

Quality Control Equals Higher Return on Investment

by Clifford A. Hockley, CPM

As an owner of investment property, your idea is to not have to worry about your property. You go on vacation, you work overtime, you retire to Bali and your property keeps making money for you.

So how do you insure a smoothly running property? It all comes down to not ignoring your property. If you don't pay attention to your property, the roofs start to leak, the weeds start to grow and tenants do not want to lease there. If tenants can afford it, they will rent a nicer space.

Just last week one of our out of town clients came in for their annual visit. We visited every property they owned and made a list of mostly small problems at all of the properties. Then we reviewed annual budgets and made decisions regarding our cash balances. This client reminded me of an old navy adage, "You get what you inspect not what you expect." He correctly believes that you need to pay attention to your investments.

If you have a property manager, you need to hold them accountable. If you do the work yourself, you need to hold yourself accountable. An investor needs to inspect what they own at least once a year. Of course, you can always delegate this function, but you better be sure that the inspector uses the same tough standards that you do.

You are looking for obvious problems such as:

- Faded and chipping paint
- Weeds in the landscaping
- Leaking roofs
- Significant vacancies that are not ready to re-rent
- Frayed carpeting and dirty walkways
- Potholes
- Old non current or broken signage
- Trip hazards

Every few years you might hire a technical inspector to give you an update regarding the lifespan of the:

- Roof
- Exterior siding
- Heating ventilation and air conditioning systems
- Elevators
- Asphalt
- Pest and dry-rot

Most investors know very little about these issues and don't find out about problems until they want to sell their property.

Financial Statements and Budgets

All of our clients receive financial statements. Most do not read them. I appreciate their trust, but how can they make sure we are doing our job as property managers if they don't know how we are doing for them? Yes, the monthly check is an indicator, but a more in depth review is important. If you don't have a property manager, you need to create your own financial statements.

Look at the key indicators; these will give you a quick clue how you are doing:

- Number of tenants
- Square foot rented
- Number of vacancies
- Income generated
- Extraordinary expenses
- Annually estimate your current property value – is it increasing? If not, why not?

Surveys

Survey your tenants annually. Are they happy? Are there problems that are not being resolved in a timely fashion? When you visit your property, talk to some of your tenants. They will be happy to tell you of their happiness and their problems. Ask them how their business is doing if they are commercial tenants. Talk to your property managers, vendors and your leasing agents. Understand the economy of the area in which your property is located. Changing economic times mean that you may have to change your approach to managing your property. Your goal is long-term tenancy. Take time to inspect your property and your monthly financial statements. This helps reduce costs and results in happier and longer term tenants. The longer they stay, the more money you make and the happier they will be.

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