What's Happening To Landlords And Tenants During Covid-19

Hosted by: Joe McCall
Guest: Laurence Jankelow

Welcome. This is the Real Estate Investing Mastery podcast.

Joe: Welcome, this is the Real Estate Investing Mastery podcast again. Glad you guys are here with a special guest today. And I've not had anybody who is who owns this kind of software on my podcast before, and I can't understand why. But when Laurence's team contacted me, I thought this is something that I think we really need to talk about. And a lot of you guys have been hearing it in the news, a lot of you guys, you have your own rental properties and either you are collecting on the rents right now or you're not. And Laurence, who is a guest on my podcast today, is from a company called Avail. And Avail is a free property management software. Believe it or not. If you're interested, go check it out at Avail.co. A-V-A-I-L.com. But the purpose of this podcast is not to pitch his property management software, although you should look at it. It's really good. But he did a survey a few weeks ago. He did a survey to all of his landlords. How many customers you guys have, Laurence?

Laurence: Yeah, well, we've got six hundred thousand landlords and tenants using the platform. The survey was 10000 responses.

Joe: 10000 responses asking them about how is COVID-19 affecting you. But also more than just the survey responses that's coming in. He has seen through his several hundred thousand. How many units, Laurence? How many doors?

Laurence: Yeah. That ends up being just over six hundred thousand units. Sorry. Two hundred forty thousand units, 240000 doors. Right. Users in total.

Joe: So how did April rents go? How did May rents go? Because now as we're recording this, it's May 8th. And so he's got some real hard data and some numbers that I wanted to get him on the podcast to talk to you guys about. So, Lawrence, I'm glad you're here, man. Thanks for being here. Yeah. So it is a pleasure. Tell us a little bit about you. Where do you live? What is Avail?

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Laurence: Sure, well, I'll start with me a little bit. I am a landlord myself. I've got six rental units. It's two buildings, both pretty close to where I live in Chicago. Close to Wrigley Field, in fact. Man, no, honestly, I don't watch any sports.

Joe: Now we can do the podcast.

Laurence: I equally hate all sports. But I had bought my first rental property maybe seven years ago when I was working full time at a large financial institution. And I had a friend who was looking to move and he owed these three flats. So I bought it off market from him, which I think markets the best way to go. And just managing that three flat was actually a lot more work than I think most people realize. So at that time, a friend of mine had mentioned the same kind of properties we got together said, hey, this isn't working. We decided quit our jobs and then start building our own software. So we started off as the landlords. And then we moved on to kind of, you know, property management software.

Joe: All right, cool. And so you're in Chicago. You. When did you start the software? When did you build it again?

Laurence: Yeah. So we started working on it in 2012. So that's when we quit our jobs. We ended up deciding that we were going to code it ourselves. And neither one of us had that background. So we actually spent the first two, three years there teaching ourselves to code in order to do this. So really our first customers came early 2015.

Joe: And how did you guys grow? I mean, how did you guys get customers? Did you start local there in Chicago area and then kind of branch out from there?

Laurence: Yeah. As you'd imagine, it's really hard to find landlords. You know, most of them were just like me. You know, think of it as a part time landlord, full time something else. And, you know, it's not like you can go into a bar and talk to someone and they're just gonna casually say, hey, I'm a landlord. It's kind of not a subject you talk about. So the way we approach it was we know landlords search for problems. They go online. They'll type something like, how do I screen a tenant or what do I do if my rent is late and we provide a lot of educational content that they'll find. And a lot of them appreciate that educational content. And by that nature, they sign up with us for our free service.

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Joe: All right. So what does Avail do?

Laurence: So I think the way you describe it, the beginning was fine. Property management, software or platform. We essentially provide all the tools that landlords and tenants need to kind of do the day to day of being renters and landlords. So on the renter side, we let them pay their rent online. That made its requests online. We'll let them submit rental applications in a safe, secure way. And when they have to authorize credit checks and background checks, those are soft inquiries to their credit scores. Don't get damaged. On the landlord side, we help them find tenants. They'll create a listing with us. We then syndicate that out across the web to all of the popular Web sites that tenants use to find places. And then obviously, we allow the lenders to see the reports that the tenants have authorized as part of the screening process. We provide the landlord tenant digital leases that they can use, that they can sign that are state and city specific. We try to help them navigate a lot of the legal problems that come with lease agreements. So kind of soup to nuts, the operational stuff of being a landlord or renter.

Joe: You had some interesting guides here, the guide to rental property renovations, how to find good tenants to fill your vacancies. And the ultimate guide to buying rental property. The Complete Guide to Rental Property Maintenance Tenants Guide to Finding an Apartment. The Complete Guide to Rent Collection. A Complete Guide to Rent Leases. The Complete Guide. The Tenant Screening. Wow.

Laurence: Yeah, I wrote our first four or five guides. That was a lot of work. But their honesty and not just a. Push them, but the content in those is really good. I mean, people we found that in 2008 there was that stock market crash and the financial crash and that actually created a lot of first-time landlords and accidental landlords. And we saw a ripple effect continuing from 2008 all the way through 2012, 2014 when we started this and we saw that there were still really beginner novice landlords. We wrote a lot of content to try to help them get on the right feet.

Joe: So it's free for landlords for the basic services that you provide, but it's still five bucks a unit for getting all of the stuff that's included. Right. But then next day rent payments waived, ACH fees, custom applications and leases, reused lease agreements, property websites. So it's very, very affordable. And you're targeting mainly the small mom and pop landlords, right?

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Laurence: Yeah, most of our landlords have just one unit. It might be a single-family home or a condo unit that they've moved out of and they used to live in. And we have several who are five, six-unit landlords like myself. And then we got a couple that have 200, 300 units. So we can run the gambit. But where we focus our marketing efforts and a lot of our content and educational stuff is really for the beginner landlord.

Joe: Nice. All right. And you obviously make some money from the applications, credit checks, things like that, too, right?

Laurence: Yeah. That's actually something like. So even though it's free for the landlord and the renter to use, there's some transactional revenue that we make. So we charge fifty five dollars for a rental application and the tenant would typically pay that. That includes a lot more reports than a normal screening. So it includes the credit report background check, eviction check. We also call all of their prior references on behalf of the landlord. So we try to make it super easy.

Joe: Nice and cool. And then for the platform itself, you manage a property. If a tenant wants to submit a maintenance request. They can do that inside the Web site, right?

Laurence: Yeah. Some landlords look at that as a detriment a little bit. No. But yeah, it's easy for the tenants to go and submit maintenance requests, keep a paper trail. Understand what's happening. And then for the landlord, they can track expenses in there as well. And see what's happening.

Joe: Cool. All right. So the reason why I wanted you on was to talk about this survey that you guys did recently and to talk about what are you seeing right now in terms of rent collection. We heard about April. I just read it in The Wall Street Journal the other day. Maybe you have something different, but about ninety one percent collected all of the rent for April. Is that about what you saw, too?

Laurence: Yeah, it started off rough. Like April 1st, we were seeing that a large amount of people hadn't collected their rent. You know, as the month went on and stimulus checks went out and some of the unemployment claims started filing and we saw that a lot more people start paying is just a much higher amount of people paying late than we had seen in the prior several years.

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Joe: So what did you see in your survey? What were some of the questions you asked in the survey? What were the results from that?

Laurence: Yeah. So originally we sent out the survey just as what kind of information can we get for our current landlord tenant customers, just to help them prepare for this? So we wanted to know from our renters, had they lost their jobs? Are they planning on paying the rents? What kind of problems are they seeing? And really, this was designed to help them. And just the sheer number of responses we got blew our minds a little bit because normally when we send out these surveys, we do one survey a month in general. We normally get about a thousand responses and this survey got 10,000, which for us is a lot. And I think for most surveys, that's actually a lot. And really the big takeaways for us was where a lot more tenants had lost their jobs due to COVID 19 than I think anybody had anticipated. We had a response around 54 percent of tenants saying they've lost their jobs specifically due to COVID-19. Fifty-four percent. Fifty-four. Yeah.

Laurence: Which is much larger than what we're even seeing now with unemployment numbers. So I think there might be some catch up to the unemployment numbers that are going to be happening that aren't visible yet. We saw that landlords and tenants hadn't been communicating with each other. Seventy five percent of the renters that had lost their jobs had said they had not communicated that information to their landlords. We saw something like nearly 70 percent of landlords haven't asked their tenants about this. And you can understand why you don't want to kind of poke the bear. Yeah. So we had seen that rents, not renters, potentially not being paid because tenants haven't been receiving their state paychecks and whatnot. We asked them specifically, are you planning on paying? We had thirty five percent flat out say, nope, they're not going to pay.

Joe: Thirty five percent said they were not going to pay.

Laurence: Not going to pay. A 30 percent roughly said they wanted to pay. They're looking at how they can borrow funds to do it, whether it was from friends or family or put it on their credit card or get a traditional loan. So there's an additional 30 percent who were going to struggle to pay. And we were seeing that play out for April 1s, rents kind of all the way through April 15th. We were seeing a large amount of rent unpaid and then stimulus checks came out and we saw a lot of that come back. So the same, we saw roughly for April, the same numbers nationwide, but now we're seeing the same issue for May.

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Joe: Let's talk about May. What's happened so far?

Laurence: Yeah. So May's looking pretty rough as well. We're seeing around twenty five percent of rent being unpaid, a much significant portion of it late. So some of it that has been paid was paid late. And I think a large factor of this is because, you know, the stimulus checks went out in April. They went to April rent. Now there's nothing left to go to May rent. So between that and lenders and tenants not communicating with each other, we think that there's going to be some downstream problems that come out of this.

Joe: Yeah. So here we are eight days after the first of the month. And you're saying again, because you're looking at the property management software, you're looking at there. Seventy five percent of the rent has been collected.

Laurence: So, yeah, I mean we've got so many units and so much data that we actually have to then take samples of our own data. So it's about 14000 units that we're looking at from our own data where we process the rents through our system between the landlord tenant. And so we're seeing significantly higher portions of it are unpaid, paid late, even partially paid than what we've seen in the past, almost double what we'd normally see.

Joe: So what do you tell the landlord who is in that situation right now and is struggling to collect the rent? They don't know what to do. Do they poke the bear? What do they do? Yeah.

Laurence: Well, one of the things, if a tenant can't pay, it's I don't think it's going to hurt any more to strike up a conversation proactively about it. I don't think there are tenants out there who can afford to pay that just won't because they don't feel like it. So our recommendation to our customers is to talk to their tenants as soon as possible and figure this out. If you're in a situation where you're renters can't pay, then you're going to want to figure out a probably on a case by case basis what you're going to do. Our initial recommendations to our landlords are to negotiate with the tenants to potentially put that rent on a credit card. That initially sounds bad. But the idea here is you're hoping that government, additional government stimulus or unemployment comes in and fills that gap. What we're telling our landlords to do is potentially eat the cost of the credit card fees and potentially three months worth of financing. So on a thousand dollars rent, that might cost the landlord one hundred bucks. And that's probably a compromise in some ways because you're otherwise going to get zero other things.

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Joe: I'm sorry, Laurence. What you're saying is maybe offer the tenant. Listen, I'll pay. I'll pay any interest or credit card fees for this or, you know, you maybe you will. Maybe you're saying like, go ahead and pay a little bit less to cover what your credit card fees might have been or something, right?

Laurence: Yeah, that's exactly. So $1000. Right. You might tell the tenant you don't just go and pay nine hundred dollars on it. Yeah. And we find that that's probably the best solution because most landlords, especially the ones we cater to where they're still kind of smaller. They don't really make that much money on a thousand dollars rent, they actually probably only making about one hundred dollars in profit, maybe less. So this just basically eats their profit. And then the nine hundred is going to pay off the mortgage or real estate taxes, which are now ever increasing. And the mortgages again, if you could get mortgage forbearance, you might want to consider passing that on to your tenant. The problem with mortgage forbearance as it is now is you still have to pay that back in full at the end of the forbearance period. So on single family homes, you get six months. But at the end of six months you have to pay the full six months back.

Joe: So are you seeing some clients who have properties, let's say, in Seattle, where they're now proposing a six month moratorium on rent? I don't know if that's true or not, but I've heard Seattle, the city's saying, all right. Nobody needs to pay rent for six months. Can the government really do that? And if they do, what does that do to the small mom and pop landlord?

Laurence: Sure. I mean, I think the government can do that. It's not just Seattle. It's other cities and states talking about it as well. And I think there's even some chatter about it on a national level. The problem is, I think it's definitely one sided because half of landlords are this size landlord, really small own more than half.

Joe: I've read it where the numbers are vast majority. Go ahead.

Laurence: Yeah, yeah. Those are numbers we actually tracked pretty closely. So around forty-five million units in the United States. Twenty-four million of them are owned by landlords who own less than nine units.

Joe: Holy smokes. So only nine? Almost half. Yeah. Landlord.

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Laurence: That's about eight million. Do it yourself landlords who manage the properties themselves. So on average is about three units. So it's a lot and they just frankly don't make that much money. So if a law like that gets passed where they have to waive ranch or provide immediate rent relief, they're going to the government would have to also or the law would also have to provide relief of the mortgage. That's better than what's out there. And real estate taxes. That still leaves the landlord on the hook for maintenance and repairs. And you know, you can't let your property go into a rundown mode. You still have to do things that maintain it. And you have legal obligations to keep it habitable for those tenants. So I'm hoping that they don't do that. I'm hoping they leave it to the landlord tenant to work out on a case by case basis.

Joe: Usually whenever the government gets involved, it doesn't fix the problem, makes it worse. That's my opinion.

Laurence: It's not broken. They'll break it.

Joe: Oh, man. And if government is the, I think it was John Adams that said, if the government is the answer to the question, it was a stupid question to begin with. That's a good quote. I like that. Wow. So, you know, landlords need to be proactive. They need to be communicating, talking to the tenants. I know I am. Right. So what else? I mean, is this a good time to start picking up properties, start buying rental properties, or is this a good time to start selling them?

Laurence: Yeah, hard to say. I mean, I think just as a landlord, operationally, it's all it's still a difficult time because you can't do showings. You might start getting vacancies as tenants move out because you. Struggling, finding ways to fill it. You can't do maintenance, so potentially for those reasons, just psychologically, it's a good time to get out. And then on a financial level, you know, if you if you're like most landlords where this is just a part time thing and you really and you may have also lost your job as a landlord and you can't afford to keep it, then you may have no choice but to get out. I would say if you're in a situation where your investment property is no longer putting money in your pocket every month, that's an indicator that it's time to get out. Or if you think it's really short term, then you may stick with it. But it's gonna be tough for most landlords, I think for May and June, maybe July rents.

Joe: Man, I tell you. No, Laurence, I've wholesaled a lot of properties where I buy it at a discount and I sell it for a little bit higher price to another landlord. My favorite list to target has always

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been absentee owners, landlords, tired landlords because, you know, it's hard enough as it is. It's hard enough to make money in this business. And when you throw in a corona virus like this, I just can't I mean, there are so many deals and opportunities up there and there's a lot of money sitting on the side right now if you are a landlord listening to this. There's a lot of money sitting on the side right now looking to come back into the market, looking to buy rental properties. So this may be a good time to sell. If you want to get out, you're not going to get top dollar. But it might be a good time maybe to do a temporary one exchange into something else. I don't know. I agree with that.

Laurence: I would I would encourage people to put into their plan if they're buying that they may be buying something that over the next four months may not get the full rents that they'd expect. And just to put that into their projections.

Joe: Yeah, I think things will recover. I mean, I'm still bullish. You know what I mean? People always need a holiday.

Laurence: Real estate has to recover. I mean, it's a it's something that everyone needs. It's a necessity. And it's definitely governed by normal supply and demand. So it definitely will recover.

Joe: People need a house over their heads, a roof over their heads. They need to have a house. You know, I've heard one person say this is interesting, that economic cycles and housing markets, you know, bubbles, we were overdue for a correction anyway. And so it's here it is. It just happened a little sooner and more rapidly than we had planned. Right. But I've heard people say, I think this is interesting. I want to see what you think of this. As we get more intelligent as an economy with online technology and with tools and information, the cycles actually become shorter and the recovery is actually quicker. And if we look at the past housing market, bubbles, ups and downs, market cycles, they actually recover faster because I'm not good at describing this, but because of the information is more readily available to the public through the Internet and things like that and through the cycles, the cycles of our iterating faster.

Laurence: But then they're also more extreme as well. So you see higher highs and lower lows. And you're right, I think with those cycles changing faster, it's definitely due to technology and more information being available. I'd say that there's some disintermediation that's happening

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that allows people to do things in their own way and faster. And so the recoveries tend to happen faster because of that.

Joe: OK. All right. So what other advice would you maybe give to maybe there's some tenants listening to this right now? Right. Or and landlords like what kind of advice would you give to help us weather through the storm?

Laurence: Yeah, well, I mean, I think historically there's always been kind of a feud, but it's a feud between landlords and tenants or at least the perception of one where it's us versus them. And I think this time, more than ever is a chance for us to try to get away from that. And, you know, I regularly go to Google and I'll type in landlords are and see what autocomplete is. And I'll do the same thing for tenants. The tenants are. And I'm always curious to see what autocomplete fills in, because that's an indicator of how we view each other and it being in a landlord myself and in the line of business, that's important to me. And it's still surprising as you landlords are. Yeah. Landlords are scumbags or land parricide. Evil scum leeches. Bad. Yeah, it's sad in a way. And then you do tenants, which is equally bad. And so this is an opportunity for us to realize we're all human beings. We're all struggling through this. Your landlord isn't a rich, greedy Scrooge McDuck. He's got or she's got their own problems as well. And they may have also lost their job. And it's not a time to take advantage of your landlord. It's not a time to take advantage of your renter. We're all gonna have to compromise. We're all going to come away with less than what we had before. And so my advice is to realize that we're just people on the other side of that phone or online service. Now we need to treat each other like people. That's the big advice that I would I would say and I think it's actually been encouraging. I've been seeing people be better than they have been in the past.

Joe: That's a real good point. And I did. Tenants are and I looked, you know, autofill. Tenants are the number one not paying rent.

Laurence: Yeah, that's that's a new trend, probably. Oh, man.

Joe: All right. Laurence, I appreciate that. It's been a shorter podcast, but I wanted to talk about what you're seeing. Rents are going down, you know, collections, collections or whatever. But I think. Would you agree? I'm still optimistic. We're gonna recover. We're gonna get through this. It's gonna it's all going to work out. Okay.

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Laurence: Yeah. I mean, the lockdown in various states is coming to an end, which will put people back to work. There's talks of additional stimulus coming out, so I think the economy is going to be fine. People are gonna be fine. Real estate will for sure recover. It may change psychologically for some landlords. They may want to get out of real estate or some lenders may want to get into it. So it'll be interesting to see how it recovers and which direction recovers best if they get to recover.

Joe: And this is important to talk about, too, as we wrap this up. You know, investors, when you're if you're looking for property, you need to remember the fundamentals. The fundamentals are when it comes to analyzing a property, it's cash flow to making sure you have reserves for vacancies and maintenance and repairs and management and taxes and insurance and future capital expenditures. I mean, it's easy to look at a spreadsheet using a spreadsheet to tell you anything you want. Right. Lawrence, that's a funny thing. It's so easy to manipulate, to make it say whatever you wanted to say. But at the end of the day, it's all about cash flow. It's about the fundamentals. It's not about get rich quick. It's about building long term capital appreciation, capital growth, cash flow, paying off that debt as soon as possible so you can have free and clear rentals. But yeah, I see a lot of people come in expecting to get 10, 15 percent cash on cash on their money, but then ignoring repairs, maintenance vacancies and especially ignoring a lot of people. Forget this future capital expenditure. I mean, there's going to be a time when that roof needs to be replaced, when that water heater needs to be replaced. Need to get a full new all new furnace heating and air conditioning system. Right. So that one of those things alone could wipe out all of your cash flow if you're not prepared for it.

Laurence: And you're not going to agree that the two metrics we usually tell people is playing on a 40 percent operating expense of your rent. So if you're rent a thousand dollars, you should expect that $400 a month is going to go towards expenses, real estate taxes, utilities, probably another 400, 500 going towards the mortgage. So I'm planning on that. And then the other thing, you make your money pretty much when you buy the place, you're right at the right price and it's got the right fundamentals. So if there's a quick handy rule, call the 2 percent rule. I'm sure you're familiar with it. Which is to make sure that the rental income is at least 2 percent of the purchase price. And if it's not, then you probably want to really have a good long think on. Is this the right property or is there something unique about it that makes it right that those two things are good to keep in mind as you buy properties?

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Joe: I do know a guy that's very successful been through two or three different market cycles and he loves go section by Section 8 properties, especially in a downturn like this. You know, when the recession was I mean, when the economy was strong, everybody looked down on him for owning Section 8 rentals. Right. But they're not looking down on. And now he's doing pretty well collecting his rent because it comes from the government and they are all powerful and all knowing. And they can print money whenever they need it. So.

Laurence: And I think they've postponed doing on site check-ins and visits how they really, really. So usually that's been a huge pain for landlords who have a lot of Section 8 housing is then going on site and one doing the inspections, then keeping it up to code for those inspections because there's some weird things in there. But right now those have all been postponed. So even more especially good time.

Laurence: Yeah. All right. Well, good, Laurence. Thanks for being on the podcast again. Your Web site is Avail.co. A-V-A-I-L dot C-O. It's a free property management software and it's pretty amazing. I've looked at it. It's pretty cool. And if people want to go and you got some really good resources on your Web site as well on how to like I just read it before, how to manage properties, how to manage your tenants, how to survive through this, you even have a corona virus. And what did you call it here? I just saw it.

Laurence: We have similar issues in the survey results or additional resources specifically on COVID. They can go to Avail.co/covid. And then I think that's what that's sure. So we can double check that. But slash covid, and then that's got everything on there.

Joe: Yeah, it's a corona virus. What landlords and building owners need to know, it's a resource guide.

Laurence: And it's got the survey results. There's some fascinating things in there for people to see. And I think those that was in the survey results is coming true, especially as we get into the later months of the year.

Joe: Well, you've got a long list here of helpful links and resources. Good. Cool. Oh, hey, everybody, real quick, if you are listening to this or watching this or go subscribe to the podcast, go to Apple podcast, Google Play, Spotify. Tune in, whatever. And subscribe to the podcast. I really

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appreciate it that way. When we come out with episodes three times a week. You'll be notified. Alright, Laurence.

Laurence: Thank you for having me.

Joe: I appreciate you being on the podcast. And we'll see you later. Thanks again. Thanks a lot.

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