

Decide management issues before becoming a landlord

BY DANIEL BOARDMAN | GUEST COLUMNIST

The combination of rapid appreciation, low interest rates and the lackluster performance of competing investment opportunities have attracted many new investors into the Albuquerque apartment market.

But before making an apartment acquisition, you should decide on a strategy for management.

First, decide between owner-management and professional, third-party management. Owner-management might make sense if you live in the same town as your property, or if your property is large enough to justify an on-site employee, and if you have the time, expertise, and inclination to perform property management duties.

Owner-management for smaller projects, typically 20 units or fewer, is usually very "hands on." Think of it as a part-time job. As the owner-manager, your duties will include advertising vacancies, showing vacant units, taking applications, screening prospective tenants, executing leases, collecting rents, posting notices, performing evictions, and tracking income and expense data.

If you don't have the time to perform these functions diligently, you will be far better off hiring a professional.

At about the 20-unit threshold, it becomes advisable, and cost-efficient, to employ a manager who will live on the premises.

If your property is large enough to justify a full- or part-time on-site manager — say 20 units or more at one location — you might want to consider essentially self-managing your own on-site manager. Typically, your on-site manager would have the duties of rent collection, notice posting, being the owner's "eyes and ears" on the property, and showing, screening and leasing vacant units. The on-site manager should have a background that includes management, a familiarity with New Mexico landlord tenant law and (if receiving rents), should be bondable and, ideally, licensed.

Depending on the scale of the property, the on-site manager will report to the owner, by E-mail or fax, daily. The daily report will track vacancy, responses to ads, showings, applications and leases executed as well as any other changes in the property's operations.

Over many years of observing clients who have elected to self-manage, I have seen many whose buildings thrive and many whose buildings merely limp along, underperforming, or even spin out of control into disaster.

What things determine success in the owner-management of an apartment building?

Owner/managers who create and implement systems that leverage the use of their time and energy constantly do well. Operational systems might include: Showing units by holding apartment open houses,



Boardman

dividual showings, using standardized forms, posting notices for any unpaid rents at the same day each month and, whenever possible, using standard paint colors, carpet types, etc. Delineated, consistently applied systems and policies, also help ensure equal treatment of all tenants.

The advantages of self-management for both small and large properties are cost savings and achieving a level of direct control that will allow you to make continual adjustments to your operations. The main drawback is the time required and the inconvenience. The inconvenience can be severe when you are the "first line of defense" for any maintenance emergency.

Many people wish to invest in apartments, but have no interest in conducting day-to-day operations. Others own smaller properties and live out of town, making owner-management difficult. In either case using professional management is advisable. But how do you go about selecting the right management company?

Solicit proposals from at least three different companies. The proposals should address cost of services, references from existing clients and number of units under management. In addition to the typical management fee expressed as a percentage of collected rents, any other fees should be identified. These may include an additional fees for maintenance performed beyond what the management company pays for these services. Many management companies will specialize in a particular size of complex, or part of town, and it is good if your property fits into the company's area of specialty.

Whether you self-manage or retain professional management, realize that your overall rate of return for an apartment investment is largely a factor of the success of your operations, so it's worth taking the time to get it right.

DANIEL BOARDMAN, CCIM, is a long time Albuquerque apartment owner. He works with *New Mexico Apartment Advisors Inc.* and *Cantera Consultants Inc.*