

THE PROS AND CONS OF PROPERTY MANAGEMENT



BY RICH DANBY



BOUGHT MY FIRST RENTAL PROPERTY NEARLY 15 YEARS AGO.

At the time, hiring a property manager was the furthest thing from my mind. Why would I need a property manager when I only owned one property? Like most first time investors, I was so proud to be the owner that I wanted to manage it, all by myself. I wanted to know the tenants, learn the process and save myself as much money as possible so I could buy more properties. I assumed it wouldn't be that much work. I was wrong! The property had three units so I decided to move into one of the units and let the tenants pay my mortgage. Unfortunately, I inherited the existing tenants and they liked to party. Eventually one of them lost their job and they moved out. I ended up having to spend about \$13,000 renovating their place, but afterwards I was able to increase the rent by about \$300 a month. Now I could afford a property manager, but I still wasn't ready to hire one, even though I had a young family and a full-time job. Back then I didn't put a proper value on my time. I figured I was saving money by doing everything myself. This is probably the most common reason people don't hire a property manager, but is it logical? It depends.

Whether you've just bought your first rental property or have a large portfolio, there are numerous benefits to hiring a property manager.

PROS OF HIRING A PROPERTY MANAGER

1. They're professionals, which means they should have the systems and experience required to handle all the potential scenarios that may come up.
2. They know how to market your property, place ads, and screen tenants, in-

cluding reference checks, employment verification and credit scores.

3. They know which forms to give tenants for rent increases, non-payment of rent, or evictions.
4. They typically have a list of trades or qualified employees to handle all your maintenance issues, which could save you a lot of money.
5. It's less work for you!

PROTECTING YOUR BRAND OR IMAGE

Another benefit of hiring a Property Manager (PM) is that it creates a barrier between you and your tenants. Have you ever made a new friend and realized shortly afterwards that they're not who you thought they were? The same thing can happen with tenants, except once they move in there's no option to end the relationship. Most tenants are fantastic, but every once in a while you'll get a tenant who you can't please no matter what you do. You know the type, the kind of person who blames the world for all their problems and always looks at the glass as half empty. Unfortunately, this type of tenant often feels compelled to share all of their misfortunes with the world, often using the internet as their diary. Warren Buffett once said, "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." Social media now provides anybody the opportunity to damage your reputation in seconds, not minutes. Twitter, Facebook, online forums...Some people even start their own website! It doesn't matter whether their complaints are true or not. If you're not running a business you may not care, but if you are, it's certainly something to consider. You may be thinking this doesn't apply to you. However, it doesn't matter how perfect you think you are as a land-

lord, eventually you're going to have a disgruntled tenant trying to tarnish your good name. The larger your portfolio, the more likely you are to face this situation.

CONS OF HIRING A PROPERTY MANAGER

Although there are many benefits to hiring a Property Manager there are many things to be considered.

1. As an owner, having a positive relationship with your tenants is extremely important. Depending on who you hire, there's always the risk your PM will become transactional instead of relational with your tenants. This could leave your tenant feeling resentful or unappreciated and they may move out as a result.
2. Nobody will ever love your baby as much as you do! You can find the best PM on the planet, but there will always be things you could have done better. Property managers can't read your mind and they also have other clients so it's impossible for them to give your property the same affection you would.
3. Having a PM affects your profit margin and can eat away all your cash flow, especially if hiring a PM wasn't factored in when you bought the property. Aside from a monthly percentage of rents, there are also other fees. Filling a vacant unit typically costs anywhere from 50% to 100% of a month's rent. These costs add up, especially if you have high turnover.
4. Yes, hiring a PM will save you time, but you still have to manage the manager and keep the lines of communication open so you'll know what's going on with your properties. Depending on the quality of your units, there still may be a need for regular discussions

and decisions that need to be made by you! You can minimize these conversations by pre-approving all expenses up to a pre-determined amount. However, it's important that you don't make assumptions that everything is going great. Be careful not to become overly trusting or complacent. That's when expenses could get out of control.

REFERRALS

Good help is hard to find, which is why investors are always asking other investors for property management referrals. This should always be the first step before hiring a company, but don't limit yourself to only one person's opinion. Ask at least three people to make sure they all feel confident recommending the same company.

PENTHOUSE TO OUTHOUSE

One of the more common problems investors experience is property management companies who can't keep up with their success. They often go from HERO to ZERO due to a lack of planning or greed. Unfortunately, many PM companies make the mistake of trying to take it all on themselves without hiring new people. Or they hire new people, but don't have the experience or ability to effectively manage them. This inevitably leads to a decrease in customer service and sometimes forces owners to step in and fix the problem. Here are 10 questions you can ask to make sure you're hiring the right Property Management Company:

1. Can you please tell me about your experience as a Property Manager?
2. What percentage of rent do you charge? Do you charge any additional fees?
3. Who's on your staff and what do they do?
4. How many properties/doors do you manage?
5. What's the protocol for marketing vacancies?
6. What's the protocol for screening tenants?
7. What's the protocol for handling maintenance and getting quotes?

8. What's the protocol for regular inspections? What's included in the inspections?
9. What can you tell me about the reporting system you use to keep owners informed?
10. Do you own investment properties?

Having a vacancy for an extended period of time can create stress and fear that only a property owner would understand. As an investor, I prefer a PM who also owns real estate. If they own their own properties they understand the importance of getting back to potential renters quickly and screening tenants properly. They also understand the importance of treating tenants as customers. Some investors believe it's better if the property manager doesn't own properties so their focus will be on filling your rental unit and not their own. Regardless of your opinion, I believe the focus should be on their track record and what systems they have in place. If they're really good at what they do, hire them! Now that you've made that decision, your job isn't done. It's your asset, which means it's your responsibility to make sure things are going well, especially if you have funding partners. There are a few ways you can quickly assess how things are going:

1. Ask your existing tenants.
Has the transition been smooth for them? Are they happy with the level of service they receive when they need something done?
2. Ask the PM to send you a link to the ad every time you have an upcoming vacancy. This provides you the opportunity to review your ad and find out how quickly your PM responds to the news of an upcoming vacancy.
3. Respond to your own rental ads using an alias. This is extremely important to ensure the people showing your property are responding quickly and effectively, and are making themselves available to show your property.
4. Drop by the property unannounced to see how it's being maintained. If things aren't going well you may be able to notice just from looking at the outside.

5. Every few months Google the name of the company and owner to make sure there's nothing going on behind the scenes that you should be aware of.

DECIDING FACTORS

Now that you have all the information required to successfully hire the right property manager, it's time to decide if you really need to. Do you have the experience, desire and resources to do this on your own? Where are your properties located? For most investors it usually comes down to time and/or money. What is your time worth? Is it worth more per hour than what you would pay a property manager? After managing my own properties for many years I learned that my time is better spent finding the next deal. We still have a few properties that we manage ourselves, but those are low maintenance properties in "A" class neighbourhoods with "A" class tenants. We also have people we can call upon for maintenance when tenants notify us of an issue. Those properties are close to home, which makes them easy to get to if there's a problem. There is no right or wrong, only what's right for you!

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