

## How To Get Yourself Out Of Trouble When Your Investment is Far Away *By Cliff Hockley, President*

Imagine if you lived in Boca Raton, Florida and you owned a 60 unit apartment property in Kansas City, Missouri that was not performing. How do you know it's not performing? You are having trouble making the mortgage payments. You have called local apartment brokers and property managers and discovered that the market occupancy rate is 90% but your property's occupancy rate is 60%. What do you do?

### **Long distance ownership**

Just like long distance romances, you have to work a little harder.

You have two choices in managing the property:

- Hire an onsite manager that you supervise from afar
- Hire a local property manager that supervises the onsite manager

In either case you cannot just walk away and expect everything to be taken care of. In both cases without a regular check-in, they will forget about you.

### **Structure for Success**

First you need to make sure that the property is in rentable condition. If it is not, you cannot expect the managers to succeed. Like everyone tenants have choices. A property that looks ragged and not taken care of will not attract tenants. They will choose a better looking property. Better looking is also emotionally perceived as safer. A good location is critical. If you bought in a miserable location, you will have more crime, more repairs and a harder time attracting tenants.

In addition, a property that looks run down will not attract a good quality manager. I speak from personal experience. If your property has moldy walls, leaking ceilings and weeds growing everywhere, you will have a hard time finding an onsite manager -- much less a good quality onsite manager -- no matter how much you pay them.

Once you have made sure that the property is in rentable condition, you want to find the best onsite property manager that you can get. What is most important is that the manager has the ability to rent units. You can always hire out maintenance, but the rent-up skill is critical to your property's success.

It is up to the offsite manager to find you a good onsite manager. Bear in mind that it is not unusual for onsite managers to move every 12 months. To forestall this, pay as much as you can and consider offering health insurance and vacation benefits. Yes this is expensive, but constant tenant turnover is more expensive.

Finding a good offsite property manager is equally as difficult. There are quite a few companies to choose from in every marketplace. Accredited Management Organizations (AMO) typically have a Certified Property Manager (CPM) at the helm. These companies generally have been in business for a while and have comprehensive systems in place. It is critical for you to meet with

the principals as well as the property manager that will be taking over your property. Try to figure out how busy they are and if they can handle one more property.

It makes sense to ask them for an annual management plan and budget. They will probably only invest the time to do this once you have committed to them, but in your interview you will get a feel for their approach to business.

You need to require monthly financial and operational reporting. Set goals with them that are reachable. If they are not reached call other property managers to find out about the marketplace and decide if this is a management company problem or a marketplace problem. You need to fly in at least two times a year to meet with them and compare notes. Monthly phone calls that show that you are reading the reports are also important.

If you feel that you are having trouble getting the straight scoop from the property manager, consider hiring a secret shopper (there are national companies) to shop your property and give you a report with how the onsite manager is doing. Bluestone & Hockley secret shops managers' properties at least once a year. You can also survey your tenants annually to establish their level of satisfaction.

### **Other Reasons a Property May Not Perform**

It is not unusual to have a property that has high maintenance costs. 60 units is not large enough to warrant a permanent onsite maintenance person. Offsite vendors are expensive but often necessary. Onsite maintenance needs to be supervised by both the onsite manager as well as the property manager.

High water and sewer costs can also screw up your cash flow. We have properties that use twice as much water and sewer as the norm. With those properties we are instituting water bill-backs to the tenants.

Onsite managers that are not ethical can rent units and call them in as vacant, they can charge parking rent, pre-rental fees or just be devious and just not send in rent when a tenant has paid. It is critical that the company you hire has systems in place to combat such theft.

### **Who is Responsible?**

In the end, the investor needs to be involved. Remember when your baseball coach said to "keep your eye on the ball" to score a hit off of the pitcher? It is this same discipline that is needed by the investor to make sure that your investment is successful.

You must read your monthly financial reports. You must inspect the property. You must make sure that annually you are on the same page with your property manager by virtue of approving a management plan. You need to invest enough money into the property to make and keep it competitive in the marketplace. No property will operate well without supervision. If you do all of this you may have a chance to turn your property around and hit the market occupancy rate of 90%. May the investor gods be with you! Good luck.

*Clifford A. Hockley, Certified Property Manager, is the President of Bluestone & Hockley Real Estate Services, which is one of the larger brokerage and property management companies in Portland. Bluestone & Hockley is an Accredited Management Organization (AMO) by the Institute of Real Estate Management. Reprinted with thanks and permission.*