending programs. Meanwhile, businesses are facing labor costs that continue to escalate faster than justified by productivity growth while business investment looks poised for a correction.

In addition, the government policies enacted in the last few years have not boosted long-term growth prospects and, although AI is a long-term positive, it is unlikely to generate enough extra growth in the short run to spare us a downturn.

A monetary policy that is tight enough to eventually wrestle inflation down to 2.0% doesn't make for a pleasant economic ride in the next year. The road is smooth today, but potholes are ahead.



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