



Compliments of UTAH Apartment Association

FINDING THE 13TH MONTH Supplementing Rent with Ancillary Income

Some owners feel that the greatest income limiting factor in real estate is the calendar. Owners who focus on rental income alone know they are limited to a maximum of 12 months. Yet savvy owners and investors who look for that 13th month's income, can find it – they just need to know where to look.

Non-rent Income

While it is impossible to add a 13th month to the calendar, it is possible to create extra revenue from rental property. Collecting non-rent, or ancillary income, is a tactic used by many successful real estate investors to generate extra income and increase the resale value of their property.

There are many sources of non-rent income to consider. The following list is only a sample. The only limits to ancillary income are your imagination and the constraints of the law. Be sure you understand the legality of any charge before charging it. We recommend you consult with an attorney before creating a new fee.

Rental Premiums – Suppose you have an up and down duplex. Would you charge the same rental rate for both units? Of course not! There is a higher perceived value in being on the top floor and not having noise potential above. This is an obvious case where you could charge a higher rate, or premium, on a unit technically identical to another because of perceived value. Another example is end units on townhouses. With half as many neighbors and perhaps more windows there is higher value to justify higher rents. Other rental premiums include view, fireplace, and proximity to parking or amenities.

Another example of rent premiums would be renovated or updated units. If one unit has newer carpet, appliances, or updated features, there should be a higher rate charged than a

identical unit that is not updated. If you find some of your units always rent quickly, this may be that they are more desirable for some reason and you may be able to raise the rent on that unit and still keep it full.

Late Fees – If property owners pay their mortgage late there is a set late fee. The same ought to be true for late rent payments. Yet too many owners waive late fees in the interests of getting along with their renters. If you care about the income and value of your property you should NEVER WAIVE LATE FEES. This additional income can drive up the value of your property and waiving them potentially reduces your resale value. Reasonable late fees in Utah are around 10% of rent. Many owners recommend a large initial late fee on the third or the fifth and then a smaller per day charge after that.

Pet Fees, Pet Rent – While many landlords refuse to rent to individuals with pets, others generate extra income off pet deposits and pet rents. Data shows that 57% of all renters will not move without their pet. Why not capitalize on this by charging extra pet rent and non-refundable pet deposits. It is not uncommon for pet owners to pay an extra \$25 per pet in rent or to pay \$200 non-refundable pet fees. Sure there are risks, but there are also higher potential rewards to owners who charge extra for pets.

Application Fees – All across the country, smart property owners do background checks on applicants and pass on this cost through application fees. While these fees are illegal in Salt Lake City and Midvale, they are legal everywhere else. All owners should do background checks, and it is advised that you charge a reasonable application fee of \$15-\$30, or the actual cost of the checks to offset this cost. If you do the check but absorb the costs charging applicants a fee to offset this cost will generate extra income for you.

Administrative Charges – Many property owners include an administrative charge with each contract they fill out. There are many names for this: lease initiation fee, cleaning fee, redecoration fee, etc. The purpose of this fee is to generate extra income on renters and encourage them to stay longer. Many companies base the fee on a percentage of their deposit; others make the fee a set amount, like \$200. This fee can discourage turnover and is an excellent way to capitalize on the transient rental market.

Washer Dryer Rent/Laundry Income – Even if you aren't large enough to justify a laundry room, you can provide washers and dryers and raise the rent. A new set of machines for \$800 can be repaid quickly with \$35 - \$50 extra per month. After they are paid off, the machines generate terrific extra income.

Parking and Storage Space – There is no law that says you must allow renters to have unlimited vehicles. Many owners charge extra for additional cars. Also, if you have the potential of creating storage space, say in a basement or by building a shed, there is income to be generated off of that. A \$1,000 storage shed that adds \$50 extra income pays itself off quickly and the future income is all profit.

Utilities, Sub Metering and Resident Utility Billing – Many large complexes now bill back residents for water and sewer. In order to either sub meter or bill back residents in a

large complex you need professional advice. But simply requiring a renter to pay their water, sewer or garbage bill is easy if they are separately metered. It also helps them be more conscientious of use if they pay the bill themselves.

There are many other ways to create ancillary income from rental property. Be sure to consult a professional before trying something new in order to make sure it is legal.

Real estate companies in Utah that maximize ancillary income currently generate as much \$825 a year ancillary income per unit. In essence, they have found that “13th month’s income”. By employing these strategies you can break the bonds of the traditional calendar and generate extra revenue from your rentals.