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Hiring a Professional Property Manager to Run Your Rental

Written by Jeff Young

The time may come for Independent owners when they decide that their interests would be better served if they utilized the services of a professional property manager. The reason for this could be one of several. The owner may be moving from the area and wants to keep the rental. The owner may not have the time, inclination, expertise and/or tolerance required to effectively run the property. An owner may have acquired the property through an inheritance or divorce and prefers not to personally assume responsibility for the day-to-day operations. A job change or personal family or business event requires his or her time and attention elsewhere. An illness or injury precludes the owner from successfully functioning as a landlord.

For whatever the reason the residential real estate investment owner chooses to turn the property operations over to another, it is important that he or she hire the best property manager that one can at the best value. It is too important to do otherwise. And

fortunately for the local property investor, there are some excellent firms that can shoulder the load should circumstances warrant.

Obviously, the advantages are clear-cut: a property manager takes the time, labor and worry of operating and managing rentals from you and assumes it as their own. All you do is collect a check once a month.

In Arizona, there are a number of companies (as well as individual agents at various firms) who specialize in and derive the majority part of their income from leasing and managing individually owned investment properties. Many of these companies include Realtors®, who have access to the Arizona Regional Multiple Listing Service (ARMLS) and who market these rentals in the same way “For Sale” properties are marketed. In fact, a recent check showed that over 20 percent of the properties listed in the ARMLS were for Class 2 (For Lease) listings.

In addition, there is a nationwide organization, the National Association of Residential Property Managers (NARPM), which promotes education and professional development of the managers of rental properties. One can access local members on its Web site, www.narpm.org.

The costs between various property managers can vary, but typically the good firm charges about a 10 percent leasing commission of annual rents. This may include marketing costs the firm assumes to get a property rented. If you are going to utilize one, be sure that you run your numbers to see if it is worthwhile for you. For instance, if your rent is \$800 per month, you will pay around \$950 a year for their services. Put another

way, your effective rent receipt for that property is \$720 each month. That expense, plus unexpected maintenance issues, could put you in negative cash flow territory.

What are Independent owners to do should they find themselves in one of the situations mentioned at the top of this article? Well, what you *don't* want to do is get a friend to manage your properties for free. You may be in violation of the law and it could be an expensive experience if that friend errs.

One method that some owners employ is to hire the expert *for the renting process only*. This could be effective during periods of soft markets, such as we have now, but only as long as one lives in the same area as the rental. Even with fax machines and the Internet, an absentee owner who lives out of state can run into serious problems without local control.

Whichever way you choose to use a professional service, there are some steps that you will want to take to safeguard your interests.

1. Find an organization that has provided good, cost-efficient management for other Independent owners. Ask for referrals and speak with other clients of your prospective manager.
2. Read the contract carefully prior to signing. You may even have your attorney review it. Know what the expenses are and how it handles deposits and reserves. Pay attention to exit strategies that will provide you an easy way to terminate the contract if you choose to.

3. Check with the Better Business Bureau and the Arizona Department of Real Estate for any outstanding complaints against them.
4. Ask about the experience and background of the person who will be handling your property.
5. Review the company's Web site, where owners should be able to readily compare prices and services. (See www.ArrowpointRealtyInc.com for an excellent example of a site that specifically serves the Independent Owner.)

All in all, if you can afford it and/or have a need for the professional services of a property manager, it is well worth it. Your residents deserve the best you can provide them; and if that doesn't include you, make sure your designated representative is in place and can perform the task. Ask your fellow landlords who they may use, or call the AMA for a quality referral.

Editor's note: The suggestions contained herein are meant as guidelines and are based on the experience of Independent owners. Please send your comments and questions to Jeff Young at First Financial Equity Corporation, 480-778-2041.

