

The Property Manager – Your Wealth Is In His Hands

How To Work Profitably With Professional Property Management Companies

Selecting the right property management company is ABSOLUTELY critical ... it can literally make or break your investment. Thus choose and manage them wisely.

Identifying Prospective Property Management Companies ...

1. Referrals? From other investors, lenders, brokers, etc? Ask who the top players are and see if any in common.
2. Drive the area (or have someone local drive the area) and let you know who the main management companies are (for similar property types/classes) based on advertising.
3. Start from at least 3 management companies and start to screen them. Even if one stands out, using competition you may be able to negotiate better with company you'd prefer to use.
4. If you don't have a solid property management company, don't do the deal! You should be able to identify one.

Questions to Ask Potential Management Company ...

You may want to use these initial questions and then determine if it makes sense to continue with more questions.

1. **"Hello"** ... how do they respond to this? On our first large apartment complex some management companies answered "yeah, what do you want" to which we replied "sorry, I must have dialed a wrong number". How do they present themselves to you ... and thus to others?
2. **How many units do you currently manage?** What class (i.e. "A", or "C"/"D"), type (i.e. apartment complexes), size of units (i.e. 100 - 400 units), stabilized & turn-around?
 - FYI - You don't want to be their largest client, or the first class C/D turnaround, or first commercial building they've managed. One management company may be excellent at stabilized properties but weak for a large turnaround. IF you have a large turn-around property management is even more important, AND YOU will also need to be more involved.
 - FYI - If they're larger in a given location they may have better negotiated discounts.
3. **Where are the nearest properties and what type/class are they that you're already managing (in relation to my property)?** How do you handle managing properties not in close proximity?
 - FYI - If your property is large enough they may be open to managing in a new location; however as a general rule its better for them to already be familiar with your area, plus you'll be more likely to have discounts for services already negotiated.
4. **How long have you been in business?**
 - FYI - Suggest at least several years of experience.

Additional Questions if it makes sense to continue - you may want to continue to get more insight on your specific property even if this management company may not be a fit. You may have additional questions or only use some of these depending on your situation.

5. **What is the vacancy in this area and what should be our expectation and goal for this property?** Do you have any reports on this? Also ask your broker. What types of move-in incentives are common now for this area? What are you typically seeing as "loss to lease" rates? (i.e. we're interested in "vacancy rate from a bottom line \$ perspective.)

6. **Do you have any initial feedback on this property and are you familiar with it? (Location, competition, suggestions for property, etc.)?** While we are serious about purchasing a property we value our key partners such as the property management company we select.
7. **Do you know of any other opportunities you consider may be as good or better?** Our desire is of course to close this deal and thus far it looks promising, but if not this one then we'll keep looking in area.
8. **Can you provide samples of your regular (monthly?) reports that we would receive?** When would you set the budget for this property? Are you open to more regular meetings with the owner until the property is stabilized?
9. **Can you provide a sample agreement that we would have regarding your services?**
10. **What do you have setup for your best clients for your compensation?** What incentives for meeting specific goals have you seen work well? What is your policy on who keeps the late fees collected - split?
 - **FYI** – you'll likely have an off-site management fee (possibly 4-5%) plus your on-site costs which is part of your budget but typically not negotiated.
11. **What is the cost for an eviction process from start to finish?** What % of applicants are you typically accepting in this area (if apartments)?
 - **FYI** – it may be typical if they are selective to be ~50-60% but can vary of course.
12. **What advertising are you finding most effective and would likely use for this type of property in this area?**
13. **Do you have other local contacts you can recommend to us? (insurance, banking, etc.)?** What discounts do you already have negotiated for common services (insurance, trash, etc.)?
14. **Can you visit the property and review some reports (i.e. P&L) from the seller and share with us your feedback?**
15. **Who from your company would support us?** Will we have a single point of contact for communication? What are your recommendations for staffing on-site?
16. **Are maintenance personnel parts of your company or contracted out?**
17. **What software tools do you use (their own or industry standard tools)?**

Top 10 Tips For Working With Property Managers

10

Set the tone for your relationship especially in the first year.

Communicate more often & don't just hand the property off and assume all is well. Take time to be involved. During the initial 3 months talk weekly. They need to know that you care and will be an involved owner. If you set the tone in the first year you won't have to do as much in the following years.

9

While you want to be involved do NOT micro manage them.

You're hiring them to do the job ... don't try to take it from them. Expect them to take care of things. Your role is to manage the management company. For a stabilized property your time involvement should be hours or hopefully as you get to know the property an hour a month.

8

Recognize that it may take the property management company some time (6-12 months) to really get to know the property.

Thus pending their experience in this area with this type of property and how much of a turn-around it is it may take even longer. Initial budgets may not be as reliable.

7

Make sure you work with them to set a budget.

Remember this is a financial investment not the dream property you want to live in. At the same time you need to consider capital improvements that may cost less now to take care of rather than later. Push them to stick to the budget especially in years 2 and beyond where they should know the property.

6

Carefully review your professional inspection and discuss with your property management company how this will fit into the budget before you close.

Their experience will be invaluable in helping you especially as you're getting started.

5

Confirm if insurance is prorated or at replacement value.

For example, you don't want to have to pay for most of roof replacement for an older roof which could happen with a prorated policy.

4

Ask questions if you don't understand; they are working for you.

Examine the monthly reports and ask questions. Its good for them to know that you're looking at the details. For example what interest rate are your banks balances earning. With a typical \$100k balance we asked this question and moved funds to a higher yielding account for ~2% higher. This simple question yielded \$2000 extra a year with no more work.

3

Treat them with respect and take time to appreciate them along the way.

When in town to visit the property take them out to dinner. If they're doing a great job refer them to others and let them know that you're referring them.

2

Visit the property at least once a year on an ongoing basis and/or have someone pose as a prospective tenant to see how they are treated and what is communicated.

During your first year or if you have a large turn around (forced appreciation) property you should visit or have someone visit for you more often (possibly 3-4 times a year).

1

Take the time upfront to choose wisely what property management company will manage your major investment.

Take time to interview and select the right management company for your specific property.

Plus a few more...

- **Determine what the REAL #'s are for the property before committing to capital improvement plans.**
Find out what's real; it will take *at least* 2-3 months to get insight into this and then you can evaluate capital improvement plans after your purchase. It really will take a year to see how the property really runs. If your lender doesn't require you to have a reserve to replace for capital improvements consider setting one up yourself.
- **Request 2-3 bids for all of their suggested larger capital improvements so that you can then discuss a comprehensive plan for how to address.**
Strive to "completely" fix issues. If we're going to do it, do it right. The property management company should communicate with residents' plans for improvements coming. Also good to ask for resident comments and concerns they have. Make sure the place looks nice so potential residents will want to rent at your place.
- **It really helps if YOU have property management experience yourself (even on smaller level such as rental houses).**
If not, take time to talk a lot to those who have.