



# HOW TO HIRE A THIRD PARTY PROPERTY MANAGEMENT COMPANY



**Rod Khleif**  
MULTIFAMILY MASTERY

# Finding the Right Property Manager

*Presented by* **ROD KHLEIF**



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# Introduction

In commercial real estate, there are four asset classes: Office, Industrial, Retail, and Multifamily. While each have their relative merits, we believe that multifamily is the premier investment option for the following reasons:

-  Stable, long term cash flow produced by tenant rents
-  Beneficial tax treatment through the use of depreciation and cost segregation strategies
-  Availability of debt financing with favorable terms
-  Ability to raise equity financing through the use of the 506C program
-  Relative affordability when compared with single family investment options
-  Favorable economic and demographic trends, particularly in select markets
-  Managerial and operational efficiency because units are located in the same property

While the benefits can be significant, a multifamily investment should be considered within the context of the following risks:

-  High upfront cost associated with the purchase of an entire property
-  Significant competition for the best properties, particularly from major investors and private equity firms
-  Cost associated with regulatory compliance, particularly in tenant friendly states
-  Expertise required to manage a property efficiently
-  Exposure to macroeconomic risk tied to job creation and interest rates

Despite the weaknesses, multifamily investment can be a worthwhile and lucrative endeavor. But it's not an individual pursuit, it's a team sport and there may be no more important member of the team than the Property Manager or Property Management Company. They're a key cog in the machine that'll allow you to scale your portfolio into multiple properties



# What does a Property Manager Do?

The Property Manager or Property Management Firm is a critical member of the operations team and they're responsible for the day to day operation of the property. Depending on the size of the asset, it may require a single manager or full time staff that includes a general manager, leasing agents, and maintenance workers. Either way, the property manager's responsibilities can be divided into five categories:



**TENANT MANAGEMENT:** Finding and screening new tenants as well as handling lease negotiation, move-ins, move-outs, evictions, maintenance requests and emergencies.



**RENT MANAGEMENT:** Setting rental rates, collecting and processing monthly rent, pursuit of late payments, and adjusting rent to meet changing market dynamics.



**PROPERTY MAINTENANCE & REPAIRS:** Trash collection, landscaping, and individual unit maintenance such as repairing faucets or replacing broken appliances.



**FINANCIAL MANAGEMENT:** Setting and managing the property budget, monthly reporting to ownership, and management of all funds that move through the property.



**EMPLOYEE MANAGEMENT:** For larger properties with a full time staff, the property manager may be responsible for oversight of the entire operational staff.

The best property managers will complete all of the above activities in full compliance with all local, state, and federal laws that govern property rental. In states with a significant amount of tenant rights legislation — like New York and California — this is no small task.

Due to the nature of their responsibilities, the property manager has a direct and material impact on a property's profitability and reputation. They're as much a partner as they are manager and it's absolutely imperative that you find the right one. But, if you're new to multifamily investment or an experienced investor new to a market, finding a reputable property manager can be a difficult task. We're here to help.



# How to Find the Right Property Manager

Whether choosing a property manager for the first time or entering a new market without any existing relationships, you can increase your odds of finding a great manager by following a meticulous and methodical, three-step selection process.

## **STEP 01. COMPILE A LIST OF POTENTIAL CANDIDATES**

The very first step is to compile a list of potential candidates. This can be done by searching the internet, asking for recommendations, or speaking with local investors to find out who they use. Upon completion of this step, you should have a list of candidates and the contact information for each.

## **STEP 02. PRE-SCREEN THE CANDIDATES**

Contact each candidate and ask them two questions:

- Do they have an office or physical presence within the general area of your property?
- Do they have experience managing multifamily properties similar in size and type to yours?

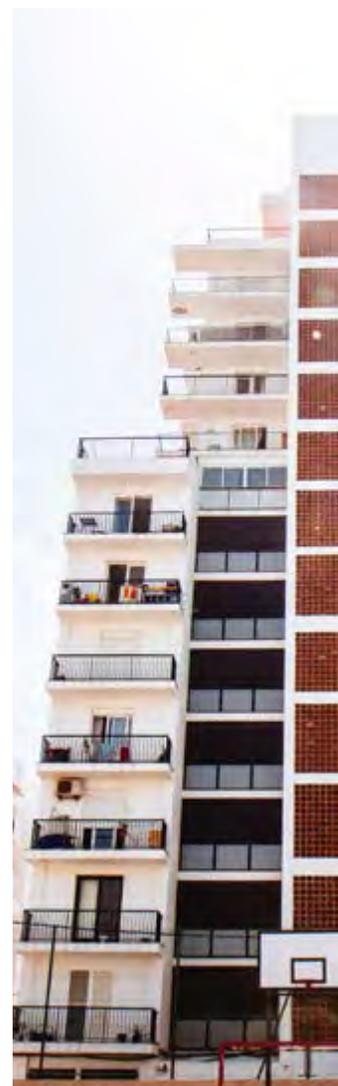
A “no” to either one of these questions is an automatic disqualifier. Upon completion of this step, you should have a list of three to five candidates.

## **STEP 03. DETAILED ASSESSMENT & RANKING**

For the candidates that pass the pre-screen, the next step is to perform a rigorous assessment of each across five categories:

- Reputation & Experience
- Fees & Insurance
- Policies & Procedures
- Technology & Reporting
- Intangibles

This step can, and should, take multiple weeks to ensure you’ve had the time to research every aspect of candidate firms. To learn more about the depth and breadth of the necessary due diligence for each category, let’s discuss each dimension in more detail.



# Reputation & Experience



The first dimension on which to grade each candidate is their reputation and experience. To maximize the chances of keeping occupancy high and rents competitive, you want to work with a property manager who has a pristine reputation and a significant amount of experience with the size and type of property that you own and in the market in which it's located.

To assess the experience and reputation of each candidate, review the following criteria for each:



**REVIEWS:** Read the internet reviews and check with the Better Business Bureau and Chamber of Commerce for any complaints or issues.



**EXPERIENCE:** Ask each candidate how long they've been in business and how many units they currently manage. Each candidate should have a strong track record of short vacancies and long relationships.



**LICENSES:** Check to make sure each candidate is properly licensed for the state in which they operate.



**REFERENCES:** Ask candidate firms for the contact information of current clients and call them for a reference check.



**TRADE ASSOCIATION MEMBERSHIP:** Ask about membership in property management trade organizations such as the National Association of Residential Property Managers (NARPM).



**CERTIFICATIONS:** Ask for candidate certifications. National organizations like NARPM offer certification programs that indicate a base level of property management knowledge. Certifications range from the Residential Property Manager Program (RMP) to the Certified Residential Management Company (CRMC), which is the highest and most difficult certification to achieve.



**CONFLICTS OF INTEREST:** Ask candidate firms if they have any conflicts of interest. For example, if any of them have an ownership interest in a property near yours, their incentive is likely to send tenants to that one first.

Bottom line, the most attractive candidate firms will have a significant amount of experience managing the size and type of property that you've purchased and a great reputation in the market in which it's located. In addition, they'll be properly licensed, carry strong certifications, and have no conflicts of interest.

# Fees & Insurance

Property Management firms typically charge between 3% and 8% of gross rent for their services. However, when you're trying to compare the candidates on price, it's the details of the fee structure that'll give you a clear sense for the true cost of each. For example, one firm may charge a lower percentage of the gross rent, but make up for it with ancillary fees while another may have a higher gross rent percentage, but no ancillary fees.

To make an apples to apples comparison, assess each candidate on the specific details of their fee structure:



**FEE TYPE:** Do they charge a flat fee or a percentage of rent? 3% - 8% of gross rent is common.



**ADDITIONAL FEES:** What fees does each firm charge in addition to the gross rent? For example, it's common for there to be additional fees for things like maintenance and leasing.



**CHARGEBACKS:** Does the firm charge ancillary fees for things like software, cell phones, office supplies and other miscellaneous items?



**INSURANCE:** Does each firm carry adequate amounts of Liability, Casualty, and Errors and Omissions insurance coverage given the size of the property?

Because it may vary slightly from one candidate to another, it's critically important that all aspects of each firm's fee structure and insurance coverage be understood intimately so that it's possible to determine the true price that each firm charges.



# Policies & Procedures



Well run firms will have written policies and procedures that govern all aspects of their property management responsibilities. Ask for them. While they may not provide the entire playbook, there are three areas in which their policies and procedures should be crystal clear:

## **PROPERTY RENTAL:**

Assess every aspect of how a manager goes about renting a unit, by getting answers to the following questions:

- What advertising mediums are used?
- How long does it take to “turn” a unit?
- Are applicants personally interviewed?
- Are credit reports and background checks pulled?
- Is there a standard lease agreement? If yes, ask for a copy.
- Are there controls to ensure compliance with all local and national laws?
- How are late payments and evictions handled?

## **MAINTENANCE:**

Assess each candidate on their maintenance approach and philosophy, including:

- Who performs the repairs?
- Are repair workers employees of the property management firm or outside contractors?
- Do repair workers carry proper licenses and insurance?
- What is the average response time to a tenant maintenance request?
- What is the maintenance or repair cost threshold before owner approval is required?
- Are periodic inspections conducted?
- What’s the procedure for handling an emergency repair?

## **COMMUNICATION:**

Assess each candidate’s communication policy and strategy, including:

- Will the owner have the property manager’s cell phone number?
- How are community-wide messages communicated to tenants?
- Is there an emergency communication procedure in place?
- What is the communication cadence between owner and property manager?

A good property management firm uses written policies and procedures to deliver a consistent resident experience and keep property owners well-informed.

# Technology & Reporting

In recent years, the multifamily industry has seen an explosion in software programs and tools expressly designed to make the task of managing a property more efficient for staff and more transparent for ownership. Assess each candidate firm on the following technology related questions:



What **CORE TECHNOLOGY** systems are used to facilitate property management responsibilities?



What **SECURITY PROTOCOLS** are in place to ensure tenant information is protected?



What **REPORTS** are sent to the owner on a monthly basis? Ask for samples.



What **CONTROLS** are in place to ensure data accuracy?



How is **CUSTOMER DATA** collected and verified?



Can **TENANT RENT** be paid electronically?



Can **MAINTENANCE REQUESTS** be submitted electronically?



Is **DIRECT DEPOSIT** offered?

The best property management firms embrace cutting edge technology tools and systems to maximize management efficiency and deliver the best resident experience.



# Intangibles

The last assessment dimension is the “intangibles.” These are the things that may be difficult to measure, but if they’re done well, it could really set one firm apart from another. Assess each firm on their:

## **CLEANLINESS & ORGANIZATION**

- How is the property maintained?
- Is the leasing office clean and presentable?
- Is the landscaping well maintained?
- Are files neat and organized?
- Are there systems in place for everything?

## **FRIENDLINESS & APPROACHABILITY**

- Is the property staff friendly and responsive to the residents?
- Are they positive and cheerful?

## **ADDED SERVICES**

- Does the candidate perform market surveys of the competition?
- What does the candidate do to create a community atmosphere for residents?

The best firms do the small things right. They may not even be noticeable to the average resident, but that’s the point. They use all of the tools in their toolbox to create a clean, comfortable community and a positive resident experience.



# Appendix: Assessment Tools, Checklists, and Sample Reports

In the preceding pages, we've described why multifamily is the premier commercial real estate investment category, what a property manager does, why they're important, and how to assess potential hires. But, we're not going to stop there.

To maximize your chances of choosing the right property manager, we're providing the following tools and checklists, which are meant to be used when looking for and choosing a property manager and negotiating the contract once chosen.

#	DOCUMENT	DESCRIPTION	LINK
1	Due Diligence Checklist	Complete assessment framework to compare property manager candidates across all five dimensions	
2	Sample Management Firm Resume	An example of the credentials provided to prove a property manager's reputation and experience	
3	Sample Owner Orientation Package	A sample package of information and documents that the selected manager provides to the owner upon being chosen	
4	Sample Property Management Agreement	A sample property management contract to provide guidance when negotiating the agreement with the selected manager	
5	Sample Weekly Report	An example of a property report that the manager sends to the owner on a weekly basis	
6	Sample Management Plan	Sample management plan between the property manager and the property owner	