

LP
LMA

**Improving Property
Management
Revenue and
Profitability**

Program

- **Is Growth Starving your Business?**
- **Revenue Expectations**
- **Maximising Revenue**
- **Revenue Improvement Actions**

Is Growth Starving your Business?

So what's the answer?

Yes, No or Maybe?

In some property management businesses, rent roll expansion is killing the business!

Which Property Management Business would you prefer to own?

- 100 properties producing \$200,000 in gross annual revenue or
- 200 Properties producing \$200,000 in gross annual revenue

Why?

Revenue Expectations

In our view, any new management property that you take on should provide you with NO LESS annual revenue than the average annual revenue across your current rent roll.

So what's your current average annual revenue per property?

Simply, divide your gross annual property management revenue by the number of properties under management.

Example

A \$300 per week property at a management fee of 7%, plus a one week letting fee, plus some incidental fees generates \$1,492 per annum.

Assuming that the vast majority of landlord clients have the same service level expectations of their property managers, the COST OF MANAGEMENT does not alter significantly from one property to the next.

If you assume that the property management business is to make a 20% profit on gross annual revenue, then the average COST OF MANAGEMENT would be \$1,194 per annum.

For the \$300 per week property, the profit would be \$298 per annum.

Do you know that there are a large number of Real Estate Agencies across Australia who are not making at least a 20% profit from property management? Many are not making ANY PROFIT at all!!

If you took on that same \$300 per week property at say, 5% management fee plus a one week letting fee and some incidental fees, the total annual revenue for that property is \$1,180.

Assuming your COST OF MANAGEMENT is \$1,194 per annum, this property is generating a LOSS of \$14 per annum.

SO WHY WOULD YOU WANT TO DO IT??

Some Agency Principals say things like:

- "They might want to sell one day, and I want the selling fee" (so property management becomes a baby sitting service for Sales)
- "I don't care if I don't make a profit from property management, all I care about is the asset value of the rent roll when I sell it" (take a look at what is currently happening with the value of rent rolls).

On the other side, if you actively sought higher rental value properties, what impact would that have on profitability?

Example

A \$500 per week property at a 7% management fee, plus one week's letting fee, plus incidental fees, generates \$2,420 in annual revenue.

Assuming a COST OF MANAGEMENT of \$1,936 (80% of gross revenue), the property provides you with a profit of \$484 per annum. Compare that to \$298 for the \$300 per week property.

The \$500 per week property becomes even more profitable in the scenario where you could keep your COST OF MANAGEMENT at \$1,194 per property per annum. i.e. \$1,226 profit per annum.

So, how can you do this?

Improving Property Management Revenue and Profitability

What are the 2 types of fees that Landlords most often want to negotiate?

-
-

What fees produce constant revenue to the business?

-

What fees are Rent Rolls usually valued on?

-

For some strange reason, rent rolls are usually valued on the basis of income, not profitability, and then, only management fee income. Letting fees and other income sources are usually ignored.

The value is then assessed by calculating the annual management fee income and then multiplying it by some factor, supposedly based on what comparable rent rolls have sold for in the area. For example, annual management fees of \$200,000 multiplied by a factor of, say 3, give a rent roll value of \$600,000.

In Sydney, rent rolls have been selling at management fee multiples of between 2 and 4, depending on the area, the quality of the properties and the standard of service provided.

Numbers of properties don't dictate a rent roll's value. It is more profitable to manage 200 properties at an average rent of \$400 per week than 400 at \$200 per week. The same income, but the smaller one would take less staff to manage and therefore be more profitable.

In my view, to go only on a quest to build numbers is foolish in the extreme.

Maximising Revenue

Goals for Achieving Improved Revenue

- Maximise the income from existing properties under management
- Constantly look for new ways to improve productivity through systemisation and technology
- Achieve economies of scale
- Expand the number of quality properties and clients under management.

How much Fee Income Should a Property Manager Generate?

Using the following assumptions:

- \$45,000pa salary, allowances and superannuation
- Agency overheads of \$45,000pa (100% of the salary costs)
- A 20% gross profit on generated revenue.

The Property Manager needs to generate approximately \$112,500 per year in fees (\$9,375 per month) to be profitable.

Revenue Improvement Actions

1. Improve the Quality of Properties you take on for Management

Growing the NUMBER of properties under management without a corresponding policy of PROPERTY QUALITY is a recipe for disaster.

We strongly recommend that you should only take on properties for management that meet the following criteria:

1.

2.

3.

4.

5.

2. Improve the Quality of Properties Currently Under Management

How?

4. Increase your Fees for Service on Existing Managements

You cannot always manage the best properties in town, however, you should continually strive to upgrade the quality of the properties you manage and the clients you manage properties for.

If you raise your management fee by 1%, from an average of 7% to 8%, you can afford to lose 13% of your managed properties and still be making the same amount of management fees as before.

- From 5% to 6% - 17%
- From 6% to 7% - 15%
- From 7% to 8% - 13%
- From 8% to 9% - 11%
- From 9% to 10% - 9%

If you raise them, will they go??

Who is most likely to go?

Managing fewer properties for the same amount of management fees is not bad, this allow you more time to focus on other more dollar productive activities.

Ways to Increase Revenue from New Clients

- User Pays Fee Structure
- Fee Packages
- Target higher rental value properties
- Minimum Annual Management Fee
 - Where a property is of low rental return, often it is not worth it for you to manage. In this instance, you could offer your management services as a flat fee, instead of a percentage of the rent collected.

All Inclusive Fee / Service Fee Packages

As an alternative to charging individual fees for specific services, many property management businesses have elected to have an all-inclusive fee of X% (plus GST) charged on a monthly basis covering all the services they provide for their clients.

The table below shows a few of the fees we can charge as an example of how an all inclusive fee can make us money (see the returns on the longer tenancy periods, compared to that of 12 months).

Most fees are charged upfront when the lease is initially signed and many fees are never charge...do you go to the tribunal for every property, for every tenancy? By showing the client the charges for the initial tenancy to actual management fee reflects quite high by comparison.

Some offices offer a couple of packages – different fees (packages) for different services ie. Clients chose what they want and only pay for what they need.

Work out what the average tenancy period is for your properties (not the lease term) and see what numbers you can make work for you.

Basic Example:

Rent (12 months)	\$350pw
Management Fee	7%
Letting Fee	3%
Renegotiation Fee	1.50%
Marketing Fee	\$100
Administration	\$60
Tribunal Attendance	\$150
Total Annual Fees	\$2,409
Actual	13.20%

24 months
7%
3%
1.50%
\$100
\$120
\$150
\$4,020
11%

36 months
7%
3%
1.50%
\$100
\$180
\$150
5,631.25
10.29%

Alternative	
All Inclusive Fee	12%
Total Annual Fee	\$2,190

Alternative	
12%	
\$4,380	

Alternative	
12%	
\$6,570	

Show how much your competition is really charging with all their “hidden” fees and how you can actually “save” the owner money by offering them a 12% deal!

The 12% deal actually makes the business more money, the longer the tenancy!

5. Improve the Average Management Fee on New Properties Gained

Letting Fees

Some suggestions for increases:

1. Move to a letting fee which is a % of the rent payable for the fixed term of the tenancy agreement. This is simple and means that you get paid more for the granting of a longer fixed term. When the letting fee is a %, it is easier to move the % up over time.

X week's rent –v- X % of annual rent

1 week's rent = 1.92% say 2%

1.5 week's rent = 2.88% say 3%

2 week's rent = 3.85% say 4%

2.5 week's rent = 4.81% say 5%

3 week's rent = 5.77% say 6%

2. A letting fee being payable for renewal agreements with existing tenants.

Administration Fees

There is an opportunity to increase your monthly 'statement' charge particularly if you are now providing email statements. A \$1 increase on, say an average \$5 per month charge, is a 20% increase for you on these fees. On an average rent roll of 300 properties, that's an extra \$3600 per year. That buys 3 new computers or 6 PDAs.

Repair/Renovation Fees

Big repairs or renovations can take up a lot of your time, getting multiple quotes, arranging access, meeting contractors on site, checking on the work, etc.

Non-standard repair arrangement work should be charged to the client.

General Consultancy Services

Time is money, so if a client wants to use any of your time on non-routine matters such as Tribunal hearings, insurance claims, extra reports or meetings, etc. a fee should be charged.

Inspection Fees

Any inspections required by the client, in addition to the number of inspections provided in your management fee, should carry an additional fee.

Photography

Clients should be charged not only for the out of pocket cost of photography, but also for your time in arranging processing, downloading from the camera, etc.

Video (DVD)

Here is an opportunity to provide a service that most other agencies do not provide, and an opportunity to increase your property management revenue.

Internet Advertising

Internet enquiries are now accounting for up to 90% of all tenant enquiries for rental properties.

Membership of the various real estate portal sites is now a significant investment for most real estate agencies, not to mention the costs associated with maintaining the agency's own website.

An increasing number of agencies across Australia and New Zealand are charging clients an internet "marketing" fee.

Tenancy Databases

If you are a member of any of the various tenancy databases that operate across Australia or New Zealand, why don't you charge your clients for database searches of tenant applicants? After all, it is not a "usual service" that all agents provide.

What other fees could you charge?

6. Manage more properties per team member through better systemisation

How?

7. Reduce your vacancy factor

While properties are vacant, you are losing income.

Some actions to reduce the vacancy rate could be:

- Process vacating notices quickly
- Carry out pre-vacating inspections
- Advertise in the most effective ways
- Specialised human resources for leasing?
- Staff incentives?
- Process tenancy applications within 1 working day
- Organise major repairs promptly – anticipate clients' needs

8. Reduce Rent Arrears

When a tenant is not paying rent, you are losing income.

Some actions to reduce rent arrears could be:

- A tightly controlled documented arrears procedure
- Putting tenants on 'Automatic Payment'
- Tighter new tenant screening

9. Rent Reviews/Lease Renewals

- When properties are being leased out below market value, you are losing income
- Fixed term agreements = income security for both the Landlord Client & your business
- You need to have a tightly controlled documented Rental Review & Lease Renewal procedure
- CRM, use a Comparative Rental Analysis to support your recommendations
- Include these recommendations with periodic inspection reports
- Are you charging for lease renewals?

10. Reduce Preventable Mistakes that Cost your Business Money and Reputation

You'll never eliminate them totally, but you can significantly reduce them. Screw-ups today cost dollars. Either you pay out or you lose the client. Either way, they are an expensive and major profit reducing aspect of property management.

Screw-ups occur when:

- There are inadequate systems
- If systems do exist, they are not properly documented or policed
- The staff are not adequately trained
- There is no penalty on the staff member who caused it.

11. Reduce or Minimise your Current Expenses (Agency)

Salaries

- Do I have the right number and type of people?
- Am I paying my people at or just over market?
- Do I have the right incentives in place?

Rent

- How much space is the PM team using?
- Can I reduce this or maximise the use better?

Other Agency Overheads

- Look at each expense regularly
- Items such as Technology – are they being used to their full potential?

12. Customer Service

Your level of customer service have a massive impact on what value a Landlord Client will put on the fees you are charging.

Property Management office's that offer a very high level of customer service to their Landlord Clients and their Tenants have a much higher success rate when asking for higher fees. They also have a higher level of referral business and on the whole people are happy to deal with them.

This makes coming to work more productive and a lot more enjoyable for them, when compared to some of their Property Management cousins who offer low levels of customer service (or perhaps none at all).

Customer service is more than just being polite and honouring your commitments. A huge component of customer service involves asking the people that you deal with, what they want from you and working on a strategy to meet and exceed these "wants and/or needs".

- Do you honour all your commitments?
- Do you know what your clients want?
- Do your service levels compare with your competitors?
- Are there areas of potential improvement?

Where to Now....

Notes