



New 1099 Regulations

Over the past couple of months several owners have inquired about the new 1099 reporting requirements. Here is a quick summary of the changes.

Recently Congress passed new regulations regarding 1099 income reporting that investors should be aware of. The newly enacted small business legislation (HR5297) included an expansion of the 1099 reporting related to a trade or business. To date only those real estate professionals engaged in property management-type businesses have been required to file 1099 forms. Congress has extended the 1099 form requirement to **any person** who receives rental income. This requirement would apply to any landlord (including small investors) rather than only those who are in the business of managing property. Starting in 2011 any person who receives rental income must provide a Form 1099 for **all payments** of \$600 or more made to **service providers** such as plumbers, carpenters, yard service and repair vendors. The purchase of goods is not included within the reporting requirement. The Form 1099 is provided to the IRS and to the service provider. The new requirement applies to both residential and commercial property.

The Good News –As a corporation, Bennett Property Management has been reporting 1099 miscellaneous income on behalf of our owners for many years. We consolidate yearly payments made by all of our owners to each service provider and issue 1099's every year. Payments made directly by owners would not be covered and would require owners to issue a 1099 to the service provider. There is another phase of the legislation due to take effect next year that may require additional reporting from individual owners and we will continue to monitor this closely, keeping our owners informed. As for 2011, we will continue issuing 1099's on our owner's behalf to make sure they comply with the new requirements.

—Mike Mumford

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Frank's Forum



Numbers, numbers...

Year end is always a good time to look at numbers. Mike Mumford (Business Manager) and I are the "numbers guys" at the office and sometimes we get carried away. Computers and spreadsheets make it way too easy, but hopefully some of this is interesting and of use.

First and foremost, almost 40% of our owner-clients have been with us since 2004 or before. More than 7 years through one of the most turbulent periods in our financial history! We are grateful for your loyalty and trust, and try to earn it every day.

Those long term owners represent about 650 properties, and over 60% of those properties have been rented for more than one year. More than a third (34%) have been rented for over 3 years; fourteen percent (14%) for longer than 5 years. Nineteen tenants have been with us more than 10 years. The average length of stay with us is just over 2 1/4 years.

From 2004-2007 our average rents went up 4.5%; 2007-2010 rents have decreased 3.4%. Depending on what set of statistics we look at, we are at or a little behind the rate of inflation.



Long-term Renters

There are at least two schools of thought when it comes to setting rents and renewing leases.

One thought is to be at the very top of the rent scale at all times, pushing the envelope to squeeze every drop of return from the property. In addition to sometimes helping cash flow, this method maximizes property valuation which is based on some multiple of gross rents.

We generally lean strongly in a different direction, preferring to encourage tenant longevity by keeping rents at very competitive levels. Our belief is that real income is higher over time and repair and maintenance costs are kept lower by having long-term tenants.

Elsewhere in the newsletter you can see that our average length of stay is well over 2 years and that more than 60% of our tenants stay more than one year.

At renewal time, managers spend a good amount of time calculating what rent to charge. We want the tenant to stay and want to keep rents as close to market as possible. It's a tricky dance in moving markets (up or down) and most managers get a 2nd or 3rd opinion in the office before making a decision.

When BPM managers call an owner to discuss rents, you can be sure that they have done their homework.

Audit

Barbara and I are just finishing up an audit by our dear friends at the Internal Revenue. Even though the final results are not in, the experience has not been terrible. Worrysome and scary, yes, but not torturous.

The only reason I bring it up is because the majority of our income comes from property managed by Bennett Property Management. That income and those expenses were the focus of our meetings. The good news is that the files were complete and easy to deal with. The IRS agent said our record-keeping was "meticulous".

It wasn't our record-keeping, it was the work of Bennett Property Management, and we are very grateful for the professional service we receive.

Retirement

I just finished making a pineapple upside-down cake. And I'm going outside in a while to paint the trunks of our citrus trees.

It is so great to have "nothing" to do! We are very busy, but almost everything is on our own schedule, not meeting the demands of the job or the family as we did for so many years.

Barbara and I still sit on several community boards--A New Leaf, Mesa Arts Center, Arizona Theatre Company, etc--and Barbara is busy all winter playing duplicate bridge. For the most part, however, our time is our own. We are very fortunate.

P.S. 1. The cake turned out great. 2. We paint the trunks of citrus trees to slow evaporation and discourage bugs.

Business Prospects

Looking at the articles this month, it seems like we dwell more and more on politics and not so much on the rental and real estate business.

We are still optimistic about the prospects for residential rentals in the Valley. The sun still shines almost every day, the cost of living is not too bad, and we are not taxed to death. If the unemployment rate starts down we will really start moving again.

One unexpected side-effect of the downturn in the economy and the high foreclosure rate: our tenant profile has improved greatly. We are getting applicants with high credit scores and good jobs. These folks would have been buying several years ago but choose to rent now because of the uncertainty in the market and the difficulty in getting mortgage loans.



Ho Ho Ho...

Experience

Elsewhere in this newsletter we printed statistics about our owners and properties. We also like to brag about staff experience. In a business marked by constant turnover BPM has remarkable stability.

We have 25 managers and senior staff with a total of almost 240 years of experience (9.5 years average). Eight of us (not including me--with 40 years I bend the curve too far) have been with the company more than 10 years. All but 5 of the managers have been here more than 5 years.

Why the longevity? We are a family owned and operated company and think of our staff as members of our family. We treat people fairly--clients, owners, tenants and staff. We pay well, probably better than any other management company in the Valley.

And we're lucky. We work and live in a great place with opportunities to succeed and prosper. We are grateful.

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Efficient Government

We hear so often that government should be run like a business. For the most part I'm grateful that it is not.

The first problem I see is that touchy problem of who is making the decisions. In business, normally, there is a CEO who has the final word. There often is a Board of Directors, of course, but for the most part the CEO runs things to march toward the goals of the company. If that were the structure of government we would call that guy a dictator.

The second important issue is that of goals. Businesses exist to make money for their owners. Government by its very nature cannot make profit (unless we count the ability to print money).

So what do people mean by saying government should be run like business? I think they mean that government should be more efficient.

Well, here's a news flash. Big business isn't very efficient either. Whenever large enterprises exist, communication and function cannot be efficient.

All this came up as I watched the politicking in Washington this week about the tax cuts, unemployment, etc. A CEO would wave his hand and say "this is how it will be." The President and the Congressional leadership have a tougher job. We can only hope that the decisions Washington makes are the best for the country--it is not really any different than waiting to see if a CEO's decisions are right for his (her) company.

No dictators, please.
Help and hope are within grasp for the working poor and home-



less at A New Leaf programs.

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Warmest Regards,

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