



# FRONTLINE

## Property Management, Inc.

### *Ten Question to Ask a Prospective Property Manager*

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### **Ten Questions to Ask a Prospective Property Manager**

By Jay Hartley

We're all in business to be successful and just like any endeavor, when interviewing a prospective property manager, you need to go in with the right mindset.

It's essential to think of the position to be filled as a partnership in a new venture. Your property management partner will be your "boots on the ground". It's important your new "partner" understands your mission, vision and values so you're working together and not in opposition. You need someone you can count on to manage your investment by screening tenants, arranging leases, collecting rents, handling maintenance and repair issues, performing evictions, and executing cost effective turnover. It's a big and very important task! Quality property management is often the difference between a profitable, stress free ownership and an expensive and distressing nightmare. Picking the right property manager "partner" is one of the most important tasks for any real estate investor.

To help you maximize the probability of getting a good property manager, here are ten critical questions you should expect any prospective property manager to answer with clarity and confidence.

#### **1. How long have you managed investment properties?**

When the real estate bubble burst in 2007, many real estate "sales" agents tried their hand at property management to supplement their shrinking brokerage income. Prior to that, they weren't really interested in managing properties.

When the sales market rebounds, will your "property manager" put back on their "sales" hat and put their focus on buyers and sellers, instead of your properties and tenants?

This isn't to say that someone who both manages and sells, or is new to the business, can't be effective. It's more about what the property manager really wants out of their business and what their focus is.

You want someone who is dedicated to being a great property manager first and foremost.

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### **2. Are you a licensed real estate agent, and what professional organizations are you a member of?**

Not all states require property managers to be a licensed real estate agent. However, it's strongly recommended that you pick a property manager that is subject to a governmental agency. Along with the license will come continuing education requirements, a higher level of accountability, and a powerful third party you can turn to (without going to court) in case of an unresolvable problem. Similarly, large trade associations such as the National Association of Residential Property Managers (NARPM), though non-governmental, provide helpful educational resources for managers and owners alike, as well as another level of professional accountability.

Lastly, anyone serious about their given profession usually supports and is involved in the industry through trade organizations. It's one more proof that your prospective property manager is professional and serious about being a property manager.

### **3. How many properties do you currently manage?**

Many managers work as part of a team complete with assistant managers, leasing agents, maintenance coordinators and administrative assistants, while some are "mom and pop" or "one man band" operations. There are pros and cons to both, and you'll have to decide what you're most comfortable with.

Big shops have higher overhead. But they also have economies of scale and redundant systems. Single person operators have lower overhead but might also mean single point failure. Be sure to ask the smaller shop what their back-up plans are in case of illness, vacation, or emergency.

A manager or management company with a larger portfolio will have more responsibility. Do they have capacity to look after your property? What's their plan to handle growth without diminishing service?

Of course, a company with a larger portfolio also has more experience and larger network. Many prospective tenants come through "sign calls", and the more signs a company has in the market means more leads for prospective tenants that might be a match for your property.

Lastly, unless the company is brand new, a larger portfolio is evidence of success. It's an implied vote of confidence when other investors have entrusted their assets to this particular manager's care.

The main point is to understand the prospective manager's experience, reputation and support systems. Even a single person operator should have backup plan in place, so in all cases you're not hiring a person, but a TEAM.

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### **4. Are you familiar with the area in which I am investing?**

Ideally, you want to contact one or more prospective property managers in a specific market. Property managers will know the preferred areas and the areas to avoid. While a real estate agent or other market expert can provide valuable insight about a market, it can be safely argued that property managers are the best sources of information about rental desirability. They take calls, show properties and handle problems at the street level on a daily basis.

For this reason, when purchasing a property through a real estate agent to developer for rental purposes, it's wise to engage you property manager as early in the process as possible. But be forewarned. Sometimes there's a little friction among the team when a commission is at stake and the property manager is less than thrilled about the property, location or projected rents. In addition to asking about what the market is like today, ask for insight into where it's been and where it's headed. Are rents, demand, tenant quality or neighborhood issues improving or deteriorating? Is supply of available properties increasing or decreasing? Sometimes a short term spike in rental price and demand is due to short term supply problem. When you're investing for the long term, you want to be aware of this. You can bet the seller is, and maybe there's a reason they're getting out.

Another very important reason to know what areas your prospective property manager is active in has to do with attention to the property. If the property manager and maintenance staff are in the area often, it's more likely and often less expensive when your property or tenant needs service.

### **5. What is your marketing strategy to locate prospective tenants?**

In some areas or market cycles, simply putting a "For Lease" sign in the yard is all it takes to light up the phone lines with inquiries. In other areas or in a soft market, it takes a much more extensive marketing effort to find an adequate pool of prospective tenants. Obviously, the more prospects competing for your property, the more likely you are to get your requested rent and a good quality tenant. You don't want low price to be your only marketing mechanism - and even a low price won't attract a tenant if they don't know about it.

Some of the common methods are Multiple Listing Service (MLS), internet advertising (which websites?), Craig's List, newspaper ads, and signs. Listen for unique and clever ideas that might show one property manager's marketing know-how to be above the others.

Remember that vacancy, turnover, bad debt and damaged property caused by low quality tenants are the bane of every property owner. Good marketing mitigates much of those risks.

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### **6. How do you qualify prospective applicants/tenants?**

Great marketing will bring in lots of applications. Now it's important to understand the process your property manager will use to find the best qualified tenant. Keep in mind that in some states the property manager has the freedom to pick the best tenant, while in others the property manager must take the first applicant that meets the criteria. This makes having a well thought out criteria very important. As the owner, you certainly have the right and responsibility to set compliant application screening

guidelines. However, you should expect your property manager to be knowledgeable about the limitations of the law and the marketplace, and to provide their wisdom to your situation.

Most importantly, your prospective manager should express an understanding and commitment to the value of well qualified tenants. This should go without saying, but just as there are certain owners who will compromise to get a property leased, so are there property managers who do the same.

All property managers should require a written application. What process does the property manager use to verify the representations of the applicant? Are background checks standard or optional? How are they performed?

Assuming the facts on the application are confirmed, what's most important? Amount of income, length of employment, credit score, clean background, references, rental history?

All of these important, but no perfect people will likely show up to rent your place. And unless you want to be involved in every tenant selection decision, you're relying upon the good judgment and diligence of your property manager. Make sure you are comfortable with their philosophy and practices when it comes to tenant screening. This one can make you or break you.

### **7. How do you handle maintenance issues?**

Maintenance is another very important topic to discuss with your prospective property manager. Some agencies may have an in house maintenance man or department, or they may rely on outside vendors to perform necessary repairs. There is no one-size-fits-all answer here, but it's important you understand and feel comfortable with how maintenance issues will be handled.

You certainly do NOT want someone working on your property that is not qualified or insured. If your prospective property manager doesn't discuss maintenance staff qualifications and insurance, be sure to ask.

Some trades, such as HVAC (heating, ventilation, air conditioning), plumbing and electrical, are required to have a state license. On the other hand, many minor issues that arise may only require a general handyman.

Either way, it's important that the person assigned to work on your property is well qualified and covered by liability insurance in case something goes wrong resulting in harm to a person or property. You should also discuss the methods of price comparisons used to ensure the vendor is charging a fair rate for the products and services involved. Maintenance is an area where many absentee owners are vulnerable to being over-charged.

If the agency provides a lot of work to a particular vendor, does that vendor discount their rates? Is that passed along to you? How often does the property manager compare rates to other vendors in the same line of work?

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A well-qualified property manager will have a clear and reasonable strategy for keeping your property well-maintained without undue expense, whether it's handled in-house, outsourced, or some combination of both.

#### **8. Do you personally own investment property?**

This question catches a lot of managers by surprise, but it's very important. Does your prospective "partner" understand what it's like to be you? Do they believe in their product or service enough to invest their own money into it? Are they as attentive to the challenges and opportunities of investing as you are?

For example, a property manager who doesn't invest will be paying attention to tenant/landlord laws, rental trends, fluctuations in supply and demand for properties and tenants, increases in maintenance labor and materials, and other items of interest to the responsibility of effectively managing the property.

But is he paying the same level of attention to changes in property taxes, mortgage rates and programs, insurance costs, and other such items which are less about managing the property and more about managing debt, equity, risk and cost factors outside of the normal purview of a property manager?

In other words, are you able to add his investor intelligence to yours so that you're a smarter investor? All things being equal, it makes sense to have someone who adds more to the relationship (and has more in common with you) than just the management of the property.

#### **9. What is your fee structure?**

If there's anything to have an honest conversation about, it's this. And this is one topic you want to address properly.

You need to know ALL the ways your prospective manager expects to earn money. This will tell you what they are most likely to pay attention to. It may also raise some questions of conflict of interest, such as when a profit is earned on the mark-up of products or services related to maintenance. Such an arrangement can actually motivate the manager to increase maintenance costs, especially if it's assumed you aren't paying attention to it.

Understanding the total compensation model for each prospective manager helps you make a fairer comparison.

Some agencies charge a simple, all-inclusive fee, which might be a flat rate or a percentage of rents. Many will offer a "menu-style" fee schedule, where various tasks are charged a la carte. For example, there may be a fee based on a percentage of actual rents collected, plus a flat rate leasing

fee, coordination fees for the arranging of maintenance, etc.

Whether simply or complex, what's important is that you understand exactly how they expect to earn their money and why they've set up their fee structure the way they have.

A word of caution: If you are projecting that the most important criteria for picking a property manager is low cost, you are setting yourself up for a somewhat adversarial relationship.

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No business person goes in business to work cheap. They want to make money just like you do. It's wise for you to be supportive of that goal, just as you wish for your property managers to be supportive of your goal to make money.

A well designed fee structure will accomplish this because it aligns their interests with yours. In other words, when the property manager successfully makes you money operating the property, they should be rewarded.

Of course, owning and managing a property comes with headaches and surprises. A fee structure should address things like property inspections, evictions, and bookkeeping. Make sure you understand all of the fees and services.

One final, but very important comment about fees: they will vary from market to market. In fact, in some cases fees will vary from neighborhood to neighborhood. It's not uncommon for managers in a tougher neighborhood or product type to charge more than managers in nicer areas. It's good to compare, but make sure you're comparing fairly.

### **10. What do you need from me for US to be successful?**

This is the million dollar question. It tells the prospective manager that you view the relationship as a partnership, and that their success is important to you.

It also allows the prospective manager to educate you about which product types, neighborhoods, price points, rental policies and procedures are most likely to succeed in a market they arguably know much better than you.

A successful partnership will grow exponentially if you are in sync with your manager.

### **Closing Thoughts...**

While anyone can say anything just to get hired, you can often mitigate the risk of making a bad hire by establishing an honest and clear dialog about expectations on BOTH sides of the interview.

Just as you expect your property manager to be forthcoming, you also should be honest about what you expect and what you will not accept. In other words, give the relationship a fair opportunity to succeed by setting a foundation of honest communication from the very first interview.

Best wishes for a prosperous property management experience!

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*Jay is a member of the National Association of Residential Property Managers, Fort Worth/Mid Cities chapter and has served on its Board of Directors, as President and Secretary, and Treasurer.*

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