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In house management vs. using a third party manager - The business of property management

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What is the most effective AND efficient way to manage property? Is it more effective to manage property in house or to sub it out to a management company?

It is important to look at how we conduct business from time to time. How we did business in the past may not be optimal today, especially in this environment. Advances in technology and industry best practices can offer dramatic benefits to your bottom line. My objective in writing this article is to spark your curiosity to analyze and question how you do business.

Providing great property management is hard to do. Why is something that is not rocket science difficult to do? First there is a large amount of information and detail. Secondly, when was the last time you received great customer service from any business? Great property management is a challenge because it is a combination of these characteristics - it is customer service with attention to lots of detail.

Because of these two factors property management is labor intensive. The more properties you manage the more labor you need. Labor is the number one business expense and it needs to be managed as well.

In my frequent conversations with real estate owners and operators I hear a recurring comment: "Our only focus was acquiring property, then credit dried up and we looked around the office and noticed all the people we have on payroll."

If you own and operate properties when was the last time you did a cost benefit analysis for how you spend your time managing properties plus managing staff?

There are several benefits to having in house staff. The three that I hear the most are 1) staff can do other things for you; 2) it is nice to have people in office to talk to; and 3) you can ask staff questions immediately and directly instead of picking up the phone, emailing or setting up a meeting.

The benefits of using an outside management company are numerous. 1) Manage fewer people - you do not have to manage people who work for you as well as properties; 2) Specialization - management companies usually have more personnel that are specialized and may provide better quality and faster results; 3) Investment in technology - management companies are focused on their business and invest in systems that reduce errors, increase timeliness/speed of work and may provide more in-depth analysis of property information; 4) Larger field of experience - more properties under management over the life of the firm usually means most problems have been solved before which provides faster service and higher quality outcomes 5) Deeper bench - management companies are staffed with many disciplines - this knowledge base increases speed of

service and usually the quality of the outcome ; 6) Scalable - As you add properties you have to add in-house staff - by hiring a management company you only pay for what you need; and lastly 7) Save money - as mentioned before this business is labor intensive and the top cost of business is people - they are expensive - especially if they have been with you for a long time.

The industry of property management has evolved as well. The key trends impacting the effectiveness and efficiency of our industry are: 1) Skilled people - more training programs and designation programs available to produce skilled labor; 2) People leverage - larger operating companies can add leverage to their personnel costs by giving high skilled and costly staff lower cost helpers; 3) Specialization of work - provides more productive workers and higher quality outcomes; 4) Technology - has helped organize all the data and reduce headcount making operations more efficient; 5) Centralized operations - centralizing saves big money by not having back office functions at the property or regional level.

Custom solutions are the norm. Continue to do the work you enjoy or are very proficient at and hire someone else to do the rest. We work with clients who enjoy interacting with the tenants or doing the site inspections and then subbing out the rest. For example many of our clients do not want to do the accounting work, handle maintenance calls and repairs or fill vacancies. Plus, as you know, most of the involved costs are passed through to the tenants.

I encourage you to take an open minded look at how you currently do business. Does the way you are conducting business today match up with your goals and is it the best use of your time?

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