

## **Smart Property Management Strategies**

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*You're pretty sure you've priced the asset correctly. You've looked at comparable apartment communities for sale in the market. You've figured the sales price in dollars per unit and dollars per square foot and both seem to be right. Yet for some reason when you apply a capitalization rate to the net operating income, you get a lower value. Does this sound familiar?*

*Competing effectively requires more skills and knowledge than in the past, especially for small-property owners.*

*Many reasons account for value discrepancies, but as the multifamily sector continues to consolidate in most markets, some small-property owners may be missing out on economies of scale that allow larger competitors to run properties more efficiently. The resulting higher expenses cause lower net operating incomes, and consequently, the market prices calculated using cap rates are lower than those of comparable properties.*

*The days of simply collecting rent and making sure the grass is cut are long gone for today's multifamily owners and managers. Competing effectively requires more skills and knowledge than in the past, especially for small-property owners. Some of today's savvy owners are improving bottom lines by leveraging technology and other resources. They are discovering that what works for the big players can work for them with a few modifications.*

*Commercial real estate professionals can use these strategies to help prospective multifamily sellers implement operating changes to command higher sales prices; they also can highlight these potential cost savings to buyers. On the flip side, brokers representing buyers should look closely at a seller's operating expenses. The opportunity to make changes can help clients boost NOI and increase a property's value after purchase.*

### *Where the Money Goes*

*Nationwide, multifamily property owners spend about 9.4 percent of their gross potential income on payroll. It is the single biggest expense, followed by real estate taxes at 7.1 percent and maintenance repairs at 4.6 percent, according to the Institute for Real Estate Management's income/expense analysis. These three cost areas combined account for 21.1 percent of GPI. However, as an industry, multifamily properties run at expense ratios of about 45 percent; so payroll, taxes, and maintenance account for about half of all expenses.*

*Technology is the one factor that has most influenced property management in recent years and offers the greatest money-saving potential. Options ranging from online tenant payment records to selling integrated cable and telephone services are creating cost-reducing opportunities and greater profit potential. Small-property owners can leverage such features and manage their businesses more efficiently.*

### *Payroll Expenses*

*Not only is payroll the single biggest operating expense, but staffing on-site offices is an ongoing challenge for many small property owners. A property staffed too lightly risks losing potential renters who cannot wait while one harried staff person fields phone calls and deliveries. It also risks annoying current, rent-paying residents who stop by on their way to work to resolve problems or request repairs. Today no one has the time to wait for service or attention.*

*Web-based property management applications offer solutions to these problems. For example, RealPage, which calls its platform OneSite, provides a module that is particularly attractive for small property owners. The service forwards unanswered leasing office calls to an offsite RealPage provider. Since the property's management staff uses the OneSite system to*

*update prices, upcoming vacancies, and rentals, the off-site team has Web-based computer access to the most recent information and can answer callers' questions about leasing, availability, and the property's features.*

*Thirty seconds later, the resident gets a knock on the door and the minor repair is completed within a few minutes. That's using technology to improve resident retention.*

*The off-site team also can log maintenance calls, and in emergencies, contact maintenance personnel. In addition, OneSite and other programs can dispatch logged maintenance calls directly to a repair technician's personal digital assistant, shortening the time between request and action. For example, a resident calls in a request, and the maintenance technician just happens to be finishing a job in the apartment next door. Thirty seconds later, the resident gets a knock on the door and the minor repair is completed within a few minutes. That's using technology to improve resident retention.*

*Software can track the time a particular work order was started, how long it took to complete, what parts were used (to track inventory), and if the resident needs to be billed for the work. Large properties also use this information to analyze how quickly various personnel complete tasks, which may reveal a more-efficient division of duties.*

*Web-based call monitoring is another useful technology tool, since many potential renters receive a first impression of an apartment property over the phone. At any time, owners and managers can monitor these calls to assess the quality of information being given. The system can help them determine if leasing consultants are promoting the community properly and creating an image that encourages prospects to visit.*

*This valuable tool also allows managers and the leasing staff to analyze how (and when) calls come in, which helps determine staffing needs. Companies such as CallSource can forward these calls in e-mail attachments to improve marketing analysis by tracking lead-generation sources. Call monitoring also helps to ensure that staff responses comply with fair-housing guidelines.*

## **Real Estate Taxes**

*Many markets have experienced significant property value increases, meaning that real estate taxes also are rising. But since it is a major expense category, taxes are always worth discussing with a tax appeal expert, even if the resulting savings is only a few thousand dollars.*

*While most assessment appeals companies work on a percentage basis, sometimes it makes more sense to negotiate a fixed fee, according to Mark C. Ogier, CPM, senior vice president of property management for Contra Vest, an upscale apartment developer and owner in Lake Mary, Fla. For example, if a property is over assessed by a million dollars, an appeal might result in a savings of \$25,000 or more – 20 percent to 30 percent of which might be paid to the tax appeal analyst. Depending upon the market and property size, an owner may be able to find a tax expert to handle the process for a fixed rate ranging from \$2,500 to \$5,000.*

*In addition, tax appeal experts often are aware of little-known local loopholes. For instance, several years ago after a property suffered significant vacancy loss, a tax specialist pointed out that even though the appeal deadline had passed, in that particular county the deadline does not apply to properties over assessed by more than 25 percent. Therefore, the owner still had reason to appeal the assessment.*

*Another tax appeal approach is to understand which factors diminish a property's value. For example, nearby contaminated gas stations or dry cleaners can discourage potential buyers, thus diminishing value. Similarly, if a property lacks a pool or other amenities or the units are undersized compared to the competition, these factors may reduce the property's value and tax burden.*

*Being aware of cap rates and how class A properties sell compared to class B and C properties is another factor to consider. Sometimes tax assessors might look at a 100-unit class B property and raise the value to 50 percent of what the nearby 200-unit class A property sold for*

last year. It is important to point out that there are economies of scale involved in managing 200 units compared to 100 units and that class A properties are selling at cap rates that are significantly lower than class B or C properties.

In some markets, a significant number of apartments are being converted to condominiums. Conversion developers are paying more for these units, taking on greater risk and reaping higher rewards than conventional apartment investors. This is another factor for a tax assessor to consider when valuing a property.

### *Maintenance and Repairs*

Steve Jankowski, CPM, president of Massachusetts-based Gatehouse Management, is a big proponent of saving money through preventative maintenance. "A solid preventative maintenance program extends the life of major mechanical machinery,"

Jankowski says. There's also a big payoff if you "invest in the equipment to perform maintenance in-house such as augers and pressure washers, rather than using outside vendors."

No expense is too small to examine as companies such as Gatehouse, which owns more than 5,000 units in Florida, Massachusetts, and Rhode Island, look to implement cost-saving strategies throughout their portfolio. For example, by using wood thresholds to separate bedrooms from hallways, sometimes carpeting can be replaced only in the smaller, more-traveled hallway and not the adjacent, less-worn bedrooms.

As certain industries become more competitive, Jankowski says it's worthwhile to re-bid contracts once a year or more, particularly for pest control, fire safety inspections, and alarm monitoring.

Frequent training and continuing education also can be a big savings. The value of getting maintenance personnel certified to clean pools or retrieve Freon from a compressor usually pays for itself. Not only do classes expose employees to new ideas and technologies, but they give these professionals the chance to network and share ideas about how to do their jobs better, vendors to use (or avoid), and work related situations they may encounter.

Several organizations including IREM ([www.irem.org](http://www.irem.org)) offer comprehensive designation and certification programs for multifamily industry professionals.

### *Other Ways to Save*

The potential for saving – or making – money exists in other property management areas. It may require an initial investment in software or other types of technology, but owners and managers should consider the long-term benefits. Determining when to change focus or introduce new procedures can make a big difference in the bottom line.

**Online advertising.** Once print advertising, such as apartment guides, was considered the primary venue for attracting new renters. Today, more owners are finding a higher payback in online advertising. Typical renter demographics include a large number of technologically oriented 20-to-35-year-olds. The internet is a better way to reach this group. In addition, it gives prospects access at any time of day and lets prospects retrieve more information than by telephone or in a printed directory.

Even small properties should have a Web site where callers can see property pictures, layout, and unit floor plans and learn about the community's features. It also can be set up for renters to submit maintenance requests to the office and even to pay rent online.

To assist in attracting Web site traffic, owners can buy easy-to-remember domain names. For a property in Phoenix, for example, [PhoenixApartments.com](http://PhoenixApartments.com) is probably already registered, but something similar such as [MyPhoenixApartment.com](http://MyPhoenixApartment.com) may be available. The Web site address should be on all literature and advertising including front entrance signs to catch drive-by attention.

To ensure control of the domain name, register it directly rather than through a Web site designer, who may later claim some ownership of the name. Several companies, such as [GoDaddy.com](http://GoDaddy.com), offer registration for less than \$10 per year.

**Submetering.** Many properties have switched from including water and sewer in the rent to having residents pay these charges. One study found that overall usage decreased by almost 30

percent when residents pay water and sewer charges directly. There are several ways to do this. The easiest method is ratio-allocated utility billing systems, or RUBS, which simply is allocation of the monthly bill. Slightly more complicated is hot water allocation, which involves estimating each apartment's usage based on how much hot water they use.

The most involved but also the most accurate method of billing is direct submetering. Owners should conduct more detailed analyses of these methods before making changes. In addition they should check local laws as submetering is prohibited by some local ordinances.

**Profit producers.** Miscellaneous income is gaining more attention from owners because it is usually pure profit. This can include contracting for phone/Internet/cable services, computer and printer usage, faxes, copies, door-side garbage pickup, notary services, package delivery and mailing, and even dog walking. Polling tenants to see what service they want may be a good starting point for discovering new profit centers.

Multifamily properties offer a wide range of opportunities for investors of all sizes in both large and small markets. While large property owners and managers often benefit from economies of scale, small-property owners can implement similar cost-saving strategies to retain their assets' value and remain competitive in the marketplace. By leveraging technology and other systems, commercial real estate professionals can help to improve properties' value in this very active market.