Best Practices for Small and Rural New England Property Management Firms

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Residential property management is easiest to do well and profitably when a large number of units are concentrated in a small number of properties located in close proximity. Many managers of residential rental property consider 150 to 200 units a minimum threshold for undertaking the management of a property. Many managers of affordable housing throughout New England and elsewhere, however, are operating without these advantages: their portfolios are modest in size; individual properties typically have less than 50 units and are often scattered over a large geographic area.

Economies of scale can prove elusive for small properties or small portfolios. It is difficult to deploy management staff to administer and maintain properties over large geographic regions. Finally, many rural communities in New England have faced declining populations and softening real estate markets in recent years, creating further obstacles to profitable property management.

We visited seven property management firms, both non-profit and for-profit, who are widely regarded as doing good work even in difficult environmentsto learn how some property managers faced these challenges successfully. They have portfolios that range in size from 65 to 2,000 units and from one to 65 entities. (An entity is any building or number of buildings that have the same ownership structure. All but one of the organizations manage less than 1,000 units. We also spoke with four firms in other parts of the country that face similar challenges. We found that while it may not always be possible to turn a profit, a well-run company can sustain high-quality affordable housing even in the face of these challenges.

This article will highlight some of the successful strategies we observed are significant in managing small, rural or scattered properties.

I. Elements of success

Keys to Property Management Success

- Organizational goals
- Portfolio composition
- Revenues and operating budgets
- Leadership
- Staffing and organizational design
- External relationships
- Unique market opportunities

Best practices: Organizational goals

Organizations need to be clear and consistent about their reasons for taking on property management. This is fundamental to providing the best possible chance for building a sustainable property management business. The best companies do the following:

- Clearly identify their purpose for taking on property management consistent with the organization's mission or business plan
- Align staff, board and leadership in pursuit of the common outcomes for the properties, the residents and the organization

- Take pride in their product: consistently strive to be the "best housing in the neighborhood"

Best practices: Portfolio characteristics

While it should be possible to provide high quality housing in almost any portfolio, it may or may not be possible for property management to be a profitable enterprise. Many organizations which choose to manage challenging portfolios for mission-driven reasons need to look beyond management fees alone to support their property management activities. In general, portfolios that can break even on management fees alone need to have these characteristics:

- Minimum of 500-600 units
- Average property size is at least 35 units
- Geographic concentration: the smaller the portfolio, the tighter the geographic radius needs to be (a single site manager should not have to travel more than an hour between properties)
- New properties must be in good condition and have adequate reserves

Best practices: Revenues and operating budgets

Organizations with portfolios of less than 500 units – particularly if the properties are geographically dispersed, or if there are many small developments in the portfolio –need some additional sources of revenue in order to break even.

In addition, all new management companies need to find a source of funding separate from management fees to cover the costs associated with launching a property management business: property management accounting software and hardware, work order and inventory management systems, office setup costs, consulting, etc. These costs may vary widely depending on the resources already available; but in general, they may range between $50,000 and $150,000.

Sources of start-up and operating support for new property management firms

- Development fees
- Asset management fees
- Grant revenue
- Fundraising
- Maintenance and equipment rental

Best practices: Leadership

Most current management advice warns against the dangers of micro-management. These dangers include failing to empower staff, failing to be innovative in finding new and better ways to run the company, and failing to seek new opportunities in the marketplace.

On the other hand, the one absolutely consistent feature of the most-admired property management firms we visited is that they have strong, hands-on leaders who are deeply involved in every level of operational detail. In many cases, these leaders founded and built their property management businesses. These leaders engender respect and confidence among all stakeholders, from residents to regulators. They are able to overcome the challenges of small and scattered portfolios with innovation and flexibility. They are the team captain for the organization. They hold a true passion for positive outcomes for their properties. Finally, and importantly, these leaders are expressly empowered by their boards, by their property owners, and by their bosses (if they have them) to set standards, policies and procedures across their portfolios.

Best practices: Organizational design and staffing

Flatter organizational structures seem to work better for small property management firms. While the examples later in this paper show a number of different approaches, all of the successful firms we visited offered consistent advice:

- Clearly assign responsibility for key property management functions – collecting rent, filling vacancies, handling maintenance
- Hire for positive attitude; be willing to train
- Focus on staff quality, team-building and retention (including flexible work schedules)

Best practices: External relationships

Excellent external relationships were a characteristic of all of the model firms we visited. They cultivated strong relationships with vendors, offering repeat business to trusted sources and making prompt payment a priority (one manager defers his own firm's fees if necessary to ensure that vendors are paid on time). These firms cultivated a range of other strong business relationships: with banks, regulatory agencies, courts and municipal services. Finally, these organizations worked to leverage social service agencies in their communities in order to provide their residents with the best possible range of services.

Best practices: Unique market opportunities

The most successful management companies we visited are particularly adept at responding to their markets' idiosyncratic opportunities to obtain excellent services at reasonable prices. Some examples:

- A CDC is able to get services from highly-skilled consultants at discounted rates by offering them a steady stream of ongoing business with highly flexible hours
- Several companies use resident managers, offering reduced or free rent in exchange for basic janitorial or emergency response services
- One CDC partners with a larger management company to get technical support and training for staff
- Another moderate-sized firm addresses the lack of good contractors in its region by helping residents launch small businesses to do landscaping, unit turnovers and other custodial work

II. Operations

There are many ways to organize and run a property management company. However, we observed strong similarities across the companies we visited in how they organized, deployed and focused their operations.

Best practices: Administration

- The smaller the properties, the more centralized the administration
- Make rent collection and occupancy the top priorities
- Address soft or challenging rental markets with locally-based staff and relationships
- Keep teams connected with structured and regular meetings

Best practices: Maintenance

- Manage maintenance close to the properties: decentralize or regionalize maintenance for a geographically dispersed portfolio
- Strive for the balance of maintenance work to be scheduled rather than reactive: establish a

regular schedule for maintenance visits and stick to it

- Send out one worker in the truck at a time whenever possible
- Conduct regular unit inspections to identify work order priorities
- Stock only minimal inventory
- Consider residents, part-timers or contractors for custodial work
- Establish a local point of contact for work orders
- Top company leaders should take a turn on call
- Make outsourcing decisions based on an evaluation of the best available option in each market

III. Answers to Common Questions

What are the advantages of a small portfolio?

A small organization focused on delivering high-quality property management services can have a dramatic impact on the quality of a community's housing.

Small organizations can often be more flexible than large ones, reinventing themselves as they grow, and in response to new opportunities.

Finally, a skilled, hands-on leader can work wonders with a small portfolio, overcoming the absence of strong systems.

Are there any staffing rules of thumb for a small property management company?

The number of all non-maintenance staff (executive, property administrative and accounting operations, as well as resident services) range from .30 to .45 FTEs (full time equivalents) per property. (Maintenance and custodial staff are excluded from this analysis because maintenance practice is sufficiently varied in terms of those activities that are performed by in-house staff vs. contractors and live-in residents that most properties require very individualized staffing patterns. Nonetheless, virtually all maintenance is charged to sites on an hourly or pro-rated basis.)

The cost of small properties: an illustration

Company A has 33 properties with an average unit size of 18 for a total of 600 units. Company B has 17 properties units with an average unit size of 35 units for a total of 600 units. Both properties have the same number of units, but Company A requires 10 employees while Company B requires 7.

At a management fee rate of $45 "per door" per month, a 600-unit portfolio would earn roughly $325,000 per year in fees – regardless of the number of properties in the portfolio.

Let's say that the average salary and benefit expense is $40,000 per employee. Company A will pay $400,000 in staffing while Company B will pay $280,000. This is more than a 40% difference in management company expense for the same number of units!

The staffing range of non-maintenance FTEs is fairly narrow because this part of the management operation is as dependent upon the number of properties as the number of units. However, the economic consequences of having small properties are staggering. It is critical to remember that the property management business relies on management fee revenue based on the number of units rather than on the number of properties and

60% to 70% of management company expenses are related to payroll.

What are different ways successful companies employ residents?

Many companies hire existing residents or make living at a property a condition of employment. These employees' responsibilities frequently relate to daily routine custodial duties such as timely common area and grounds cleaning and snow removal as well as emergency and on-call response. In one instance the management company hires couples to insure continuity in service delivery if one is ill or otherwise unable to perform the daily functions.

Companies with geographically dispersed portfolios train their resident employees to participate in the leasing effort by showing apartments to prospects. This is a critical strategy particularly in soft markets where prospects have several choices and may be deterred by having to wait for an appointment with a manager who is not at the property every day.

One company not only helped residents launch landscaping, cleaning and painting companies, but involved them in regular staff meetings to give them ample opportunity to "staff up" for upcoming unit turnover preparation and property inspections. This fostered the success of the resident businesses in meeting the management company's needs.

How do you decide whether to contract out or do the work yourself?

Successful companies are flexible in assessing contracting out vs. using in-house staff based on *cost, time and quality*.

While their solutions are highly responsive to their markets and to their own clearly-stated objectives, the best companies routinely choose solutions to:

- Optimize curb appeal
- Minimize the time required to prepare vacant units for occupancy
- Engage the right skill level for the task (do it right the first time)

What is the role of the Board of Directors or other Owner?

The Board's or Owner's role is to set clear and achievable performance standards for the management company. These include financial goals for the company (break-even, make a profit), asset preservation objectives (physical, financial and social measures) for the properties themselves as well as a high level of resident satisfaction.

The most successful organizations have Boards or Owners that review performance regularly, but avoid micro-managing day-to-day property operations.

What kinds of systems do you need to manage successfully?

Property management is a business that summarizes its activities on a monthly, quarterly or annual basis. To this end, successful companies adopt standardized systems as much as possible, but have the capacity to customize where appropriate. The most significant systems are:

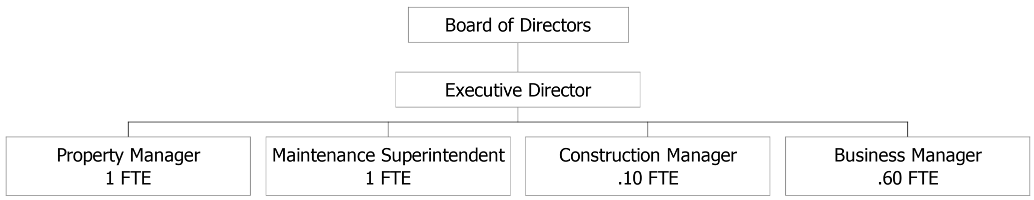
- Property management accounting: general ledger, accounts payable, accounts receivable
- Leasing (tracking vacancies)
- Budget and budget monitoring reports
- Work management system (can be manual)
- Resident certification and recertification, tax credit compliance, other regulatory reporting capacity

- Investor reporting (for tax credit properties)
- Annual audit readiness
- Personnel: payroll, hiring, performance reviews, benefits management

IV. Successful Models

The following organization charts show the operating models of five of the organizations we visited, followed by comments about their unique approaches to challenging portfolios.

Model company #1: 60 units operated by a CDC

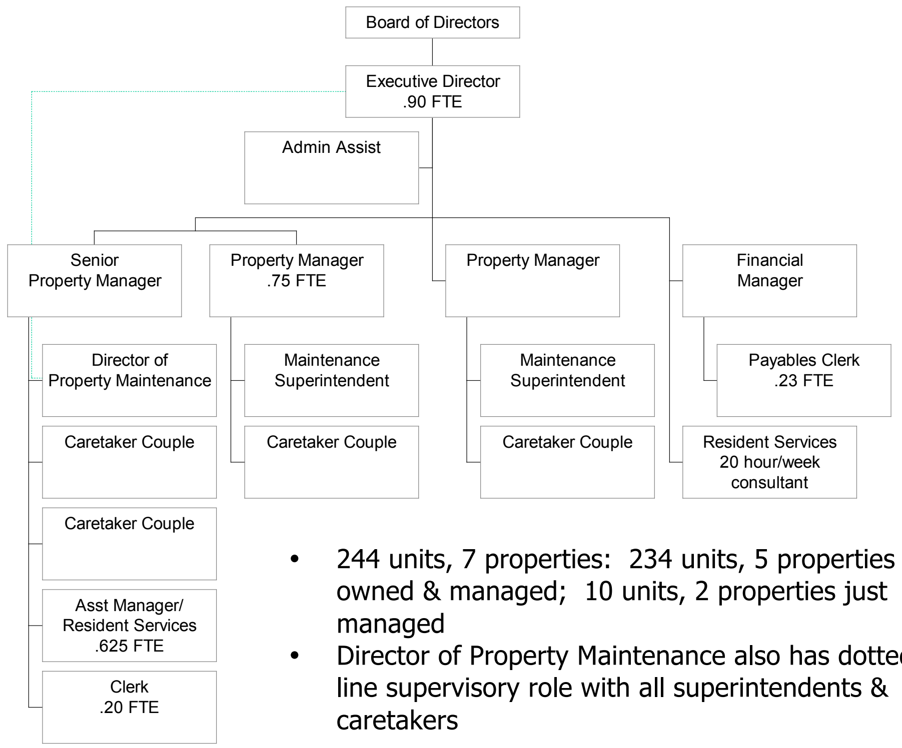


- 460 units owned: 40 self-managed; 20 co-managed; 400 managed by third party
- 60 managed properties: 22 buildings; 1 entity. Single, two-family, and group homes
- Executive Director performs asset management as well as supervisory function
- Construction Manager assists with capital work

Best practices of company #1:

- 22-year veteran executive director has hands-on role in both development and management of properties
- Scheduling flexibility has helped organization retain staff for long periods
- Strong relationships with local independent contractors
- Partnership with larger management company for infrastructure and training

Model company #2: 244 units operated by a CDC

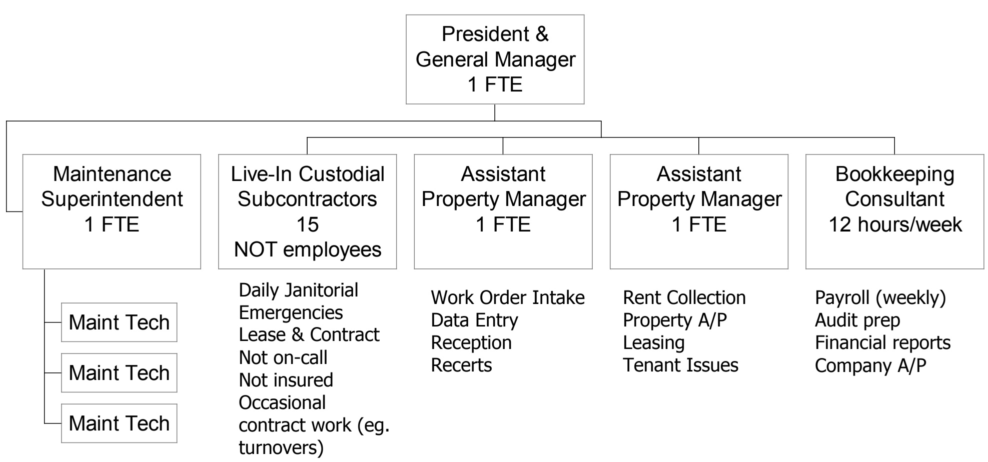


- 244 units, 7 properties: 234 units, 5 properties owned & managed; 10 units, 2 properties just managed
- Director of Property Maintenance also has dotted line supervisory role with all superintendents & caretakers

Best practices of company #2:

- Care and attention to legal aspects of hiring resident staff
- Highly-skilled part-time consultants provide targeted services at reasonable cost
- Strong local political relationships
- Management fees generated by market units with high rents enhance revenue stream
- Long-time agency employee moved up through the ranks to become director

Model company #3: 400 units operated by a for-profit fee management firm

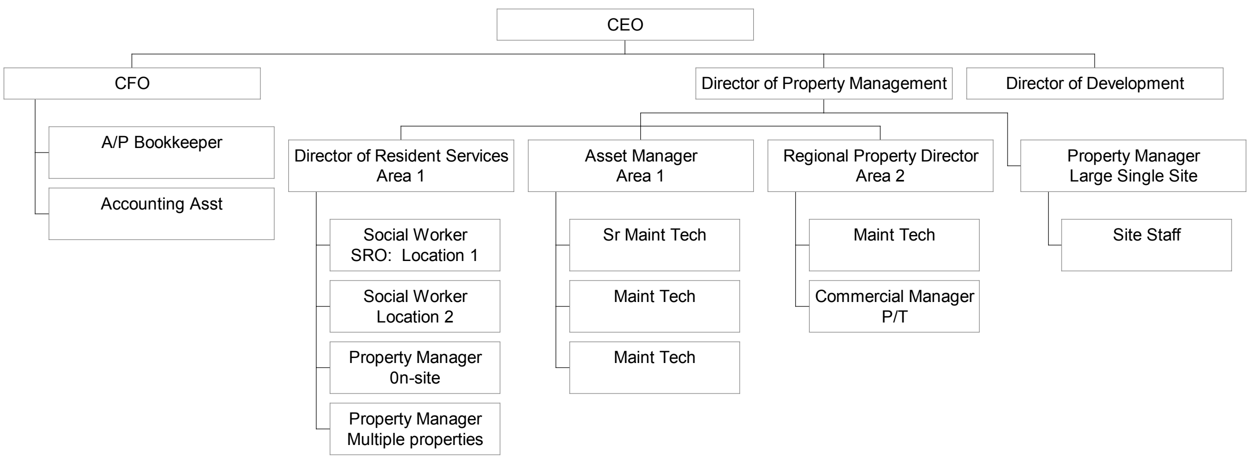


- 20 properties; 25 buildings. Scattered, urban, receiverships
- Maintenance is billed to properties by the hour
- Live-in custodians receive apartment as compensation. Occasional paid contracted work.
- General Manager, Property Manager Assistants and Bookkeeper paid from fees.

Best practices of company #3:

- Founder of firm began business in 1988 and stayed with it
- Extremely cost-conscious management approach
- Daily meeting with all maintenance staff to review assignments and set priorities
- Strong focus on property management as a service business: treats residents with respect, timely response to problems, etc.
- Sets clear standards for property quality when deciding on new management opportunities

Model company #4: 600+ units managed by a CDC

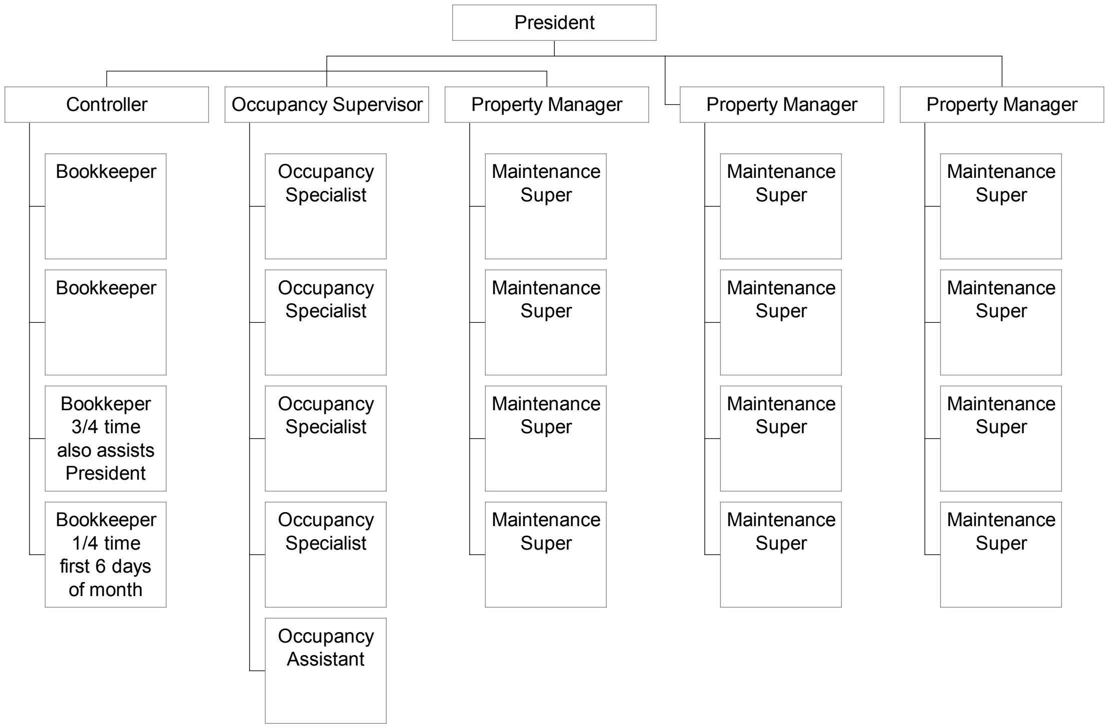


- 37 properties
- Mix of suburban and rural markets
- Extensive human services programming

Best practices of company #4:

- Leader started and grew property management division
- Organizational design meets the needs of different markets: mixture of centralized, property-specific and regionalized operations
- Resident-owned small businesses do unit turnovers and landscaping
- Key contractors regularly included in staff meetings
- Asset manager highly skilled in capital project planning and implementation
- Widely recognized for excellent curb appeal

Model company #5: 2,000+ units of widely-scattered rural housing; for-profit fee-management firm



- 12 of 60 maintenance staff are full-time
- 2,000 rental units in 65 properties and 360 condo units in 2 properties
- Property managers focus on maintenance
- Completely centralized administration

Best practices of company #5:

- Industry veteran founder with extensive knowledge of funding programs and regulatory agencies
- Flexible in choosing best available local maintenance solution
- Administrative office without walls fosters interaction among staff and with leader
- Prompt payment of vendors a top priority; defers own fees to pay vendors on time when necessary
- Resident satisfaction based on excellent routine and preventive maintenance
- Nurtures excellent owner relationships