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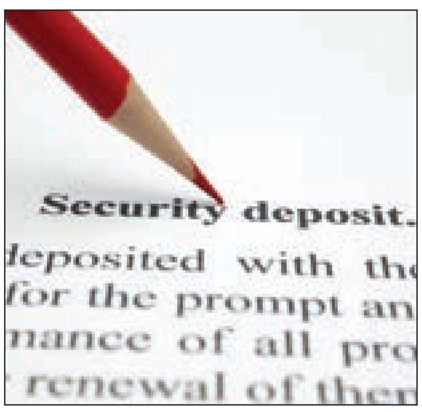

Security Deposits: Common and Costly Mistakes

By Cory Brewer

In my role as a general manager, disagreements over security-deposit resolutions cross my desk more often than most other issues.

I've lost count of how many times a former tenant explained that they, "left the home in better shape" than they found it, while at the same time I have had numerous conversations with our landlord clients about how they are being too aggressive with their charges. It can be a contentious issue on both sides of the table.

We all hope that a tenant treats the rental home with respect, and that we can refund most – if not all – of the security deposit quickly after they vacate.

On the landlord's end, timing and accuracy are extremely important.

The law in Washington state currently prescribes that a landlord must mail a statement specifying the basis for withholding of security deposit funds within 21 days of the tenant vacating – which is *not* always

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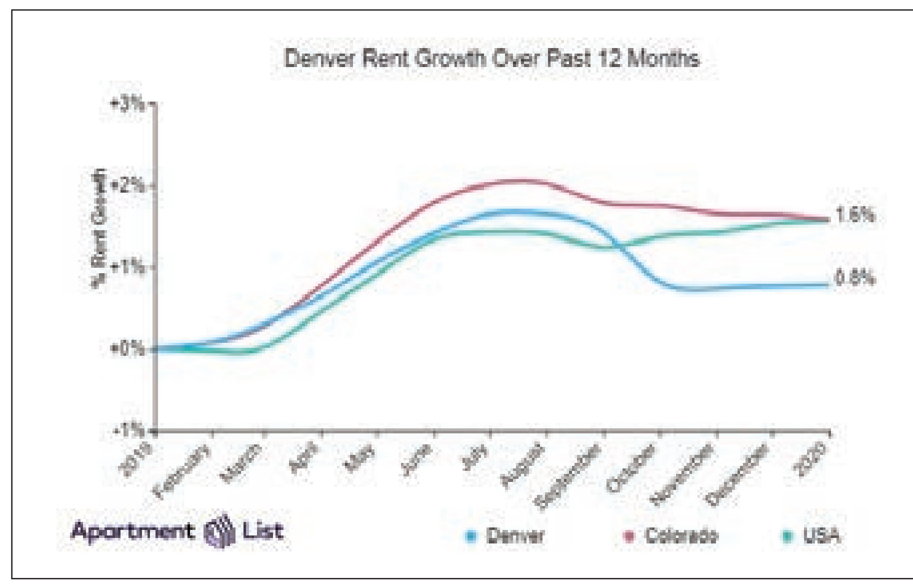
Denver Rents Remain Flat

Apartment List

Denver rents have remained flat over the past month, however, they are up marginally by 0.8 percent year-over-year, according to the latest report from Apartment List.

Median rents in Denver are $1,069 for a one-bedroom apartment and $1,353 for a two-bedroom.

Denver's year-over-year rent growth runs behind the Colorado national averages, which both stand at 1.6 percent.



Rents rising across the Denver Metro

Throughout the past year, rent increases have been occurring not just in the city of Denver, but across the entire metro. Of the largest 10 cities that Apartment List has data for in the Denver metro, 9 of them have seen prices rise.

Here's a look at how rents compare across some of the largest cities in the metro.

• Thornton has the most expensive rents in the Denver metro, with a two-bedroom median of $1,935; the city has also seen rent growth of 2.7 percent over the past year, the fastest in the metro.

• Over the past year, Brighton is the only city in the metro that has seen rents fall, with a decline of 7.0 percent. Median two-bedrooms there cost $1,688, while one-bedrooms go for $1,332.

See 'Denver' on Page 6

The Best Appliances to Have in Rental Units

Keepe

Upgrading appliances in a rental property is one way for property managers to command higher rent and attract high-end tenants.

These appliances, when safe and reliable, add great value to your rentals, which eventually translates into increased income over time.

Besides enhancing value, appliances are also tax-deductible. Under Section 179 of the U.S. tax law, property managers are mandated to deduct appliances (as of 2018) – another reason to upgrade to better appliances. Before you upgrade appliances in a rental unit, we have some tips on which appliances are most ideal and safest to use for your properties.

Electric or gas stove/oven?

Before deciding on which stove to use for your property, a property manager should first consider the risks and the long-term costs of each. Some factors to consider are the cooking range, safety, and prices of each type of stove.

Range – Typical tenants who cook daily can hardly tell the difference between these two stoves. However, an interesting insight: a chef would prefer a gas range over an electric one, while a baker would choose an electric oven over the opposite.

Safety – There are certainly different safety hazards associated with using either of these stoves. By using an electric stove, a tenant could risk an electrical fire or electrocution, especially if

See 'The Best' on Page 7

Sponsored Content

Five Things to Remember When Deciding to do a 1031 Exchange

By Dwight Kay and the Kay Properties Team

A 1031 exchange is a legal way for investors to defer their capital gains taxes on the sale of real estate held for investment or business purposes. It allows one to defer taxes on a property sale as long as they follow specific 1031 rules and guidelines. In other words, you have the potential to keep all your profits working for you with the purchase of your next investment property, without the IRS coming after you looking for their share of the pie. Here are five things to remember before a 1031 exchange.

1. Taxes are Applicable in a Non-1031 Exchange

When an investor sells a property that has gone up in value this results in several types of taxes. These include capital gains taxes, which the investor must pay if they sell the asset at a price higher than they initially paid for it. Federal capital gains are taxed at 15-20% of the increase in value, while state capital gains are taxed between 0- 13.3% of the increase in value.

Depreciation recapture taxes are taxes due when the seller had claimed depreciation expenses on the sold property. Depreciation recapture is currently taxed at 25% of the amount you have depreciated over the years. Other taxes incurred on property sales include the 3.8% Medicare surtax.

All these taxes are able to be deferred if you do a 1031 exchange. But if you choose to sell your property without a 1031 exchange, ensure you consult a reputable attorney and CPA so you can know what your full tax bill will be when adding up federal capital gains, state capital gains, depreciation recapture and the medicare surtax.

2. You Need a Qualified Intermediary

A 1031 exchange isn't as simple as selling and reinvesting in another property. You must first transfer the relinquished property to an intermediary or an accommodator so they can execute the sale on your behalf. This is a process whereby your sale contract is assigned to the qualified intermediary and when the property closes your funds are then wired to your account at the qualified intermediary. From there you will instruct which properties you would like the qualified intermediary to purchase on your behalf. Kay Properties is not a qualified intermediary however we work with many throughout the country so if you would like a referral please let us know.

3. You Can Only Purchase a Like-Kind Asset

For you to defer taxes via a 1031 exchange, you must reinvest the profits from the sale in like-kind property. In other words, if you sell a property held for investment or business purposes in a 1031 exchange, the replacement property must be of the same character. For example, you could sell an apartment building and purchase a commercial building or you could sell a rental home and purchase a DST 1031 investment.

4. Remember Deadlines

1031 exchanges are subject to deadlines. If you sell a property today, you're expected to have identified the replacement property within the next 45 days and reinvested the proceeds in it within 180 days. But if you'd already identified the replacement property, you can reinvest immediately.

5. Understand Your Options

Once investors have decided to do a 1031 exchange they should consider their options. First, they could purchase another type of investment property that they would manage on their own. Second, they could purchase a triple net lease property whereby a national tenant such as Walgreens or FedEx has leased the property for typically 10-15 years. The problem with the triple net leased properties is that it causes investors to place a large portion of their net worth into a single property which could be disastrous (think Blockbuster Video). Third, if the investor is wanting to get out of active management and the day to day issues of dealing with tenants, toilets and trash as well as they are wanting to diversify their investments into multiple properties then a DST 1031 exchange may be a solution. The DST (or Delaware Statutory Trust) is a type of property whereby the management is handled by a third party trustee and since the typical minimum investment of a 1031 DST offering is $100,000 investors are able to purchase a diversified portfolio of Delaware statutory trust properties that may include a piece of Walgreens for 100k, piece of a FedEx distribution warehouse for 100k and a piece of a 800 unit portfolio of multifamily properties located throughout the south east and Texas*.

If you are interested in learning more about your 1031 exchange options please get in touch with us today to learn more.

Property Managers Expected to Face Unprecedented Change Throughout 2020

Rental Housing Journal

Property managers are at the center of the collision between rising rental demand, declining profitability, changing regulations, and the nationwide shortage of affordable places to live, according to the fifth annual survey of 1,738 property managers by Buildium and the National Association of Residential Property Managers.

In addition to the property managers, the report also surveyed 1,118 renters, 603 rental property owners and 217 association board members in 340 metro areas.

Chris Litster, CEO of Buildium, and Gail Phillips, CEO of the National Association of Residential Property Managers (NARPM), presented *The 2020 State of the Property Management Industry Report* in a recent webinar focusing on key macro trends.

The report said property managers who "are prepared to refocus their businesses on the rapidly evolving preferences of their residents and clients will be best positioned for success as the industry enters a new chapter."

Still, the report makes the point that relationships remain at the heart of effective property management.

"Property managers have found themselves at the center of the collision between rising rental demand, declining profitability, changing regulations, and the nationwide shortage of affordable places to live," the report says.

"It's evident that these socioeconomic forces, along with the very real and immediate demands of their owners and residents, are changing the role of the property manager for good."

Legislation and regulation are issues in many markets

The effect of legislation and regulation was a top issue mentioned in the webinar and the report, as rent control and other local and state policies begin to show up in many areas.

The report notes that "in the midst of changing regulations, property managers have the opportunity to market themselves as experts who can help owners navigate an increasingly treacherous legal landscape"

Phillips described how this affects the property management business.

"This is not about politics," she said. "This is how these policy changes impact our economies. As laws become more restrictive, we are focused to take additional precautions in our leasing-process and resident-retention policies.

"As laws become more restrictive, we are focused to take additional precautions in our leasing-process and resident-retention policies," said Gail Phillips, CEO of NARPM.

"This is not always perceived well by owners and residents," she said. "Our company is exploring options for educating owners about landlord-tenant laws. We hope by doing this we will

Continued on next page

Which services do you offer to your clients?

	2017	2018	2019
Maintenance & repairs	65.5%	74.6%	80.4%
Rent & fee collection	--	76.4%	80.1%
Leasing properties/marketing vacancies	55.2%	69.9%	77.3%
Property inspections	58.4%	68.3%	73.9%
Evictions	52.3%	65.5%	68.4%
Cleaning	44.5%	59.0%	62.2%
Accounting	47.1%	51.1%	57.1%
Financial reporting	35.0%	38.7%	54.8%
Property sales	31.2%	49.5%	52.5%
Outdoor services	35.5%	49.2%	52.3%
Construction/renovation	38.7%	40.2%	47.6%
Financial/investment advice	15.7%	17.4%	22.1%
Insurance services	9.1%	12.6%	15.3%
Interior design/staging	9.4%	12.9%	12.9%
Legal advice	7.1%	9.3%	12.9%

Charts from the Buildium report.

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strengthen our relationship with our owners," Phillips said.

The report used survey data and in-depth market research to look at the following questions:

"How should property managers adapt their strategies for success in response to changing conditions in the local markets where they operate?

"What role do property managers play for their clients as the nation's largest rental markets face a less-profitable, more-regulated future?

"How can property managers balance the explosion of property-technology options with the vital "human element" at the heart of our industry?"

Top priorities include both efficiency and growth

The report says "property managers are laser-focused on growth and efficiency above all else—as they have been for four years straight.

"In our recent seller's market, growth hasn't come naturally. Property managers have had to fight to maintain their profitability and client base—their third and fourth most-selected priorities for the coming year," the report says.

In addition, "many have renewed their focus on facilitating effective communication with their residents, owners, and employees in this fast-moving era where technology both facilitates and hinders our relationships."

Areas that cause stress for property managers

In addition to being property managers' top priorities, the pursuit of increased efficiency and growth is a top source of stress.

Together with maintenance, these three areas were selected as "the biggest challenges by nearly 1 in 3 property managers for three years in a row.

"Now more than ever, property managers are faced with conflicting demands for ever-more-efficient business processes and human-centric customer service—all in a market where profitability and portfolio growth require additional effort," the report says.

Skills wanted in a property manager?

Here is what the report says:

"78 percent of owners want regular updates from their property manager on their rental properties; 43 percent want to receive those updates in real time.

"72 percent of renters feel that it's very important that their property manager is easy to get ahold of and resolves issues quickly.

"60 percent of renters say it's very important that their property manager provides great customer service and keeps things running smoothly.

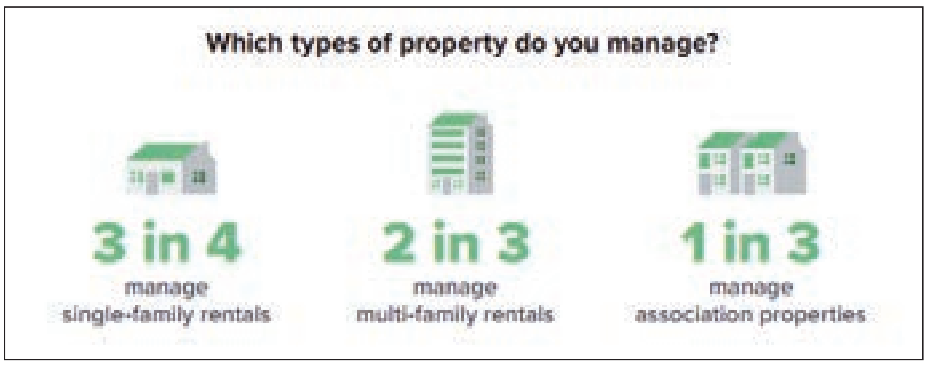
"44 percent of rental owners agree that quick response times and good communication skills are among the most important qualities a property manager can possess," the report says.

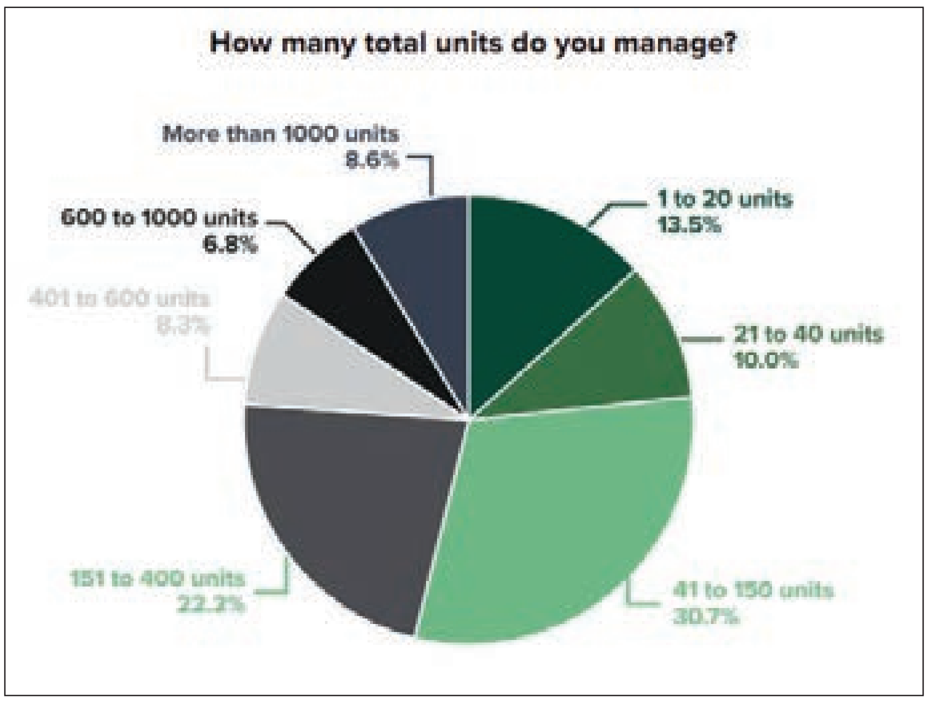
Fewer entering the property manager field

Property-management jobs are in high demand, the report says, and an ongoing challenge in a tight labor market.

"The field is changing fast, and property-management companies face a dwindling supply of employees and vendors.

"The current labor shortage underscores the importance of retaining staff with a positive company culture, bolstered with the training and mentorship they need to have successful property management careers in the decades to come," the report says.





Property Managers' Top Challenges

	2017	2018	2019
Efficiency	32.0%	32.3%	32.6%
Growth	24.5%	26.5%	30.6%
Maintenance	34.1%	31.4%	30.2%
Vendors	23.2%	24.6%	23.5%
Accounting	23.9%	11.3%	21.2%
Balance	18.1%	17.3%	19.3%
Staff	15.5%	22.6%	17.9%
Profitability	22.9%	19.0%	17.4%
Marketing	8.9%	11.5%	16.1%
Residents	22.9%	19.6%	15.2%
Portfolio loss	6.4%	13.5%	13.4%
Technology	11.3%	14.0%	12.2%
Communication	12.9%	11.4%	11.8%
Owners	10.2%	11.2%	10.1%
Legal issues	6.7%	6.6%	7.3%
Finances	8.9%	5.8%	5.8%

Chart from the Buildium report, The 2020 State of the Property Management Industry Report.

"Due to understaffing, current employees are stretched thin, creating high-stress working conditions that cause burnout and turnover. To add to the issue, property managers may soon begin to retire faster than others are entering the industry; IREM estimates that the average property manager is in their 50s," the report says.

Though current property managers often found their way to their career by accident, it's a profession that many come to love for the independence and day-to-day variety it provides, Litster and Phillips said on the webinar.

"And it's a good time to be a property manager: The profession is in high demand as renting becomes a way of life for a growing portion of Americans," they said.

"Whether you entered property management from another part of the real estate industry; from within a family business; or through a passion for housing issues, you're in good company," they said on the webinar.

Litster said the number of people entering the industry has dropped in half in the last few years.

"Property management needs a serious public relations campaign. We need to pay attention to how we coach and mentor young people and show them all the ways this job is not only critical but really an ideal opportunity for those with an entrepreneurial spirit and ones who want to take control of their careers," he said.

3 top takeaways from the property managers' report

No. 1: Property managers have a critical role

"The demand for affordable places to live has outpaced the supply for years, causing rents and home prices to grow faster than residents' salaries can support. Property managers are put in a difficult position, trying to balance the profitability of their clients' investments with rent prices that keep units filled with qualified residents. There's no simple solution to this crisis on the horizon; but property managers can play an advisory role to property owners by staying on top of changing regulations aimed at easing affordability issues in their market, such as up-zoning and rent stabilization," the report says.

No. 2: Keeping up with issues in the local market

"With cap rates compressing in overheated markets like New York and San Francisco, investors are discovering higher yields and faster growth in mid-sized cities and suburbs— though prominent secondary markets like Austin and Nashville are becoming less lucrative as investors flood in. Some residents are discovering strong job growth and an appealing standard of living by migrating to rising markets like Phoenix and Dallas. Property managers can be an invaluable asset to their clients by keeping abreast of socioeconomic changes in their local market, ensuring that their properties are positioned effectively to attract and retain high-quality residents," the report says.

No. 3: People are the heart of property management

"Technology makes it possible for investors to automate many aspects of running a rental property, from DIY landlords with a handful of multi-family units to institutional investors buying up thousands of single-family rentals. This has put property managers in a position to prove that the service they provide can't be replaced with an app. Property managers can get ahead by shifting their strategy to account for their residents' and owners' experiences, and reinforcing those relationships with technology. There is no technology that can replace the human element in property management—it can only enhance it," the report says.

More renters will continue coming

"In 2018 the number of people who rent their homes surpassed the number of people who owned their homes for the first time in the U.S.," Litster said. And that trend is only expected to continue.

The good news is the U.S. Bureau of Labor Statistics is "predicting a 10 percent increase in property management jobs by 2026," said Chris Litster, CEO of Buildium.[/caption]

He said it is a great supply and demand story for the industry.

"The good news is," Litster said, the U.S. Bureau of Labor Statistics is "predicting a 10 percent increase in property management jobs by 2026" compared to other professions expected to grow by 7 percent.

Phillips said property management is becoming more like the hospitality industry.

"Customers are drawn to high-touch personal experiences" that property managers can create with excellent tenant customer service, she said.

"Keep learning and stay connected and take advantage of learning opportunities, such as NARPM, that are out there," Phillips said.

Denver Rents Continue Flat for the Month

Continued from Page 1

Colorado Springs rents up year-over-year

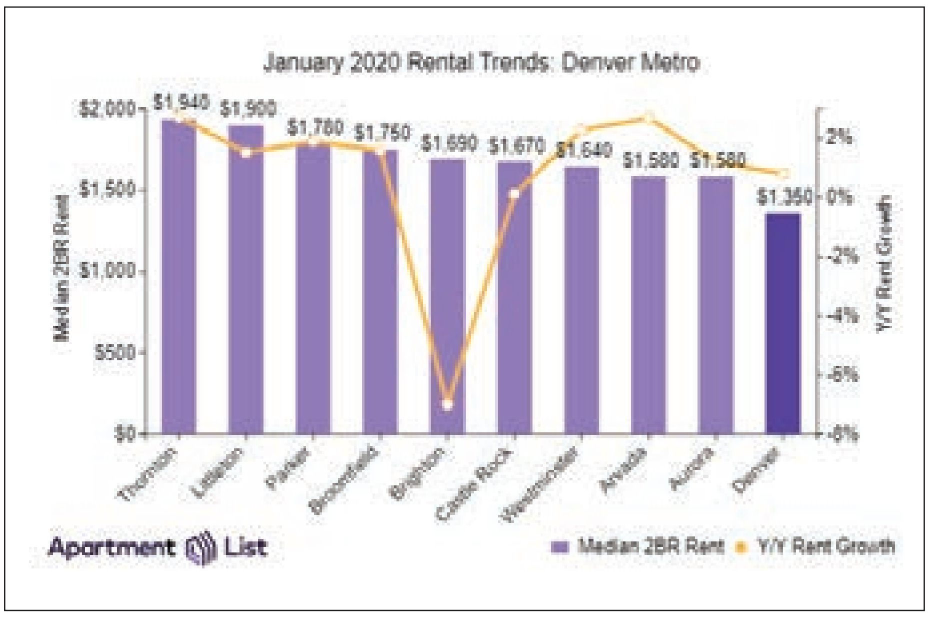
Colorado Springs rents have remained flat over the past month, however, they are up moderately by 3.3 percent year-over-year.

Currently, median rents in Colorado Springs stand at $986 for a one-bedroom apartment and $1,272 for a two-bedroom.

Boulder rents held steady over the past month

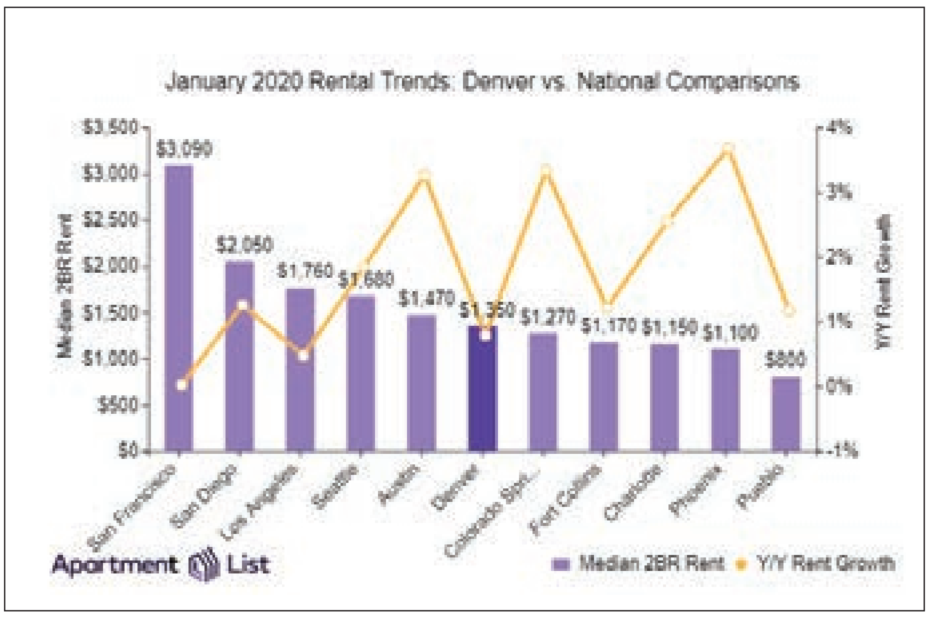
Boulder rents have remained flat over the past month, however, they are up moderately by 2.4 percent year-over-year.

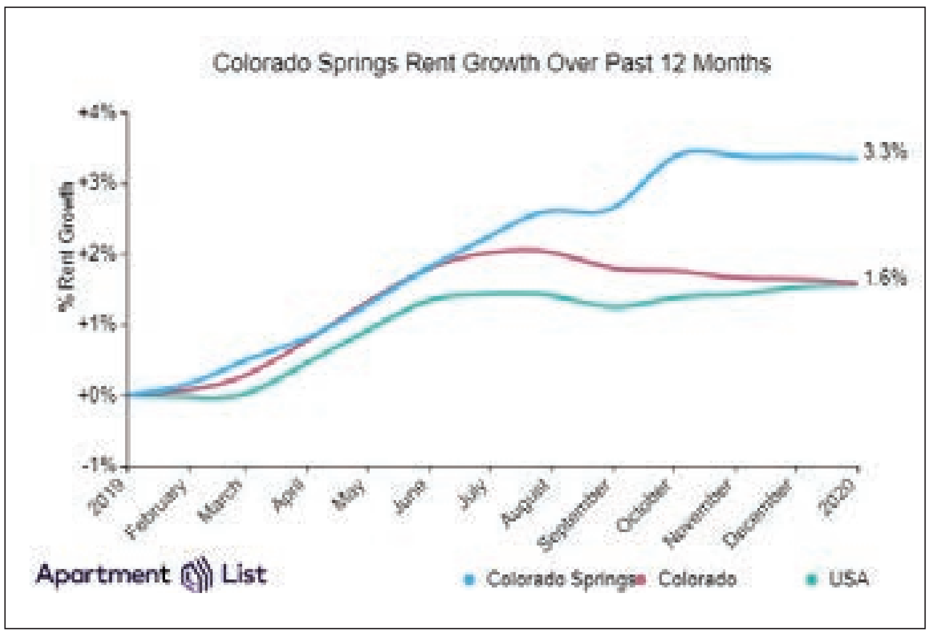
Currently, median rents in Boulder stand at $1,189 for a one-bedroom apartment and $1,451 for a two-bedroom. Boulder's year-over-year rent growth leads the state and national averages of 1.6 percent.

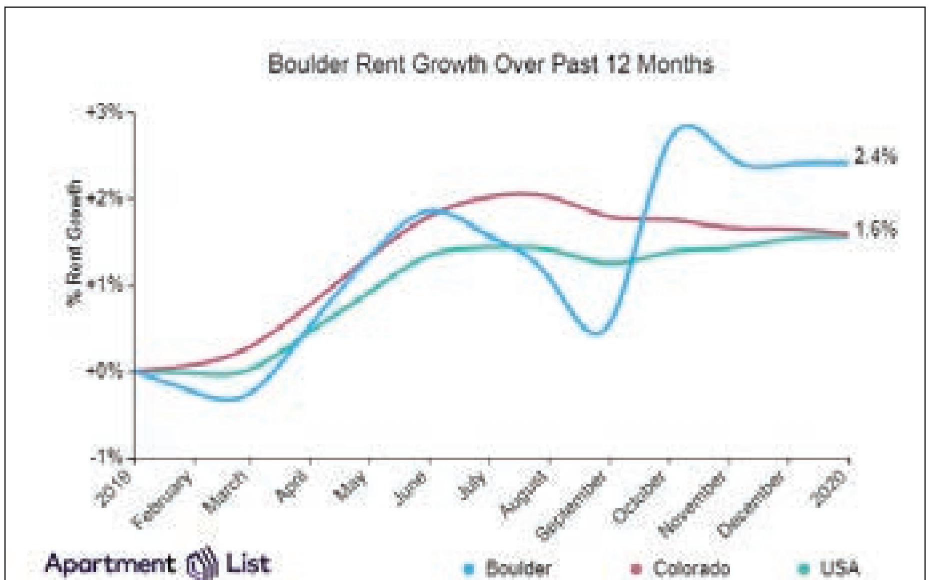


Denver Metro Rents

City	Median 1BR price	Median 2BR price	M/M price change	Y/Y price change
Denver	$1,070	$1,350	0	0.8%
Aurora	$1,250	$1,580	-0.1%	1.2%
Thornton	$1,530	$1,940	-0.4%	2.7%
Arvada	$1,250	$1,580	0.1%	2.7%
Westminster	$1,300	$1,640	0	2.3%
Broomfield	$1,390	$1,750	-0.3%	1.6%
Castle Rock	$1,320	$1,670	-0.6%	0.1%
Parker	$1,410	$1,780	-0.3%	1.9%
Littleton	$1,500	$1,900	-0.2%	1.5%
Brighton	$1,330	$1,690	-0.1%	-7%
Englewood	$1,230	$1,560	-0.4%	1.9%
Wheat Ridge	$1,010	$1,280	0	2%
Golden	$1,290	$1,620	-0.1%	4.8%
Lone Tree	$1,580	$2,000	-0.4%	1%





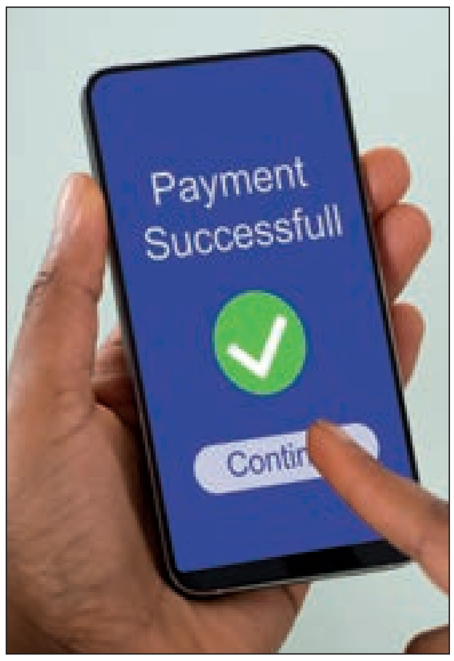


How Technology is Changing Property Management ... and Why You Should Care

By Alex Britton

Like most industries, property management is being disrupted by technology. As a property owner and former tenant, I've experienced each side of property management, with and without technology being involved. From rent collection and handling maintenance issues to property accounting and leasing, there are new ways to leverage technology to efficiently manage your properties, and your portfolio.

Let's consider technology and property management on a spectrum, going from manual on one end to automated on the other. The traditional way of managing property where almost everything is handled manually:Tenants send or drop off checks and cash, leave messages when a maintenance issue comes up, and look through classifieds to find apartment rentals. Things gradually became more automated with options like PayPal and Venmo to collect rent, and web portals were created by large management companies to handle online rent payments and in-building messaging to alert tenants of upcoming building repairs. Today, app's are now available to assist in automated rent collection; in-app messaging to provide maintenance communications that allow tenants to identify the type of problem and send images so that the issues can be dealt with sooner rather than later, and to notify tenants of an event or an upcoming building repair; and built-in marketing tools to list vacant apartments



on popular rental websites.

Studies and surveys from leading real estate blogs and publications show that incorporating technology into the property management mix is the new norm. Millennials and Gen Z are the largest groups renting and Mashvisor says that automation is going to be a necessity in the 2020's. A 2020 CBRE report goes a step further saying that tech integration, including mobile app payment for rent, is an important amenity for multi-family properties.

So how does tech measure up in real terms? Let's take a look at how it is directly shaping the four pillars of property management.

Rent Collection: Late payments and inputting cash and checks manually slows down the accounting cycle, among other things. With an app, payment reminders and notifications go directly to the tenant when rent is due. Tenants can pay from anywhere, with one tap of their phone, enabling landlords to collect rent 2x as fast.

Maintenance: Decentralized communications from messages coming from different places -vms, email, or texts, and delays in response time due to a lack of organization, all contribute to the problems that arise when maintenance issues are not dealt with in a timely manner. Technology is driving more efficient ways to manage maintenance issues, from in-app reporting to contacting your maintenance provider, all communication is in one location and easily tracked.

Property Accounting: Weekly and monthly reports are time consuming to keep up with manually, especially when you have multiple properties to track and documents are coming from different sources. Incorporating property management software will enable you to automatically log and track all revenue and expenses in a general ledger, making it much easier to manage.

Leasing: Writing copy and placing your listing on multiple real estate sites is tedious and takes time. Property management software allows you to quickly publish and edit your listings to multiple sites at once, respond to inbound leads, order background and credit checks, and eviction reports, all from one hub.

Like any disruptor, there are barriers to entry to consider- cost, ease of use, and security. Although it can cost a property manager hundreds, if not thousands of dollars a month to use property management software, there are platforms that are free to use, and have the same, if not better features than their more expensive competitors.

For some, adopting a new process seems to be too time consuming to change and too difficult to learn. But contrary to this belief, there are platforms that have been built intuitively by property managers, for property managers, keeping easy onboarding, inputting, and reporting top of mind and easy to use.

Lastly, like other ACH payment options, online rent payment software adheres to the same strict guidelines to keep both tenant, landlord, and third party transactions secure. Banking credentials are verified and protected.

As technology continues to shape the way properties are managed and how tenants and landlords communicate, adopting new processes to improve efficiency and ultimately, your bottom line, is well worth the time to explore. Learn more about what technology is right for you.

The Best Appliances to Have in Rental Units

Continued from Page 1

improperly installed or under-maintained. Alternatively, using a gas stove puts a tenant at risk of carbon monoxide poisoning.

Price – Gas stoves are a more expensive option. However, natural gas is more affordable in the long run. Consider these factors before choosing the right stove for your property.

Faux or genuine stainless-steel refrigerator?

Having a white refrigerator in your rental property is good, but not good enough for tenants who like to see stainless-steel refrigerators in their living space.

Genuine stainless-steel refrigerators often complement other appliances in a rental property. However, they are, unfortunately, no more stain-resistant than faux stainless-steel refrigerators.

While it's easy to invest in a new refrigerator, it's important to consider whether there would be enough space in the rental unit to swing it open and if the unit's dimensions in the kitchen can allow the main refrigerator compartment and freezer to freely open. French doors, or having the freezer above or below, might make a difference here.

Regardless of which you choose, opt for a refrigerator with an energy star symbol on it. Your tenants are likely to save money on electricity when using it.

Dishwashers

Like stoves, dishwashers add considerable value to rental properties. Before buying one, property managers need to consider a few things:

Garbage disposal – For the long-term maintenance of a dishwasher, it's important to know whether a dishwasher has self-cleaning filters or requires manual cleaning.

Energy – Opt for a dishwasher with an energy star symbol on it. Your tenants are likely to save money on electricity when using it.

Capacity – Get a standard size dishwasher if your rental units have huge kitchen spaces or multiple tenants. A compact dishwasher is enough for a small kitchen, though.

Sound – A noisy dishwasher can be a nuisance. Opt for a quieter one if you want upscale tenants.

To attract high-end tenants and command higher rents for your rental property, make sure to upgrade appliances that fit their needs and exceed expectations.

Broken Garbage Disposals the Most Popular Maintenance Fix in January

Keepe

Imagine you just finished a delicious meal and now you're doing the dreaded chore of washing up. But as you switch on the garbage disposal, instead of hearing the familiar buzz, you hear the bland hum that signals a broken garbage disposal.

If you're like most people, you probably don't realize just how important a working garbage disposal is, that is until it's not working. Broken garbage disposals were the most in-demand maintenance call for Keepe in January.

Tenants calling in to property managers need help immediately. The common message is that their garbage disposal is not working, and their sink is jammed or clogged.

In one instance, a property manager in Phoenix put in an urgent maintenance call to request service as soon as possible. When the technicians arrived, they found a clogged sink and knew that they needed to further examine the garbage disposal to determine the problem.

Let's Take a Closer Look at the Steps Taken

First, they checked the circuit breaker to determine if the power had gone out in the kitchen; they attempted to reset the circuit breaker by flipping it on and off. Next, they looked under the sink to see if the garbage disposal was plugged in.

Once the electricity was turned off and the garbage disposal unit unplugged, they needed to unclog the sink. They removed all the bits in the sink, then used a plunger multiple times to force the drain to unclog. This allowed some of the water to move freely down the drain.

Maintenance technicians understand that garbage disposals are used heavily and can get jammed by stuffing too much down the drain at once. The workers started removing any fragments and food particles like raw meat, bones, and vegetable peelings by using tongs, not their hands. Once they finished cleaning the debris out, they pressed the reset button (located under the sink on the unit itself).

When looking under the sink the technicians checked extensively to see if there was a water leak, which can mean a worn-out seal, caused by wear and tear. At this point they did not find any leaks and felt confident that they would not need to replace any parts of the unit, or the unit itself.

The technicians were convinced that the garbage disposal was now in working order and proceeded to turn the power back on, after ensuring that no one's hands were in the disposal. At this point, they tested it out to find that their efforts worked.

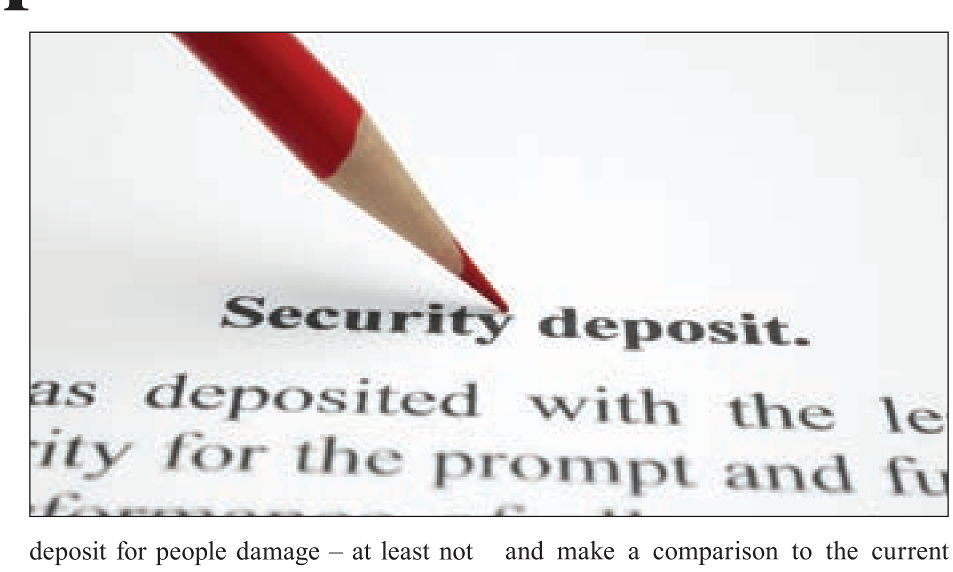
It is important to note that the garbage disposal should be used daily, and never over-stuffed with waste. Grease should never be poured down the drain. Water should be running before using and while using the disposal, and only the right kinds of food waste should be put down the drain.

From beginning to end, the entire process took just 30 minutes. Both the tenant and property manager were extremely satisfied.

Security Deposits: Common and Costly Mistakes

Continued from Page 1

the last day of the lease. If a tenant were to move out two weeks early and return the keys, then the 21-day clock would start ticking two weeks sooner. Mailing the statement to the tenant's last known address is also crucial, so if they have provided this to you before your statement has been mailed out you need to make sure you're mailing it to their new address. A simple error (delivered late or to the wrong address) can be very costly in that it could a) eliminate your ability to keep any of the deposit at all, and/or b) entitle the tenant to financial damages above and beyond the full return of their deposit.



Pet deposits (particularly in Seattle) have added a new wrinkle to this process in that a landlord cannot apply pet-deposit funds to cover "people damage."

For example, a security deposit of $1,000 is collected plus a $250 pet deposit. At move out, there is no pet-related damage, but it is discovered that the garage door is damaged due to the tenant hitting it with their car. If the door repair costs $1,500, the landlord may apply the $1,000 security deposit toward this repair, but must refund the $250 pet deposit to the tenant. Ultimately the tenant would owe an additional $500 in damages, not $250 (because you can't keep the $250 pet deposit for people damage – at least not without the tenant's consent). So, in this situation you are simultaneously sending them a refund check *and* a bill for the balance of the garage door repair cost.

Every penny of security-deposit funds withheld to cover damages, cleaning, or any other unpaid amounts (back rent, late fees, utility bills, etc.) must be supported by an invoice (or copy of tenant ledger indicating delinquent amounts owed). In addition, the withholding of funds must be supported by clear move-in and move-out inspection reports. Back at move in, you were to have completed a property-condition inspection report and had the tenant sign it in acknowledgment. At move-out, you would review those notes and make a comparison to the current condition of the property to establish a basis for charging the tenant for damages. While photos are not legally required, they are highly recommended – at our brokerage, we take more than 100 photos to supplement the majority of our move-in reports. The photos can be your saving grace if you ever end up in small-claims court arguing over the validity of your charges.

Document, document, document!

Finally, a landlord may not charge a tenant for "normal wear-and-tear," which can often be difficult to define.

Best practice is to supply the tenant at lease signing with a list of examples of things that would be considered damage vs. wear-and-tear to set the expectation. A landlord also may not charge a tenant for any improvements post-tenancy. For example, if a vinyl floor was damaged, a landlord may not take advantage of the situation by charging the tenant to install porcelain tile. The landlord may still replace the floor with porcelain tile, but may only charge the tenant the equivalent of what it would have cost to replace it with like-kind vinyl. Depending on the damaged item, depreciation must also be considered – certain elements of the property (appliances, hardwood flooring, carpet, paint, etc.) have their own general "useful-life" spans. So for example, if a tenant dents the door of a 25-year-old refrigerator, the landlord cannot charge the full cost of a brand new one to replace it. The word "reasonable" is found littered throughout RCW 59.18 of the Washington state Residential Landlord-Tenant Act, and if you find yourself in front of a judge you will have to come up with a "reasonable" explanation for your actions.

So to recap – when your tenant vacates you've got to act quickly, keep a clear paper trail, and make sure that you are being reasonable. Good luck!