

Are You Exposing Your Investment to Losses?

by Marvin Fleischman

About half of all rentals in the United States are considered small properties, defined as less than 100 units. We have the highest number of rental units owned by individual investors. Many are owned by “arms length” investors, people who made their money in some other field and decided that apartments would be a good investment. The maintenance of the building is done by workmen they hire, like plumbers, electricians, and handymen. The day-to-day management is left to a resident manager whose duties usually involve tenant relations, maintenance requests, rent collection, showing vacancies and screening applicants. The second category of owner is the “mom and pop” owner/operator; investors who live on the property and do most of the managing and maintenance themselves.

I consider the owners of these small properties to be the backbone of all that is good in any community. They are people whose contribution of work and money not only provides housing, but their investment (many times their life-savings) is *into* the land. Unlike an investor who buys stocks or CD's, or even the local business owner, the rental property owner cannot pick up his business investment and move to a different neighborhood when conditions in the local community deteriorate, or move to another state when the effects of local government change against him. The commitment of the rental owner is deep and long-term. There will never be enough praise given to rental property owners for their contribution to the people and to the stability of the community.

Most of the “mom and pop” properties would not/could not exist if they were left up to large developers and management companies to operate. They exist and are successful only because someone with pride and personal concern is involved 24 hours a day, seven days a week. These owners persevere against all the forces of nature, government, tenants' rights' lawyers, rent control laws, and the temperamental tenant whose job and family are driving him crazy.

The majority of “arms length” and “mom and pop” owners have no formal education or training in all the fields of knowledge necessary to operate such a business. Their methods of doing business are simply the result of information that has trickled down to them from accountants, media stories and the school of hard knocks. Many times the resident manager is some long-time tenant whose status as “retired” or “housewife/mother” allows them to be around the building a lot.

Whether the person in charge of the building is the owner or the resident manager, the value of the entire investment (including the personal worth of the owner) is on the shoulders of the individual facing the day-to-day operations of the building.

Take a look at this list:

- Owner/tenant law
- Resident relations
- Marketing, advertising and showing vacancies
- Applicant screening
- Record keeping
- Bookkeeping
- Fair housing and discrimination laws

- Workers' compensation laws and employee labor law
- Maintenance diagnosis and repair
- Vendor selection and supervision
- Eviction procedure and preparation for court
- Small claims lawsuits and preparation for court
- Drugs, gangs, graffiti

Every one of these subjects puts the owner's interests at stake if handled improperly. A maintenance or marketing decision can waste money or lose a good tenant. Lack of legal knowledge can end up in a lawsuit. The unschooled owner or manager is constantly exposing the investment to losses.

As you read the list above, do you feel confident that you have a firm grasp of each subject? I have spoken to long-time owners who feel it's a personal blow to the ego to admit lack of knowledge. That's baloney! If you are in business and take it seriously, you can't let superficial pride and ego interfere with doing what's necessary to protect your investment and create more profit.

Now re-read the list above and take a moment to focus on each subject—hey, I said re-read that list! Don't you dare read any further until you do it! I'll wait—Do you understand the importance of each field of knowledge, or are you saying, "I don't know much about it, but I'm okay. What I do know has gotten me along without problems until now."

Owners and managers have gone along for years without in-depth knowledge of the above subjects. They have been lulled into a state of apathy. Nothing bad has happened to them in the past; therefore why worry about anything bad happening to them in the future? Does the old adage, "Ignorance is bliss." come to mind?

A cautious driver can probably go through thousands of miles of driving without an accident; but would anybody in their right mind who has property to lose drive without insurance protection? Yet, property owners have hundreds of thousands of dollars at stake every time their resident manager opens his mouth, washes the stairs or enters an apartment.

Let's say you have saved a few hundred thousand dollars and are looking for an investment. You notice that your favorite little neighborhood restaurant is for sale. The owners have run it successfully for 20 years and now want to retire. Is there any way on earth that you would buy it if the owners didn't work with you for a period of time to teach you the basics of their success? Would you entrust it to an inexperienced, untrained manager to run on a daily basis?

The role of the resident manager is so sensitive and critical that there have been efforts by cities in the past to require licensing of all resident managers. Of course, licensing would then give control to the city to set levels of competency and to require education and testing to enforce their resident manager standards. If this movement was to succeed, (1) it would create more government involvement with our business, (2) we would have to endure inspection of our resident managers added to the property inspections we already have and, (3) let's not forget, we would have to pay more fees for the new licensing and enforcement bureaucracy it would create. I think it's safe to assume we all agree we don't need this additional monkey on the backs of property owners and managers.

Just because I'm against government licensing of resident managers doesn't mean I'm against the knowledge and competency it would require. I just don't want to see the government get another foothold into our business. We must be concerned about any lack of knowledge our managers have for our own security not because it's forced upon us by a government overseer.

I'm sorry to say, I believe that three-fourths of the resident managers out there are a lawsuit against the owner waiting to happen. As well meaning, conscientious and honest as they might be, their knowledge has been limited to what an owner has instructed them to do. The knowledge that most owners have has usually only been gained from their own limited experiences and contact with other owners and managers.

Do we really want to trust our life's savings to such "accidental" knowledge gained much the same way as kids learn sex—on the street, by others who are guessing their way through it, too? The results of our kids' sexual incompetence produce unwanted children and disease; the results of your manager's lack of knowledge can lose your building for you.

Continuing education is important to every professional in every field you can think of. What has the last 10 years of changes and advances shown in the fields of medicine? Law? Accounting? Electronics? Even your handyman should use tools and materials that reflect today's technology. Let this article produce an aroma of coffee for you to smell. If your knowledge is limited on some of these subjects, you must wake up and realize how much is out there that you should know about this business. I suggest the best place to begin is to contact your Apartment Owners Association to see what conferences, seminars and classes they have planned. (See Web site www.aoausa.com).

Marvin Fleschman is a certified apartment property supervisor. As a property management consultant and advocate, he advises and represents apartment owners, management companies and investors. His expertise includes landlord/tenant relations, preparing your case for Small Claims Court, management operations, reduction of expenses, management training, and fair housing and discrimination (pre- & post-lawsuits).