# Bonus Chapter

# Setting Your Property's Rents

### In This Chapter

- Figuring out your goals
- Studying the nearby comps
- Using the Harmon grid

How much rent to charge is one of the most important decisions you make as a landlord, because the *net income* your property generates — gross rents less expenses — is determined primarily by the amount of rent you charge. If your rents are too high, you'll have excess vacancies. If rents are too low, you'll have a high occupancy rate but insufficient funds to cover your costs and generate a reasonable return on your investment.

You have two rent-setting approaches from which to choose (or combine):

- **Return on investment:** Set a net income target and work backward to see how much rent you need to charge to hit that target
- **Market analysis:** Analyze your market, and set rents that are in line with comparable properties in your area

This chapter explains how to lay the groundwork for rent-setting by assessing your current situation, your investment goal, and the income you need to earn to cover your operating expenses. This information guides you through the process of researching your market to gather the information you need. Finally, this information includes the Harmon grid and explains how to complete it to obtain an accurate estimate of the maximum rent you can charge based on market analysis.

# Pinpointing Where You Are and What You Want

The first step in setting rents is to figure out where you are and what you want in terms of *return on investment (ROI),* which is a profitability ratio on the net financial gain on your invested capital. In order to do so, you must examine your current situation (whether you have renters already, for example), your investment goals (cash, cash flow, or both), and your desired ROI. These sections explain how to gather the background information you need to set rents effectively.

## Considering your current situation

The rent setting process is often influenced by your current situation, such as one of the following:

- **You currently own the property:** You already know how much rental income you need to cover your mortgage and other operating expenses and produce a reasonable return on your investment, but you want to find out whether market conditions justify raising the rent.
- **You're looking to buy a rental property:** Before making an offer on the property, you need to find out what your operating expenses are likely to be, set a target net income, and analyze your market to determine how much rent you can reasonably charge. If the numbers show that you can't charge enough rent to hit your net income target, you may want to adjust the price you offer or walk away from the deal.
- **You purchased a property that already has residents with long-term leases:** For any resident who's currently on the lease, you can't change the rent without the resident's permission. However, you still need to complete the rent-setting process to calculate rents that are suitable for your market and generate the return on investment that makes owning rental property worth it. (For residents who are on a month-to-month rental agreement, you can increase rent by giving sufficient written notice, as provided in the agreement, in compliance with applicable law.)
- **You purchased a property that's subject to rent regulation (rent control):** This is a very unlikely scenario, but if you happen to operate in one of the few states or cities that has rent regulation, you may have certain limits on how much you can raise rents for existing residents.

## Dealing with potential rent-control issues

Most areas of the country don't impose limits on the rental rate you set for your property. Rent control is currently only found in Washington, DC, and specific cities or counties in a handful of states including California, Maryland, New Jersey, and New York. If you own a rent-controlled property, you need to obtain a current copy of the ordinance and fully understand the implications of local rent control when setting rents. You also need to know your limits on future rent increases, because rent control limitations may influence your initial asking rents.

If you're limited to only nominal future rent increases, make sure you get the maximum rent possible for a new resident, because this base rent will be a factor in your rental income for the entire duration of the tenancy. In other words, if you lower your initial asking rent by $100 to quickly rent your property, you'll likely be negatively affecting your income stream for many years.

## Setting an investment goal: Cash, cash flow, or both?

When setting rents, keep your investment goal in mind. Ideally, your investment generates income in the form of cash and cash flow:

- **Cash:** Buy the property, hold it for a period of time, maybe fix it up, and sell it, hopefully for more than you have invested in it. Cash is what you walk away with after subtracting what you paid for the property along with your holding costs and costs for renovations and repairs.

  In areas where rental property values increase significantly from one year to the next, you may be willing to rent a property for just enough to break even, knowing that when you sell the property, you'll cash out your equity in it, which will have increased in two ways: through *appreciation* (you sell the property for more than you paid for it) and by paying down your mortgage with a portion of the rent you collect.
- **Cash flow:** The property generates both rental income and operating expenses. *Cash flow* is what you have left after you collect the rent and pay your operating expenses — when everything goes according to plan, this is a positive number.

To determine your total ROI, follow these steps:

1. **Add total cash to total cash flow.**
2. **Divide that number by your total expenses (every penny you put into the property), and you get your ROI as a percentage.**

3. **Divide that number by the number of years you owned the property (months divided by 12 months/year), and you get your annual ROI as a percentage.**

This number is very useful in comparing how well the return on your real estate investment stacks up against potential returns on other investment opportunities. If the property is generating an ROI of only three percent, for example, you'd probably earn a better return with fewer risks and headaches by investing in stocks or bonds.

## Ball-parking rents based on your net income target

To ensure that the rents you charge are sufficient to cover your costs and produce a certain amount of net income, you need to add the costs of owning, managing, and maintaining the property to the amount of money you want the property to earn annually and then work back to calculate the amount of rent you need to charge to meet hit your net income target. Using the worksheet shown in Figure BC-1, complete the following steps to calculate how much rent you need to charge to receive a reasonable return on your investment:

1. Write the actual or estimated annual cost for each of the following expenses on the corresponding lines:

   Mortgage payments

   Property tax and any homeowner's association (HOA) fees

   Insurance

   Maintenance and repairs

   Leasing (advertising, screening, and so on)

   Property management

   Other costs

   WARNING! Don't rely on numbers provided by the previous owner. Sellers and real estate agents have been known to use historical figures in their cash-flow analysis to create the illusion that the property's net income is greater than it actually is or will be for you. Get the most recent numbers closest to the source; for example, ask your county tax assessor for property tax figures, get an insurance quote, and so on.

2. **Add up the costs and write the total on the Total Annual Expenses line.**
3. **Write your initial investment on the Initial Cash Investment line.**

   REMEMBER Your initial cash investment is the amount of money you actually paid (not including any borrowed money) to purchase the property and perform any repairs and renovations required to make it rentable.

4. **Write the percentage return you want to earn from the property on the Desired Rate of Return line.**

   This percentage represents only the rate of return you want in the form of gross income from rent less all operating costs.

5. **Multiply your initial cash investment from Step 3 by your desired rate of return from Step 4 and write the result on the Desired Annual Return line.**

6. **Add the total annual expenses from Step 2 to the desired annual return from Step 5 and write the total on the Total Annual Rent line.**

   This value represents the amount of rent you must collect from all rental units that comprise the property, assuming 100 percent occupancy, in order to receive the desired return on investment.

7. **Divide the Total Annual Rent from Step 6 by 12 months per year and write the result on the Total Monthly Rent line.**

8. **Add the total annual rent from Step 6 to the total monthly rent from Step 7, add $600 to $1,200 as a monthly rent buffer ($50 to $100 per month), and write the total on the Adjusted Annual Rent line.**

   This amount takes into account one month vacancy for the entire rental property along with $50 to $100 extra buffer to make a conservative estimate of how much rent you need to collect to hit your net income target.

9. **Divide the Adjusted Annual Rent by 12 months per year and write the result on the Adjusted Monthly Rent line.**

   This dollar figure represents the total amount of rent you need to charge per month for the entire property to earn the desired return on your initial investment.

Here's an example:

- You have total annual expenses of $12,000.
- You invested $50,000 in the property initially and want to see an annual return of 10 percent, which comes to $50,000 times .10 = $5,000.
- Add total annual expenses to your desired return, and you get $12,000 + $5,000 = $17,000 which is the amount of rent you must collect to hit your target of earning $5,000 in net income per year from the property.
- Divide $17,000 by 12 months, and you find out that you need to collect $1,416.67 per month (average) to hit your net income target.
- Add one month's rent or $1,416.67 to the $17,000 annual rent to account for the property being vacant for one month, and you get $18,416.67.
- Add $900 ($75 per month) as an additional buffer to make a more conservative estimate of the monthly rent you must charge to hit your net income target. $18,417 + $900 = $19,316.67.
- Divide $19,316.67 by 12 months, and you find that you need to charge $1,609.72 to hit your net income target for the year.

Return on Investment Worksheet

| | | |
|---|---|---|
| **Annual Expenses** | | |
| Mortgage Payments | $ | 4,000.00 |
| Property Taxes | $ | 3,000.00 |
| HOA Fees | $ | - |
| Insurance | $ | 1,600.00 |
| Maintenance & Repairs | $ | 1,400.00 |
| Leasing | $ | 500.00 |
| Property Management | $ | 1,500.00 |
| **Total Annual Expenses** | $ | 12,000.00 |
| | | |
| **Initial Cash Investment** | $ | 50,000.00 |
| **Desired Rate of Return** | | 10% |
| **Desired Annual Return** | $ | 5,000.00 |
| | | |
| **Total Annual Rent** | $ | 17,000.00 |
| | | |
| **Total Monthly Rent** | $ | 1,416.67 |
| | | |
| **Adjusted Annual Rent** | $ | 18,416.67 |
| **Additional Buffer** | $ | 900.00 |
| **Adjusted Annual Rent w/Buffer** | $ | 19,316.67 |
| | | |
| **Adjusted Monthly Rent** | $ | 1,609.72 |

**Figure BC-1:** Return on Investment worksheet.

TIP

The amount of rent you need to charge to hit your net income target for the year provides a starting point for setting rents along with a reality check that helps ensure you don't *lose* money on your investment. When setting rents, you still need to consider the following factors:

- **Rents for comparable properties:** If rents are higher for comparable properties in your market, you may want to consider increasing your rent to maximize your profit. If rents for comparable properties are less, you may need to lower the amount of rent you want to charge, but you don't want to go so low that you're *losing* money. See the next section for more about determining rents for comparable properties in your market.
- **Rates of rent and operating cost increases:** In markets with higher-priced income properties, the rents you realize in the beginning years may not cover your operating expenses for the property. Yet in the long run, rents often increase at a greater rate than your expenses, which improves the return on your investment. In other words, if you can't hit your net income target from rent for the first two or three years, a rental property may still be a good long-term investment.
- **Equity:** Rental properties earn profits not only as rent, but also equity. Your equity in a property increases as you use a portion of the rent to pay down the principal of the mortgage loan and as the market value of the property increases (assuming it does). Even if you break even on net rent income, you may earn a decent return when you sell the property or cash out the equity in other ways.

- **Tax advantages of owning real estate:** Real estate provides owners with certain tax advantages, including deductions for mortgage interest, depreciation, and operating expenses. These tax advantages don't boost your net income from a property, but they allow you to keep more of that income.

Overestimate expenses and underestimate income. Many inexperienced apartment owners do the opposite; they underestimate expenses and overestimate income by using above-market rents, not allowing for rental discounts, and anticipating virtually no vacancy or bad debt. Be especially careful when you set out to buy a rental property. Income property sales fliers often show inflated income and expense projections, which is why you should verify the numbers for yourself.

Be especially careful when setting rents for single-family dwellings and condominiums, because the rent loss from long-term vacancies and deadbeat renters can seriously jeopardize your entire investment. Be conservative in setting your rents, cautious in screening prospects, and aggressive in keeping your properties in excellent condition in order to attract long-term renters who will faithfully pay on time.

# Researching Your Market

Market forces dictate how much rent you can realistically expect potential renters to pay. If comparable rental units are renting for $750 per month and there's enough of them to meet demand, you'd be hard pressed to find someone willing to pay much more than $750 to rent from you, unless your property has more to offer.

To figure out a reasonable rent to charge, you need to analyze your market and make adjustments to account for factors such as rent concessions, effective rental rates, and services and amenities you provide that your competition doesn't. The following sections explain how to set the maximum rent that prospective renters will likely be willing to pay.

## Identifying comparable rental units in your market

Identifying *comparable rental units* (often referred to just as *comps*) is more art than science, because comps are rental units that your prospective residents are likely to consider when they're looking to rent. You need to figure out which features your typical prospect is likely to desire, which may include the following:

- **Location:** Proximity to schools, shopping, public transportation, parks, recreational areas, workplaces, highways, and so on is important.

Location doesn't mean that your comps have to be located nearby; you may find comps on the other side of town that compete with your rental units, because they're close to good schools, a popular shopping mall, and a nice park.

- **Number and type of rooms:** If you're setting the rent for a two-bedroom, two-bathroom unit with a kitchen and living room, look for properties with similar configurations.
- **Square footage:** Overall size matters.
- **Furnished/unfurnished:** If your unit is furnished, your comp should be furnished, as well. Also consider the age and condition of the furnishings.
- **Storage/closet space:** A unit with a walk-in closet is likely to rent for more than a unit with small closets.
- **Floor level:** Units on higher floors are typically in higher demand than ground-floor units.
- **View:** Whether a unit looks out at a forest or an industrial plant makes a difference.
- **Deck or balcony:** Units with access to the great outdoors are more desirable than those without such access.
- **Age/condition:** Look for properties that have been built or updated at about the same time as yours and are in similar condition. Comparing a run-down rental unit to a brand spanking new one, doesn't make sense.
- **Extras:** Look for units that offer similar amenities, such as a pool, sauna, workout room, and so on.

To find comps, conduct market research. You may want to start by searching for rental units advertised online, in local newspapers or apartment guide books, or via social media, such as Craigslist. You may be able to gather enough information from these sources to make an informed decision of how much rent to charge. If not, then visit the comps that seem most similar to yours, check out one or two units to assess their condition, visit common areas (pool and workout room, for example) to see what the property has to offer, look at local maps, and cruise the neighborhood to see where the property is located and what's nearby.

Get to know your competition, and then monitor your competitors carefully to see what they're doing. Has a competitor increased or lowered the rent? If so, try to find out why. Is a competitor building a new fitness center? How many vacancies does a competitor have? You can call and ask or drive through the parking lot in the evening to see how many parking spaces are empty. How long is a competitor's vacancy advertised — has it lingered on the market, possibly indicating that the rent is too high? All of this information can help you gauge supply and demand, gain insight into what your typical prospective renter is looking for, and figure out how much rent to charge in order to attract prospects while maximizing your profit.

## Researching rents for comparable units

After identifying your comps, find out the rents for those comps. You can gather rents and more specifics about comps in any of the following ways:

- Flip through local apartment guide books.
- Look in the "For Rent" sections in the local or regional classifieds.
- Call the owner or property manager, tell her that you own rental property, and ask about rents and anything else you need to know about unit features (room sizes, appliances, flooring, closet/storage space, and so on) and amenities, such as fitness equipment, clubhouse, and pool. Most rental owners and leasing personnel will cooperate and share with you the information you need.

  Other landlords may even be willing to give you additional important information that you can't get otherwise, such as the length of time their units have been vacant, the number and types of phone calls they've received to date, the actual occupancy rate for the properties, and the feedback from their own research into rental rates and vacancies in the local market. This behavior is especially true if they've recently rented their properties and are not currently competing with you for renters.
- Pose as a prospective renter, contact the owner or property manager, and ask about rents. This approach isn't recommended, because you're likely to get only the information that would be provided to a prospective renter, and because it's a little underhanded — what do you say if you meet the person at a local apartment association meeting?
- Visit the property's or management company's website to check rents for units listed for rent.
- Search online, including the social media, for the properties you've identified as comps.

When comparing rents, use effective rents, not asking rents, so you're comparing the actual rent residents end up paying:

- *Asking rent*, which is also known as *market rent* or *street rent*, is the monthly rent that landlords and leasing personnel advertise and quote to prospects as the current rent for a unit. Asking rent doesn't account for concessions, such as one-month free rent, or a discount negotiated by the prospective renter.
- *Effective rent*, also known as *net rent*, is the actual dollar amount the resident is to pay, as specified on the lease. For example, if the asking rent is $1,000/month, and the landlord is offering one month free rent, the effective rent is ($12,000 – $1,000) divided by 12 = $11,000 divided by 12 = $916.67.

Base your decisions on the rent specified in signed leases, not on rents quoted over the phone or in advertisements. In many communities the *Multiple Listing Services* (MLS) now post rentals and what rents were paid when they were occupied. This information is proprietary to subscribers, but is becoming more publicly available. If you're unable to pull that data for your community, contact a real estate agent or property management company to get it for you. A real estate agent may be willing to do so for a nominal fee, and a management company is likely to find out what you need in hopes of attracting your business.

TIP

Setting your rent a little too high at first is better than setting it too low, but be prepared to change something if you encounter a lack of interest in the rental unit or plenty of interest initially that doesn't result in a signed lease. Changes to make the unit more attractive to prospective renters may include one or more of the following:

- Adjust your advertising, if you encounter a lack of interest in the unit.
- Improve the curb appeal, if your advertising generates interest but interested parties drive past when they see what the unit looks like from outside it.
- Offer one or more extras, such as a free membership to a nearby recreational facility, free Wi-Fi, or free cable TV.
- Be honest and make downward adjustments for features of your property that aren't as competitive or desirable as those of your comps.
- Offer a rent concession, such as free first month's rent.

TIP

A bad economy is usually good for business, because fewer people can afford to purchase a home. If the economy heads south, demand rises, and supplies shrink, consider raising rents, when the opportunity arises, to accommodate changes in your marketplace.

## Investigating occupancy/vacancy rates

Because rents are driven by supply and demand, you need to gather information about occupancy/vacancy rates. If you're lucky, other landlords in your area have shared the information with you. Unfortunately, owners of competing large apartment communities probably haven't been so generous in sharing information, especially about occupancy rates, but this number is important, because it indicates overall demand for rental units in your market.

TIP

Here are some creative ways you can use to find out vacancy levels among competitive properties listed from most to least accurate:

- Gain entry to the apartment's common area and count the number of mailboxes with names attached to them.
- Talk with the mail carrier who delivers to the property, who will know — and probably tell you — his assessment of its vacancies (and maybe estimate its turnover rates).

- Drive through the property at night. Count the number of parking places in use or the apartments that are lighted.
- Ask a vendor — a carpet cleaning firm or exterminator — who services your property and the other building to find out the inside information you're looking for.

Units that sit vacant for too long are usually overpriced, and each day that passes with a vacant apartment is more lost rent you'll never collect. Either reevaluate your asking rent or concessions or see what you can do to make your rental unit superior to the competition to get those long-term residents.

# Setting Rents via Market Analysis with the Harmon Grid

Using the results of the work you completed in the previous section, you can use the Harmon Grid (see Figure BC-2) to evaluate your rental unit's strength relative to competing rental units and determine the maximum rent the market can bear for that unit type and anything extra your property or competing properties offer.

The Harmon Grid is an alternative to the grids often used in the single-family housing market to estimate a home's value based on sales prices of comparable properties with similar location, lot size, square footage, style, floor plan, number and types of rooms, storage, garage, and other comparable features. What standard grids lack is any mention of quality. The Harmon Grid adds the quality factor and configures the grid to list features characteristic of rental properties. The grid is structured like so:

- The leftmost column lists features to be compared.
- The next column lists details about the subject property — the property you own and for which you're determining how much rent to charge.
- The remaining columns list details about comparable (competitive) rental properties.

Note the plus and minus values in the three columns for comps. Using this grid, you start with a comp's monthly rent, add dollar amounts for subject property features that are better than those of the comp, and subtract dollar amounts for subject property features that are worse than those of the comp. The result, near the bottom of the comp's column, is an adjusted rent that shows approximately how much rent you can charge for the subject property.

| Property | Subject | Comp #1 | | Comp #2 | | Comp #3 | |
|---|---|---|---|---|---|---|---|
| Monthly Market Rent | To be determined | | $1,499 | | $1,019 | | $1,236 |
| Concessions | | None | | None | | None | |
| Average Square Footage | To be determined | 996 | | 1047 | | 843 | |
| Average Monthly Rent/Average Square Footage | To be determined | $1.51 | | $0.97 | | $1.47 | |
| | Description | Description | Adj | Description | Adj | Description | Adj |
| **Quality Features** | | | | | | | |
| Age | New | 1985 | 25 | 1984 | 25 | 1918/1995 | 15 |
| Location Quality | Excellent | Fair | 25 | Poor | 30 | Fair | 25 |
| Construction Quality | Excellent | Excellent | | Good | 10 | Excellent | |
| Staff Quality | Excellent | Excellent | | Excellent | | Excellent | |
| Building Reputation | Excellent | Excellent | | Excellent | | Excellent | |
| Security Quality | Excellent | Excellent | | Good | 10 | Good | 10 |
| Curb Appeal | Excellent | Good | 15 | Fair | 25 | Fair | 25 |
| **Unit Features** | | | | | | | |
| Patio (Balcony) | Yes | Yes | | Yes | | No | 5 |
| Microwave/Breakfast Bar | Yes/No | No/Yes | | No/No | 5 | No/No | |
| Ceiling Fan/Ceramic Tile/Hardwood Floors | Yes/Yes/No | No/Yes/Yes | | No/No/No | 10 | No/No/No | 20 |
| Utilities Paid | Water Only | Water/Heat | -25 | Water/Heat | -25 | Water/Heat | -25 |
| Window Treatments | Verticals | No | 5 | No | 5 | No | 5 |
| Fireplaces | Some | Yes | | No | | No | |
| Storage | Yes | No | 5 | No | 5 | Yes | |
| Walk-in Closets/Linen Closets | Yes/Yes | No/Yes | 5 | No/Yes | 5 | No/Yes | 5 |
| Vaulted Ceilings/Bay Windows | No/No | No | | No/No | | No/No | |
| In-Unit/Building Washer/Dryer | Unit | Unit | | Building | 30 | Unit | |
| Central Air Conditioning | Yes | Yes | | Yes | | Yes | |
| Cable TV/Hookup Only | Hookup | Hookup | | Included | -10 | Hookup | |
| **Common Area Amenities** | | | | | | | |
| Indoor/Outdoor Pool | Outdoor reflecting | Yes/No | | Yes/No | | No/No | 5 |
| Exercise Room/Tanning | Yes/Yes | Yes/No | | Yes/No | | YMCA/No | |
| Picnic Area/Playground/Barbecue | To be determined | No/Yes/No | | No/Yes/No | | No/No/No | |
| Tennis/Volleyball/Basketball | To be determined | Yes/No/No | | No/No/No | | No/No/No | |
| Party Room/Game Room/Billiards | Yes/Yes/Yes | Yes/Yes/Yes | | Yes/Yes/No | 2 | Yes/No/No | 5 |
| Controlled Entry/Private Entry | Controlled | Controlled | | Controlled | | Controlled | |
| Garage (Type) | Ramp | Ramp | | Underground | | None | 75 |
| Downtown/River-Lake View | Downtown | Downtown | | No | 10 | No | 10 |
| Concierge | Yes | Yes | | No | 25 | No | 25 |
| Retail Supporting Residential Development | Yes | No | 25 | Some | 10 | No | 25 |
| | | | | | | | |
| Average Market Rent | | | $1,499 | | $1,019 | | $1,236 |
| Monthly Discount | | | $0 | | $0 | | $0 |
| Effective Rent | | | $1,499 | | $1,019 | | $1,236 |
| Adjustments (Total Net) | | | $80 | | $172 | | $115 |
| **Adjusted Average Market Rent** | | | **$1,579** | | **$1,191** | | **$1,351** |
| **Adjusted Average Rent:Average Rent/Square Foot** | | **$1.59** | | **$1.14** | | **$1.60** | |

**Figure BC-2:** A sample Harmon Grid.

To complete the grid, take the following steps:

1. **Review the items in the leftmost column and make changes, if necessary, to reflect features and amenities considered most important in your market.**

   To determine the most desirable features in your area, do one or more of the following:

   - Poll your on-site personnel — marketing staff, maintenance, housekeeping, office manager, and so on. All frontline performers interact with your clientele and have useful insights into your residents' preferences that you can find nowhere else.
   - Check out advertisements in local apartment guide books.

- Visit your competitors' websites and read their advertisements and Internet postings. You may find that the competition is advertising quality features and benefits that they have found will be appealing to their prospects' hot buttons.
- Visit the competition, network with other property owners and managers, and talk with renters in the area.

2. **In the next column, enter details about the subject property.**

   For example, for Construction Quality, you may enter Poor, Fair, Good, or Excellent.

3. **In the remaining columns, enter details about comparable properties along with a dollar figure that indicates how much to add or subtract from the subject property's rent for that particular feature or quality:**
   - No amount if the subject property's feature/quality is equivalent to that of the comp property.
   - Plus dollar figure if the subject property's feature/quality is better than that of the subject property.
   - Minus dollar figure if the subject property's feature/quality is worse than that of the subject property.

4. **Near the bottom of each comparable property's column, enter the following:**
   - **Rental Rate:** Asking or market rent
   - **Monthly Discount:** Any discount offered, such as first month free rent
   - **Effective Rent:** Rental Rate minus Monthly Discount
   - **Adjustments:** Total of plus and minus dollar figures in the column
   - **Adjusted Comp Rent:** Effective Rent minus Adjustments

The Harmon Grid results shown in Figure BC-2 indicate that a fair monthly rent for the subject property would range from $1,191 to $1,579, which is considerably higher than the $1,019 to $1,499 range a typical property owner would likely consider if he were looking to set a competitive rent.

Some critics of this grid approach point out how difficult it is to estimate the amount of value that residents or prospects place on individual intangible features. However, unless landlords are willing to try to account for the real value that they offer, they end up basing their rents entirely upon tangible features of their properties and are likely to price the units only modestly more (at best) than their competition, even if their own units are far superior.

## Accounting for quality

When comparing rental properties, don't focus solely on the quantifiable physical features of a property, such as the total square footage, the number of rooms, and the amount of available storage. Consider subjective features, such as quality and value, as well. For example, the curb appeal of your property — its appearance as seen from the road — may be spectacular. The grounds are immaculate, the flowerbeds are festively planted, and the building gleams in the sun. This exceptional curb appeal deserves to be included in the value of the product and should be reflected in the rent.

Likewise, renters are likely to prefer and be willing to pay more rent for a brand new rental property with modern plumbing and electricity, central heating and air-conditioning, better insulation, and fashionable decor as compared to an old, drafty rental property with few electrical outlets, slow drains, leaky plumbing, and unreliable heating and air-conditioning. Of course, in some areas, an older complex that's well designed, built with quality materials, frequently updated by a responsible owner, staffed by extraordinary personnel, and then carefully maintained by a professional staff, may be in higher demand and command a higher rent than that brand new property.

These quality features, while subjective, represent what prospective renters in the market not only use as primarily selection criteria, but also are willing to pay increased — even premium — rents to obtain. The foundation of the Harmon Grid is that significant modifications can be made to a marketing grid to recognize the presence, or absence, of intangible quality attributes, and that these attributes often call for adjustments in asking rents — often substantial increases in asking rents.