



Choosing a commercial property management firm

A Competent and Professional Manager Can Safeguard Your Investment and Keep your Tenants Satisfied

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In today's complex real estate markets, selecting the right commercial property management firm is one of the most important decisions an owner can make. Trained, experienced and creative real estate managers can obtain the maximum return on an asset by improving cash flow, retaining tenants and increasing the value of the asset. With more than 10,000 property management firms in the United States, owners are often at a loss about how to select one that will meet their particular investment objectives.

What to look for

For the perfect fit, a management company's expertise should match the owner's needs. Is the real estate investment an office building, an industrial building, a multifamily housing complex or a suburban community center? Does the building have a vacancy problem a maintenance problem, or a marketing/leasing problem?

Find out the type of owners with whom the property management firm usually deals. Does it manage for individual owners or does it specialize in working with institutional investors? The firm you are considering must have expertise in serving your type of investment objectives as well as your type of property because the reporting requirements of each ownership type will be different.

Reputation counts

A good company will have positive word-of-mouth reputation in the industry, so ask around and determine a firm's standing in the business community. It should have a solid reputation for providing professional management services, as well as for integrity and honesty.

Though the number of years in the business is not necessarily a determinant of professionalism, it does reflect experience and longevity. Organizational stability is a related matter. How long have individual members been with the firm? Do you deal with the same manager or group of managers who bring continuity to the property, or is there considerable staff turnover? Lack of stability could signify poor company management or lack of financial stability. Whatever the cause, owners want consistent service and familiar faces that tenants recognize and get to know, so rapid staff turnover should raise a warning flag.

Look for accreditation

As in other areas of real estate, a property management firm that is accredited or has key members of management holding professional certifications is set apart from other firms as having met higher standards. Look for specialized designations such as Certified Shopping Center Manager (CSM) or Certified Property Manager (CPM). The Institute of Real Estate Management (IREM) awards the Accredited Management Organization (AMO) designation to firms that meet its criteria.

Of course, firms whose employees hold other, related designations of expertise are likely to have a broader, deeper understanding of the many aspects of managing investment real estate. The property management company with whom you work should be knowledgeable about accounting, architecture, construction, leasing, sales, law, appraisal, marketing and maintenance; and honest should be and forthright in dealing with clients, tenants and their own employees. Ask about the workload of the manager who will be assigned to your account. You should know how often the manager will make site visits.

Check insurance

Inquire about a firm's insurance coverage and make sure that the management staff is familiar with loss prevention and risk management programs. Make sure the firm has a fidelity bond to protect against the loss of money or property through the fraudulent or dishonest acts of its employees. It must also carry depositor's forgery and alterations insurance to protect against loss due to forgery or alteration of checks, drafts and promissory notes. A firm also should adhere to requirements for professional liability insurance.

Avoid property management firms with conflicts of interest that may prevent you or your client from getting the most value. Ask the firm to disclose any related companies that it may own or use exclusively, such as landscaping or maintenance firms.

What services to expect

Property management firms can provide a broad array or a limited number of services, depending upon a client's needs. Do not assume that a certain service is provided automatically by the firm. Ask what specific services it will provide and work out a comprehensive written management agreement with the firm. The agreement should outline services the firm will provide, letting the owner know exactly what to expect from the property management firm and detailing the costs for services that fall outside of the management fee.

Commercial property management firms typically provide the following services:

Management Planning

A commercial management company can analyze the business environment and the specific property within that environment, set out a marketing strategy and recommend how a client's objectives can best be fulfilled.

Financial Reporting

Record keeping and financial reporting are key services provided by management firms. Ask to see samples of the firm's reporting documents and learn the most efficient methods for exchanging data electronically.

Budgeting

The management firm develops and monitors the property's budget, which covers everything from maintenance to marketing and from personnel to operations. As the year unfolds, the manager should inform the owner of any necessary budgetary adjustments and explain why they are needed.

Maintenance Programs

Commercial property management firms provide monthly maintenance cost monitoring and the development and implementation of preventive maintenance programs.

Market Rent Analysis

Management firms that also handle leasing will usually provide an analysis of market rents and those of the competition, changes in area demographics and anticipated absorption levels.

Marketing Programs

Firms can develop and implement marketing programs that improve the image of properties and ensure successful leasing. Marketing consultants can also help develop a comprehensive program that may include such essential marketing tools as brochures, email and direct mail, advertisements, special events, property newsletters, videos, maps and site signs.

Rent Collection

The collection of rent, including preparing a daily record of deposits, is a basic service provided by management firms. A cash management system, which includes investment returns on rental dollars collected, should also be implemented. Consider a strategy for sweeping funds electronically to owner's accounts and for using a lock box.

Lease Negotiation

A firm that also offers leasing services is usually responsible for negotiating all tenant leases and renewals, or, in the alternative, for recommending the best leasing company in the area and coordinating leasing activities with that company.

Tenant Relations

The professional property management firm is attentive to tenants' needs and responds to their concerns immediately. It should have a written policy for receiving and resolving tenant concerns.

Purchasing Procedure

Firms should establish procedures for the purchase of all equipment, supplies, contracted building services and insurance coverage.

Contract Specifications

Commercial property managers should prepare specifications for all contracted work (such as tenant improvement construction, snow removal and trash hauling), obtain competitive bids, and supervise the projects.

Documented Procedures

Commercial management companies should establish documented procedures to ensure compliance with all federal state, county and local governmental statutes as well as administrative regulations, ordinances, and fire, health and safety codes.

Making the final selection

Look for a commercial management firm that provides the type of management services you need. Not all management firms manage all types of properties.

Remember that property management fees are directly proportional to the quality and quantity of services provided. Management fees generally are based upon a percentage of revenues collected, though they vary in different parts of the country for different types of properties and are strictly negotiable between the parties. Percentage fees can be based on different portions—or all—of the income stream. For example, with shopping centers, the fees for basic services can be a percentage of net rent collections, gross rent collections including triple net expenses and advertising and marketing fees, a flat fee up to a certain level of income and a percentage after that, or some other calculation. There can also be a percentage administrative fee applied only to triple nets, in addition to a basic percentage of net or gross income. Additionally, most management companies that perform the leasing will also charge a leasing commission that can be a percentage of the entire lease yield or a set amount relating to annual minimum fixed rent.

More than ever, owners of commercial real estate must select commercial management teams with care. The right property management firm will provide the management expertise, financial stability, professional excellence and integrity required in today's competitive world of real estate.

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