

WHAT EXACTLY DOES A PROPERTY MANAGER DO?

You might be tempted to manage your own real estate, on the idea that it would save you money, right? Not so fast. The do-it-yourself approach can be a huge mistake when dealing with investment real estate.

When considering whether to self-manage your property, or hire a professional firm such as *CityCom*, it may be enlightening to understand the many functions required in the management of these complex investments. Most people understand the concept of “collect the rent - pay the bills”. But there’s more - MUCH more.

Don’t believe it? Maybe the following pages will help illustrate what is actually involved.....



Dealing with the TENANTS:

- ◆ Answer phones during regular business hours. Tenants often expect to talk with a live person rather than a voice mail.
- ◆ 24-hour emergency response system (Murphy's Law applies here: problems tend to occur outside of regular business hours).
- ◆ The lifeblood of your investment: Collect the rent, fees, and other charges, made much easier by providing monthly statements (with self-addressed return envelopes). And if they don't pay, how about a 2nd round of delinquent statements on bright red paper to catch their attention.
- ◆ Eliminate excuses for nonpayment: Ability to accept alternate methods of rent payments (credit cards, ACH, etc).
- ◆ What if your tenants do something that creates a hazard to persons or property? That's why requesting insurance certificates from all tenants, ensuring the proper coverage, timely renewals, and appropriate endorsements are essential.
- ◆ Tenants still not paying? Then careful handling of evictions are called for, including preparation and service of 3-Day and 30-Day Notices, and interaction with legal counsel throughout the Unlawful Detainer process. If this step is done incorrectly, it can cost you a LOT of money.
- ◆ In association settings, initiating lien and foreclosure proceedings when necessary is not only important, but must be done properly and in accordance with very exacting procedures.
- ◆ Coordinating tenant turn-over (move-outs, move-ins), including settlement of account, assessment of condition and associated charges, arranging for repairs/cleaning, etc. Dispositions of security deposits is another trap that can cost landlords dearly if not performed correctly.
- ◆ Marketing available space(s), and handling tours of the suites to prospective tenants. You have to be ready at the drop of a hat to show available spaces, or your prospective tenants will go elsewhere. And to attract those prospects, you must have access to all of the professional tools of the trade.
- ◆ Tenant screening measures, including processing applications, credit reports, financial information, reference checks, etc to determine acceptance and associated risk of each prospect. Time spent on this step is worthwhile, as one bad tenant can ruin your property in short order.
- ◆ Negotiations on behalf of Landlord for prospective new tenants or existing tenants' lease renewals. The ONLY effective way to do this is to ensure that the person negotiating has the necessary level of education and experience.
- ◆ Review of lease assignment & sublet submittals, and processing applicants. Again, there are considerations that must be taken into account. Miss any one of them, and trouble will come knocking.



Dealing with the LEASES & DOCUMENTS:

- ◆ Preparation of comprehensive commercial leases customized for your type of property, and monitoring changes in the industry and updating lease forms as needed. Leases are complex documents - the quickest way to get in trouble is to try and download one from the Internet or use one of those generic rental agreements found in office supply stores.
- ◆ Preparation of all related lease documents, including renewals, amendments, extensions, expansions, addendums, assignments, subletting, etc. Leases are working documents, and you **MUST** know the proper ways to create and amend them, and have the experience to know how those provisions will affect the tenancy.
- ◆ Monitor all lease provisions such as periodic rent increases (fixed, CPI, etc), and assessment of late fees.
- ◆ Monitoring key events such as lease expirations, options to extend or expand, exclusive rights, etc, and notify the appropriate parties. Miss one of these, and big trouble will find you!
- ◆ Creation of key documents, such as emergency evacuation procedures, sign criteria, building standards, etc.
- ◆ Administer CC&R's, By-Laws, Meeting Minutes, and other governing documents. These documents can be very complex, and the ramifications of failing to understand and administer them correctly can be disastrous.



Dealing with the VENDORS, CONTRACTORS, AND SUPPLIERS:

- ◆ Fielding maintenance requests, consulting lease documents to verify responsibility, dispatching the appropriate vendor, and follow-up with tenants to ensure successful resolution. When it's raining, how quickly could you respond to a serious roof leak that is damaging your tenant's very expensive equipment?
- ◆ In-house maintenance staff, available when you need them, where you need them, and at a competitive cost. Without this standby feature, you're at the mercy of outside vendors during chaotic times. Try explaining that to your anxious tenants.
- ◆ Ensuring all outside vendors are adequately insured (liability & workers comp) and licensed where appropriate. Imagine a situation where you hire a contractor or vendor without this, and they burn your building down. It happens.
- ◆ Creating maintenance specifications for all property services and distributing to vendors. What kind of specifications do you have for various projects? (Parking lot, tree trimming, roofing, painting, etc). Relying on the contractors to define their own parameters? NOT a good idea.



Dealing with the MONEY:

- ◆ Processing all payables as they come due, checking accuracy of invoices prior to paying, and doing this multiple times each month to avoid late charges, and to create vendor loyalty.
- ◆ Creating and adhering to an operating budget for the property to ensure that cash flow projections are met, and potential problems are identified early. Monitoring this takes a keen, experienced eye.
- ◆ Preparation of reserve studies. If your association does not do this, you will soon wish you did.
- ◆ Annual reconciliation and prorata billings of common area maintenance & operating expense increase pass-throughs as appropriate, tailored to each tenant's individual lease provisions. These reconciliations can be VERY complex, and leases often contain specific, limiting provisions that must be taken into account. Mistakes here can be very costly when your tenants decide to audit your books.
- ◆ Preparation of easy to read, comprehensive and meaningful financial reports showing all funds received and disbursed, complete with current and historical profit and loss statements, occupancy reports, bank reconciliations, and various other custom reports as desired. The software needed to handle and produce these reports costs north of \$30,000.....PER YEAR. The off-the-shelf accounting software won't do it.
- ◆ Monitor financial situation to ensure property is performing as expected and within the guidelines of the budget, and to maximize income while minimizing expenses without sacrificing the condition of the property. This one step alone can make or break an investment. The property manager needs to understand the importance NOI (Net Operating Income) has on the value of the property.
- ◆ Selection of banking institution to minimize/eliminate account fees. A solid business banking relationship is critical.
- ◆ Maximizing return on reserve funds in high yield insured investments as available.
- ◆ Reconciliation of bank statements and resolution of any noted discrepancies. Again, that really expensive software makes this happen, although not without someone experienced to use it.
- ◆ Internal checks & balances/audit procedures to catch any errors. Do you have an in-house accountant?
- ◆ Interaction with your accountants in providing financial data for the preparation of tax returns, and submittal of tax returns when desired. Also, production of year-end W-9's as required by law, which carries HUGE penalties if not done in a timely manner.
- ◆ Routine back-up of all financial data & electronic files. This seems obvious, but often overlooked until it's too late.



Dealing with the GOVERNMENT:

- ◆ Interaction with all appropriate government agencies as required for the building's operation, and maintaining proper licensing. There are a variety of government agencies involved depending on the type of property and its amenities. Miss one of these, and Uncle Sam and its cousins will come knocking...with penalties.
- ◆ Represent your interests in governmental hearings, meetings, legislative issues, etc. There are many city and regional issues that periodically arise which could have a substantial impact on your property.
- ◆ Issue end of year 1099 & 1098 tax forms, and prepare/file other governmental reports/statements (EDD, Franchise Tax Board, IRS, etc).
- ◆ Ensure code compliance with all building systems, such as ADA accessibility, mandated elevator upgrades & load test, fire sprinkler certifications, annual backflow tests, etc. This list on these is massive, and growing.
- ◆ Ensure compliance of ever-changing government regulations. ADA is an obvious one, but there are others. Did you know there's a new law that requires building owners to disclose previous energy usage data to new tenants/buyers/occupants? Every year there are a barrage of new regulations just like this which affects you.



Dealing with LENDERS:

- ◆ Communicate with lender on financial reporting requirements (usually quarterly). The days of the lender staying silent so long as the payments are made are long gone. Now there are lender inspections (with follow-ups required for noted deficiencies), and regular financial report demands to answer.
- ◆ Submissions for escrow holdback & reserve releases and monitoring escrow/impound adjustments. Loan impound accounts can be confusing to decipher, and are often riddled with errors. But it's YOUR money!
- ◆ Ensure lender receives proof of property insurance upon each renewal with appropriate mortgagee endorsement. Miss this, and the lender can put its own insurance policy in place on your behalf, and charge you for the premiums (which are not cheap).
- ◆ Preparation and distribution of estoppel certificates and subordination agreements for refinancing and upon property acquisition or sale. Gone through a refinance recently? The process is extremely time consuming and the work required is demanding.



Dealing with INSURANCE COMPANIES:

- ◆ Securing adequate and cost efficient property & liability insurance coverage, and ensure timely renewals. Goes without saying how important this step is. But what may not be so obvious is knowing the intricacies of typical policy provisions and how they can have a tremendous impact on what you're covered for, and what you're not.
- ◆ Ensure insurance coverage meets with the minimum requirements in CC&R's, lenders, leases, etc. Regardless of what you may WANT to insure for, you likely have certain minimums that must be put in place.
- ◆ Responding to periodic insurance surveys and compliance with noted recommendations. Carriers are becoming more demanding - and more involved - in the operation of the insured property.
- ◆ In the event of a casualty loss, filing claims with the insurance carrier, and working with the adjusters to get such claims paid in a timely and complete manner. You can bet most insurance adjusters are paid to pay out as little as they can on claims. You need an advocate who understands the process and can fight on your behalf.
- ◆ Analyzing risk management issues and suggesting procedures to minimize exposure to potential losses and lawsuits. The best insurance is an experienced eye to identify problems *before* they happen.



Dealing with the PHYSICAL PROPERTY:

- ◆ Arranging for all maintenance and repairs to the property, and supervising vendor performance for the building and common areas. This requires a working knowledge in a lot of areas (landscaping, janitorial, day porter, parking lot maintenance, HVAC, elevator, roofing, etc).
- ◆ Ensuring that all maintenance and alterations are within the proper guidelines and performed in a professional manner, and to ensure maximum asset value is maintained. Improvements for the sake of making improvements can be a costly mistake, without careful consideration to what makes sense, and what doesn't.
- ◆ Performing regular on site inspections, and regular walk-throughs with vendors (not just managing from behind a desk). To know the condition of the property, you have to be at the property regularly, and know what to look for.
- ◆ Coordinating and attending on site tours with lenders, consultants, insurance inspectors, appraisers, etc.
- ◆ Securing bids for all property services to ensure highest quality performance at the most effective cost. A property management company has the unique position of being able to demand economy of scale discounts with preferred vendors. Also bids need to be carefully analyzed to ensure an apples-to-apples comparison. Low bid isn't good enough: it needs to be low, *qualified* bid.
- ◆ Coordinating tenant improvement projects, including supervision of architects, space planners, engineers, contractors, etc, and working with governmental agencies to obtain permits and inspections. This process can be daunting and requires experience and knowledge that is critical to making sure the project gets done, and on time. Delays can have significant impacts on the bottom line if lease commencement deadlines are not met.
- ◆ Attending meetings with owners/Board members, conducting those meetings in a professional manner, and preparation of meeting minutes.
- ◆ Monitoring utility rate schedules and usage, and changing where cost reductions could be realized. Did you know there are a variety of electric rates available from most utility companies? Use the wrong one (common), and you could be wasting money.
- ◆ Making sure vacant spaces are in acceptable showing condition. If not, you can bet there's a competing property that does!

Whew! As you can see, there's lots to be done, most of it being time critical. Still considering an in-house person? What about:

- ◆ Handling payroll for management/maintenance personnel (and onsite staff where applicable).
- ◆ Handling all human resources items, such as employee reviews, vacation schedules, benefits (health insurance, etc), reimbursements, etc.
- ◆ Qualifying, hiring, and supervision of commercial leasing broker alliances to increase exposure for stubborn or larger vacancies.

And that's not even considering daily staffing considerations. Who do your tenants or association members call when a key staff member is sick? Or what if they quit - how long would it take to replace them? What happens in the meantime? And who has the time or desire to supervise their every move? You? WHY???

Factor in the professionalism and experience that a professional property management company brings to the table, not to mention the resources available that you just can't get on your own. It would be totally cost prohibitive to attempt to replicate what *CityCom* has to offer, and in most cases, at a cost that is less expensive in the end than trying to do this yourself.

But the biggest question of all is this:

What are the benefits of managing your properties in house?

Let's list them:

1. Cost savings?
2. We can't think of any others!
3.

Let's take number 1: Cost savings. It should be written as "perceived" cost savings, because when you get right down to it, you're probably not saving anything. In fact, you could be spending more. Consider the costs for your employees, burdened with payroll taxes, benefits, etc. Add in the potential for missed income opportunities due to their inexperience. What about innocent mistakes made you or your employee, such as authorizing a repair, when a less costly solution would have sufficed. Have to prepare a complex lease, and choose to have your attorney do it? How much did THAT cost? Add it all up, then compare to what *CityCom* charges for their services, and you will most likely be very surprised. (And when comparing the figures, *don't forget that many times your commercial tenants are required to pay all or a portion of your management fees paid to an outside party, which makes our services practically free to you!*)

What most don't realize is that property management can involve complex tasks, often consisting of frantically dealing with emergencies and unusual hours. And to be successful, strong communications skills, excellent organizational skills, problem solving ability, and a flair for numbers are essential to handle this demanding position. The best property managers are proactive rather than reactive, by anticipating potential problems and preventing them before they occur. Equally important is that an effective property management program usually isn't just one person.....it requires a team of individuals, from the manager him/herself, to support staff, assistants, coordinators, and accounting personnel for day-to-day financial tasks.

Save yourself the headaches by contacting us now for a no-obligation custom management proposal. Your property, and your time, is far too valuable....let us show you how *CityCom* can help.

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