



Risk vs. Reward

by Zachary Lawrence JD

Many of the decisions we make in business and in life, are arrived at by asking ourselves if the risk is worth the reward.

I have a 68 year old friend who is running this year's LA Marathon. I admire her passion, discipline and mental toughness. What I don't like is the beating that her body will take in order to prepare for and run the race. But to her, the risk is worth the reward. She wants to cross that finish line and not worry about the potential impact on her long term health.

The same can be said about NFL players. To them, it's worth the risk of getting multiple concussions in exchange for a

multi-million dollar contract.

I manage a property with a tenant that owes the landlord \$15.00 (fifteen dollars) in

We have evicted tenants who owe three dollars, five dollars, ten dollars and have prevailed in court. If this tenant is paying rent way under market value and by evicting him I can then get market value for this unit, then I believe it's worth the risk to file an eviction.

back rent. This tenant ignores the legal notices demanding

payment.

The tenant is not concerned because he is betting that the landlord will not pay hundreds, if not thousands, to evict him over \$15.00. The tenant also believes that any reasonable judge would not evict him over \$15.00.

Why throw good money away over \$15.00? In this scenario, the landlord risks leaving court without an eviction, large legal fees, and egg on his face. The lawyers risk nothing. Nada.

They get paid regardless of the outcome.

I discussed this issue on Parkside Management's weekly podcast "Landlord Tenant Radio" with my friend, mentor and eviction expert Dennis P. Block:

Zac: We have a tenant in a rent controlled building that owes the landlord \$15.00 in back rent. This tenant has been served with a Notice to Pay or Quit and has ignored the notice. Is it worth the time and expense to evict?

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Block: We have evicted tenants who owe three dollars, five dollars, ten dollars, and we have prevailed in court.

Zac: Let's be candid here. This tenant that owes \$15.00 may "lawyer-up". That is, he'll find a legal aid attorney that costs him nothing, he'll demand a costly jury trial, and you know the rest of this sad tune. How then do you justify telling a landlord that the risk is worth the reward?

Block: If this tenant is paying rent way under market value and by evicting him I can then get market value for this unit, then I believe it's worth the risk to file an eviction.

In a situation like this,

my advice to landlords is as follows: If, for example, the rent is \$700.00 per month, and the tenant pays only \$685.00, do not accept the \$685.00. Return it and serve the tenant with a Three Day Notice to Pay Rent or Quit for the full \$700.00. It's a better approach to go into court claiming the tenant owes you \$700.00 vs. owing \$15.00.

And even if the landlord were to accept partial payment of \$685.00, and then file an eviction based on the tenant owing him \$15.00, I still believe that it's worth the risk. Why? Ask yourself what this eviction is going to cost vs. the potential return on your investment.

If I go to Las Vegas and place a bet for \$2,000.00 on a roulette wheel, the most I'll take with me is \$2,000.00.

Conversely, if the landlord puts \$2,000.00 down on an eviction case and wins, he can raise the rent to market value from \$700.00 month to possibly \$1,700.00 month. Over a 12 month period, his \$2,000.00 investment has yielded him a \$1,000.00 a month more, and for the rest of the landlord's life!

Zac: You're telling landlords that it is worth the risk to spend, what could be thousands of dollars on an eviction, and with no guarantees of winning, in

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order to get their rents up to market value. Is this correct?

Block: Not all evictions cost thousands of dollars. Indeed, in most of my cases, the client spends only a few hundred dollars, we file the lawsuit, the tenant doesn't respond, and we win the case by default.

I'd say that only one percent of cases we handle go before a jury, and is therefore more costly for the landlord. There is always a chance that the landlord can lose. The truth is, I like my chances in front of a jury more so than in front of a judge and I'll tell you why. The jury will receive very specific instructions, such as " If the

tenant did not pay the amount owed (be it \$700.00 or \$15.00), within the 3 Day Notice period, then its game over. There no wiggle room.

The jury must vote in favor to evict. Conversely, the judge has much more wiggle room (also called "discretion of the court"), allowing him to reject the eviction. I maintain that the risk versus reward in this scenario heavily favors the landlord.

Closing Comments:

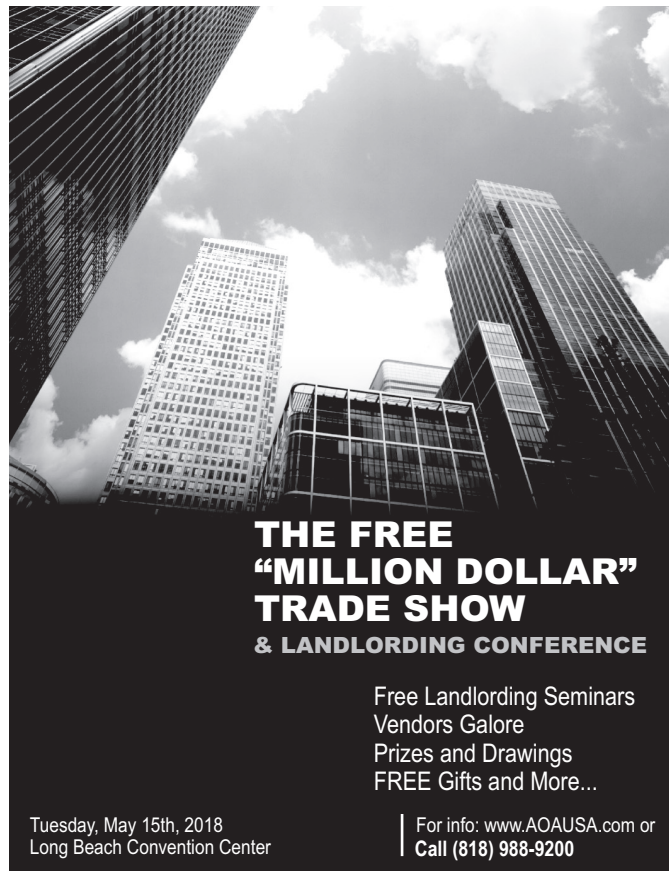
If your tenant sends you partial payment of rent, **do not** cash the check. Send it back and serve him with a Three Day Notice for the full amount

of rent owed.

If you do cash the check for partial payment, send him a notice for the amount owed. If after serving either of these notices, the tenant still doesn't pay, and the three-day period has expired, then you have a business decision to make. Weigh your risk versus reward and act accordingly.

ADA

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