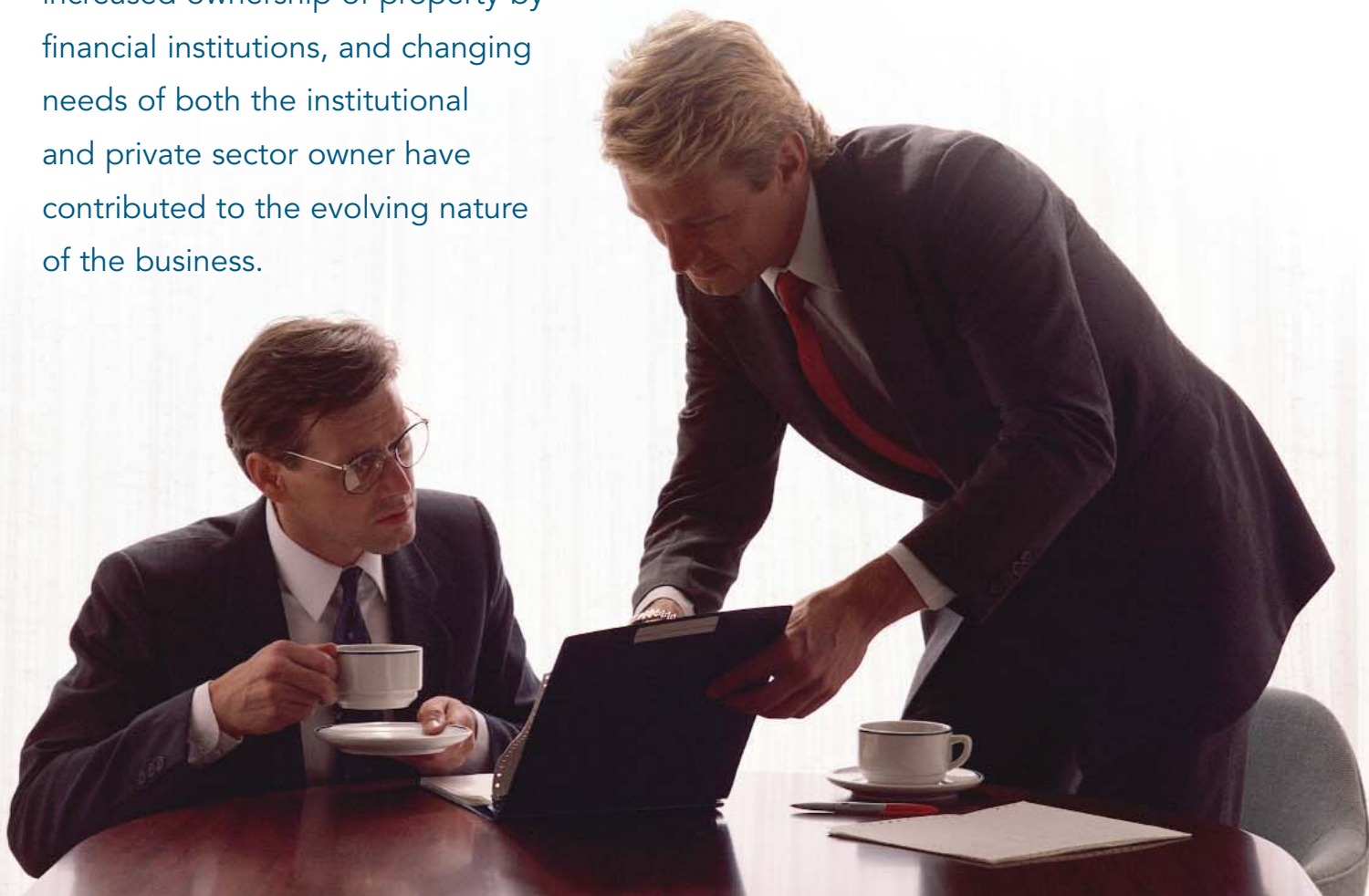


# Managing Your Management Company

*By Thomas Scott, CPM*

The role of property managers and property management firms has grown and evolved as needs of rental property owners have changed over time. Economic cycles, increased ownership of property by financial institutions, and changing needs of both the institutional and private sector owner have contributed to the evolving nature of the business.



## Choosing a Management Company

Choosing a management company can be a tricky endeavor. There is no one recipe that makes a property management company great, and like any other type of business, a company that is good one year may not be as good the next year. Whether you are choosing a new company or evaluating your present company, there are a number of areas you may want to consider. The following is a partial list of reasons why owners use professional management companies:

- Access to business or marketing expertise that enhance property value;
- Access to qualified, insured vendors;
- Access to knowledge and business practices that meet or exceed regulatory needs;
- Owner's desire to spend less time in management business;
- Utilization of accounting, reporting and financial expertise of management company;
- Owner's physical distance from property;
- Legal or contractual requirements from external entity such as lender, government agency or court;
- Benefits of operational knowledge in developing and construction of new properties.

The above list is by no means all-inclusive, but depending on the needs of each owner (*or ownership entry*); a higher priority may be placed on one or more of these factors.

## Product Type

Research the current portfolio of the management company and the experience of the personnel who will be working on your product type. An individual or a firm that has managed only single family rental homes may not be the best choice for managing a 150-unit apartment complex. Likewise, someone who has only managed a portfolio of luxury apartments may not have the skills to take on a "mom-and-pop" 20-unit building.

## Experience/Resumes of the Principals

Are the principals primarily involved in the full-time management of property, or are they doing it as a sideline? Are the managers licensed, and have they taken any special training or earned professional designations such as CPM, CCRM, etc.? None of these are guarantees that the person or firm will do a good job, but they are an indication of the individual's commitment to the business.

## Size of Company

How large is the company relative to the property you want them to manage? It might be a bit risky to give a duplex to a management firm that manages mostly 100+ unit properties. Chances are they may not want to manage a duplex. It might be just as risky to hire a small company doing mostly single family homes and small properties, to manage a portfolio of 10 large properties.

## Insurance

A management company should have adequate liability, workers compensation, employee dishonesty, and hopefully, errors and omissions insurance. Consult your insurance broker about coordinating the insurance coverage you have with the insurance coverage needed by the property management firm.

## Fees

Not surprisingly, this is often the first question that is asked. It probably shouldn't be. Good management can make a significant difference in the bottom line. It might be worth paying more for good management. Evaluate the fees after you have narrowed down the qualified companies based on the other criteria. It is better to choose the least expensive company among those that are qualified than to hire the most qualified among the cheapest. In order to make a valid comparison, learn about all of the fees. Some companies quote a low fee, and then charge additional fees for computer processing, forms and other extras. Researching both the total costs and extra fees of each competing company will allow you to make a fair and valid comparison.

## In-House Services or Ancillary Business

Know whether the company is primarily in the management business, or whether they also have related businesses that provide maintenance, painting, and other building services. If they do have in-house services, are they competitively priced and do you have a choice of using them or using another vendor? Many companies have good in-house services that are cheaper than outside contractors, but there can be a risk of abuse from overcharging or doing unnecessary work. Some in-house maintenance personnel are qualified to do major repairs and some are only qualified to do handyman maintenance. Make certain you understand the level of competence and expertise offered and how decisions are made to utilize in-house service versus services from other vendors.

CONTINUED ON PAGE 12

### Management Philosophy

It is obviously better to be working with a company that you are compatible with. You should discuss issues such as, “How involved or uninvolved you want to be with making decisions?” “What your overall goals and objectives are for the property, and whether the company is in a position to meet them?” By visiting one or more of the properties that are currently being managed by the prospective company, you can get an idea of whether or not you will be comfortable with the way your property will be managed. You may want to develop your own list of objectives in this area and ask questions about them.

### The Management Contract

There are a number of very important legal aspects to the management contract. Unless you are familiar with management contracts, it is a good idea to consult your attorney before signing one. The following are a few of the basic elements. You may want to consult your attorney for consideration of other elements that are pertinent to your situation.

**Term:** The most common contract term is one year. Many firms will either offer a month-to-month contract or include a provision that either party may cancel a contract with a shorter notice based on certain circumstances, such as poor performance, mismanagement, or in some cases, no reason needs to be stated. From the property owner’s perspective, you do not want to be tied to a contract if you are unhappy with the service. It is important to realize, however, that it may take several months or more to fully evaluate whether the management company is doing a good job. You should also consider that if a management company decides to cancel your contract (*which can happen*), you will need time to either find another management company, or gear up to get back into the management business yourself.

**Scope of Authority/Responsibilities of the Parties:** Usually, the management contract assigns the responsibility and authority to manage the day-to-day operations of the property. Included are such items as setting rent levels, collecting rents, paying bills, hiring, supervising and firing employees, making routine maintenance decisions and handling tenant problems. It should be clearly defined what kinds of reports will be generated, who will receive them, and when they are due. It is common for management contracts to have limits placed on making commitments over a certain dollar amount for single repairs, as well as committing to service contracts that extend beyond the end of the management contract. These limits can usually be overridden with the written consent of the owner.

**YOU SHOULD DISCUSS ISSUES SUCH AS, “HOW INVOLVED OR UNINVOLVED YOU WANT TO BE WITH MAKING DECISIONS?” “WHAT YOUR OVERALL GOALS AND OBJECTIVES ARE FOR THE PROPERTY, AND WHETHER THE COMPANY IS IN A POSITION TO MEET THEM?”**

Other items of responsibility include who will make the mortgage payments, property tax payments, and what to do with the cash flow, maintaining adequate insurance, and identifying who is responsible for making decisions for the property when there is more than one owner.

**Liability:** Most management contracts have language that indemnifies one or both of the parties for acts arising from the ownership or management of the property. Have a thorough discussion of this subject with your attorney. Managing a property is inherently problematic, and the management company will usually not want to be held liable for things, which they could not have reasonably foreseen for normal problems that inevitably occur in the property management business.

### Working with the Management Company

In order to have a successful and satisfying experience working with a management company, it is important to have realistic expectations of what can be achieved. This starts with selecting the right company and making certain both parties understand what the other one is expecting out of the contractual relationship. It is reasonable to expect a management company to not only run the property for you, but also keep you informed as to the occupancy levels, rent levels and overall condition of the property.

The level of communication and reports expected should be geared to the size of the property and the needs of the owners. Many institutional owners have standard reports they require, and any management company that cannot or will not comply, is simply not a candidate for that management job. As stated


previously, it is important to have a clear understanding about what reports you will receive and when you will receive them. At a minimum, you should receive a periodic statement (*usually monthly*) that shows all of the income and expenses for the property and a brief narrative report explaining any current issues that need to be addressed. Most property financial statements include a budget with the actual expenses compared to the budgeted amounts. Many owners receive detailed unit-by-unit accounts of rent receipts and other reports that track rental activity, turnover rates, and other operating information.

Some owners are savvy and want a management company that will carry out their game plan for the property. Other owners may be very passive and look to the management company for advice on many issues. Some management companies are very flexible and will cater to the owners' wishes, as long as they are not too much in conflict with their own practices. Often a management company is hired to focus on one or two specific needs that are unique to the property. An example would be a property that is generally running well, but has expenses that have grown faster than other properties of its type in the area. In this case, the management company's expertise would be utilized to look at each expense item and analyze different ways to modify or eliminate that expense.

It may take several months or longer to properly evaluate whether the management company is doing a good job. If your property is running well, and then unqualified people start moving in to your units, it could take several months before the collections start suffering. Likewise, a property that has a poor tenant profile and is in substandard condition, may take several months or years of remodeling, eviction and re-leasing before the benefits are fully realized in the bottom line. Make sure you and the management company are in agreement as to the current needs of the property and what your expectations are for the future.

When necessary, it is also advisable to have a face-to-face meeting in the management company office and/or walk around the property with them on a periodic basis. Depending on the size of the property, these meetings could be monthly, quarterly or even annually. In addition, the management company personnel should be available over the phone to answer questions and provide reasonable information.

Ultimately, the success or lack thereof will rest on the overall attitude and philosophy of the management company and particularly of the property manager who is working on your property. A management company and its employees must always make decisions with the best interests of the property as the highest priority. If either the management company or one of its employees is not tuned into this philosophy, conflicts will develop. These conflicts can take the form of owner discontent over critical parts of the job that are not getting done, or conflicts over inappropriate selection of employees, vendors or other providers of services.

When the property management job is done well, the fees paid can be one of the best investments a property owner can make. However, when it is done poorly, even the lowest management fee is just an added expense. 

*Thomas Scott, CPM, is president of Cambridge Management Company in Santa Clara and past president of CAA. He has been involved in the rental housing industry for 30 years and can be reached at [tscott@cmcrents.com](mailto:tscott@cmcrents.com) or (408) 727-3021.*

