

How to Select a Property Management Company

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According to a recent study conducted by Arthur Anderson & Company, real estate values in the United States for apartments were over 1.5 trillion and for commercial, 2.6 trillion dollars. The management of these assets requires a management company with knowledgeable, experienced, educated and qualified individuals. There are over 25,000 property management firms in the United States ranging in size from single person, (Ma & Pa) operations to large firms such as CB Richard Ellis and Insignia/ESG with thousands of employees. This article deals with how to select the best property management company to meet the owner's objectives whether it be for a fourplex, 100 unit apartment complex or shopping center, and what the commercial broker needs to know and consider if his client requests a referral for property management company to manage the building they just purchased. If you refer a company that does a poor job for your client it could very likely reflect negatively upon you and possibly future real estate listings from the client. The decision to give a referral deserves serious consideration and needs to be done with due diligence and careful thought.

TYPES OF MANAGEMENT SPECIALTIES

The management of real estate in the new millennium is both complex and specialized, as all management companies are not created equal. Just as there are different types of properties, (i.e., apartments, retail) there are different types of management companies that specialize in one or more categories. A property management company that specializes in neighborhood shopping centers with net leases, CAM, percentage rents, etc. would be a poor choice to handle a 16 unit apartment building with gross leases and constant repair requests such as inoperative garbage disposals. We will examine four areas of management specialties: retail, office, apartments and miscellaneous areas.

Retail Management

Within this category there are sub-categories that include: strip, neighborhood, community and regional shopping centers. The management of a ten-store strip center would not be comparable with the management of a 100 store regional center with large anchor stores and national tenants. A question to ask when choosing a management company is what type of centers does the potential management company now manage and are their clients satisfied? The management of shopping centers requires specialized accounting skills and programs to handle common area maintenance, (CAM) billings, as well as leasing talents in many instances. The International Council of Shopping Centers, (ICSC) is a good resource (www.icsc.org) for management companies of larger centers. The ICSC also has a professional designation it bestows called Certified Shopping Center Manager, (CSM) that requires specialized knowledge and testing.

Greg Brown, a CCIM candidate, who specializes in shopping centers and works for Marcus & Millichap in Orange, California shared what he considers when making a management referral, "strong market presence for the particular size of center, competent staff, type of reporting system in place, and familiarity with top management." Greg prefers to refer three to four names to a client when asked for referrals.

Office Building Management

There are four grade of office buildings; A, B, C and D, with A being the best location, most prestigious and commanding the highest rents. Class D buildings, on the other hand, are the older buildings in less desirable locations with the lowest rents.

The management of large office buildings requires special engineering, administration and leasing talents. A management company needs to know if the building meet ADA requirements for restrooms, elevators, etc. Are the lease abstracts laid out so that cost stops can be calculated and extra hours of A/C billed? Is the building measured so that the difference between rentable and usable area is calculated? A management company that manages condominiums or Ma & Pa operations would not have the expertise and training to manage a high rise office building. The Building Owners and Manager's Association, (BOMA) is a resource organization for larger management companies (www.boma.org). The Real Property Administrator, (RPA) is a designation earned by taking courses and testing for management of office buildings.

Robert Taylor, CPM, CRE and CIPS, a principle in Real Estate Marketing & Management, (REMM) in Santa Ana, California, states, "Most of his business comes from referrals. The clients today are looking for more data, are more proactive and watch their real estate investments more closely. Clients watch their real estate portfolio like they would their stock portfolios on a daily basis."

Apartments

There are over 35 million rental units in the United States and management of residential properties is the largest segment of the real estate management business. The management of larger apartment complexes requires onsite managers, maintenance personnel, payroll, etc. Many larger management companies have the rents posted onsite and sent via modem to their home office through computer networking, thus allowing better tracking of delinquencies and cash flow. The national organization, Institute of Real Estate Management, (IREM), (www.irem.org) offers a prestigious designation, Certified Property Manager, (CPM) through the completion of specialized courses, testing and actual management experience. IREM also has an Accredited Management Organization, (AMO) designation for property management firms that can meet the experience, ethical, financial and insurance requirements. There are over 650 such firms in the United States.

Bruce Baker, a CCIM from Overland, Kansas, says, "My company, Heartland Property Management, is selected primarily for our hands on management, monthly reporting process that is simplified for our owners, our quick response to client phone calls and mostly our willingness to adapt reporting and management practices to provide exactly the services that our clients want and the way they want it."

Miscellaneous Areas of Management

Miscellaneous areas of management includes industrial, mobile home parks, self-storage facilities, motels, tax credit properties, etc. These properties require specialized knowledge particular to their market and knowledge of state laws that apply. The management company should have a track record within the specific area. For instance, mobile home management requires experience with different types of leases, disclosures and tenant notices that differ from apartments in most states.

Rex Allen, a CCIM from Prudential RB Allen in Costa Mesa, California is a member of International Standards Organization, ISO 9002 Quality Service Procedures. He would consult the approved ISO 9002 vendor list and check to make sure the firm was properly licensed. Rex was additionally concerned about potential liability for a bad referral. 

WHAT SERVICES DO MANAGEMENT COMPANIES PROVIDE

Property management companies offer a wide array of services, depending on the client's objectives and needs. The three basic goals for a management company are;

- Increase the net operating income, (NOI) through rent increases and/or operating expense reductions.
- Increase the value of the property.
- Protect the value of the property with insurance, inspections and maintenance.

Most management firms provide services on a third party basis and the written management agreement delineates the services and responsibilities agreed upon.

Basic Services provided in most standardized management agreements include:

Rent Collection – collecting and banking rents and other income from tenants and posting on a daily basis. Maintaining the status of each tenant and running delinquency reports as well as monthly tenant status reports.

Bill Payment – payment of vendors, utilities and mortgages and provide a monthly check registration.

Maintenance – evaluation of vendors, equipment, supplies and services to keep the property operating in a manner that is safe and keeps the tenant satisfied.

Financial Reports – providing an annual budget and monthly statements such as profit and loss, including rent roll and check register.

Tenant Relations – 24 hour answering service to provide for tenant needs, questions, concerns and emergencies.

Rental Analysis – provide timely updates and recommendations for rental increase and lease negotiations and handling of renewals.

Supervision of employees – hiring, firing, supervision and payment of the employees assigned to the property.

Auxiliary Services are extra services provided and usually charged separately (a la carte)

- Property tax appeals if the value is less than assessment
- Leasing (commercial) – in many cases this is handled by a leasing broker and not the property manager
- Financing or refinancing of the property
- Management Plan for the property that includes an analysis on the region, neighborhood, operations, financial status, etc. and recommendations
- Consulting, such as repositioning the property or changing of use and obtaining city approvals
- Brokerage for sale of property
- Supervision of large capital improvement projects 

CHECKING OUT THE MANAGEMENT COMPANY

Questions to ask include the following:

- What is the reputation of the company in the market place and industry?
- How many years in business?
- What are the affiliations and designations of the firm and property manager for the subject property, (i.e., AMO, CPM, CSM)?
- What is the longevity of the staff and turnover rate?
- What are the specializations of the firm, (i.e., small apartment buildings and strip centers, large shopping centers, mobile home parks)?
- Does the firm have a real estate license? (Many states have a web site that allows you to quickly check license status and violations.)
- Do they have a fidelity bond and carry sufficient insurance?
- What type of computer system and capability of software? Do they have dual disk drive and battery back up on the their computer? Are they flexible in the types of reports that can be provided? 

STEPS IN THE SELECTION PROCESS

The best way to begin the selection process is to call a prospective property management company and ask if they are interested in managing your property. Most management companies will provide a free written proposal containing a sample management agreement that will describe the services to be provided, spending limits, reports and fees, etc. A copy shall be sent to the client and referring broker. If the management agreement seems reasonable the next step would be to make a visit to the management company offices. During your visit observe whether the offices are neat and orderly, meet the property manager and accounting personnel that will be assigned to the subject property. The management company should provide a variety of references, which should be checked out, as well as the company web site. Ask to visit similar properties to yours that the firm manages.

Management Fees

Management fees charged are normally based on a percentage of income collected with a minimum monthly base fee. Larger properties usually command a lower percentage rate (i.e., 2%) than a single family home that may be quoted up to 10%. Fees are negotiated on a per property basis and depend on many factors including condition, location and size of the property, etc. Leasing and other auxiliary service fees are separate and in addition to the management fee.

How To Find a Referral

Check with local IREM chapters, apartment associations, or other trade groups such as IREM, BOMA, ICSC and their web sites. At the CCIM web site referrals can be obtained by naming specialties and geographical areas. Inquire about a referral fee, which can range from a simple thank you gesture like tickets to a sporting event to the first month management fee for your efforts.

Summary

A good client asks your expertise in selecting a good property management company to increase the rents, and the asset value and to protect the property you just sold them. Be prepared to assist them. It's a good idea to establish a mutual working relationship with management companies that specialize in all the different areas of management. In turn, these management companies may refer clients who want to sell properties to a CCIM who specializes in the local market and property type.

Side Bar

Who gets the listing on a referral?

In some management agreements there is a clause that gives the management company the exclusive right to sell the property during management and up to one year after the termination of the management agreement. On the other hand, if a broker refers a good client, he or she doesn't want to compete with the property management company at a later date for the listing when the owner intends to sell or exchange. Some brokers may also insist the property management company sign a non-compete letter that they will not list the referred property.