

# The Hidden Costs of Property Self-Management

An informative white paper on the hidden costs and issues associated with self-managing your rental or investment property.

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## Introduction

Isn't it great to live in an age of timesaving devices? Technology has brought us fax machines, pagers, cell phones, email and for the ultimate technological "real-time" addict, there's instant messenger! All of these inventions were introduced with one goal in mind...to allow us the capability to perform our daily routine functions more quickly so we'd have more free time to do what we *want*, rather than *have*, to do.

In reality, these devices have made our lives busier. We make cell calls during our commute to and from work so we'll have some spare time after dinner only to find ourselves on the phone at home with still more people. We surf the web in pursuit of our interests, check our email and simultaneously I.M. even more friends and family. In the midst of all this our pagers go off and alert us to some other situation that demands our time and attention. Does this sound all too familiar?

The lack of spare time in our daily lives has given rise to numerous service-oriented companies. You can hire a company to take care of your lawn, clean your house, do your food shopping or pick-up and drop-off your dry cleaning. There's even mobile car wash and oil change companies that come to your home or place of work. There is virtually no service you can't have done provided you're willing to pay a price. Knowing the value of your time versus the value of the service you want is the trick!

At this point you're probably asking yourself, "What does this have to do with owning income producing property?" Well, if you are self-managing your property, the likelihood is that, unless you're retired, you are doing so in your "spare" time. It's also probable that you are no longer even *aware of all* the aspects of self-management that are robbing you of that precious spare time. You've become conditioned to the fact that this is the way it has to be because no one else can possibly manage your investment as well as you can. You're not alone in that thought.

## Understanding Your Situation

### **Time:**

**A period during which an action, process or condition exists and continues.**

No one knows better than yourself how capable you are of managing your own income property, but it's safe to say you probably wouldn't have bought it in the first place if you felt you couldn't handle it. So the question of capability is a not an issue. The real question you need to answer is whether or not the time you spend managing your investment could be put to better use. And not only from a standpoint of doing what you *want* versus what you *have* to do, but also from a dollar point of view. We all know the old adage that time is money. That applies to the time you spend in property self-management as well.

When most people consider purchasing income property, their initial thought is that they can handle all of the operational aspects on a part-time basis. After all, how hard could it be? Place an ad in the local newspaper, screen a few prospective tenants, draw up a lease, collect the rent and, best of all, make a deposit in the bank. If you currently own property I'm sure you know (but may have forgotten) there's quite a bit more to it than that. But all in all, depending on the number of properties you own, it is possible to handle this part-time. The problem is, as the definition of time says above, these "actions, processes or conditions exist and continue" for the entire time you own the property. In other words, as life gets busier and more demanding, and it inevitably does, you still have all of those "simple" operational aspects to deal with. How do you know if your time is too valuable to not retain a professional property manager?

## Dollars and Sense

Let's imagine you're going to pay yourself for all of the time you spend managing your property. Financial advisers tell us when we go to pay our bills we should pay ourselves first because if we don't, there might not be anything left to put in our savings accounts. So, with that in mind, how large a check would you write to yourself? Well, first you have to determine how much time your income property takes from your already busy schedule. You then must put a dollar value on your time. What is it worth? You've probably never thought about it, but you need to know that number (cost) if you're ever going to allow yourself to admit that the value of your time is at least equal to, if not greater than, the cost of hiring a management company.

Take a look at the matrix below. It shows the tasks involved in renting your property to one tenant for one year. (Bet you forgot a number of them.) It then gives you an idea of what your self-management time is worth based on a couple of examples of yearly income.

<b>Task</b>	<b>Time Spent (Hours)</b>	<b>Cost per task @ \$100,000/yr.</b>	<b>Cost per task @ \$175,000/yr.</b>
Paint, clean and prepare vacant unit for renting	8	\$384.00	\$672.00
Create and place ad in newspaper	1	48.00	84.00
Drive to town hall to apply for C/O & fire inspection	1	48.00	84.00
Meet inspectors at your property	2	96.00	168.00
Prescreen prospective tenants during phone conversations (AM/PM)	3	144.00	252.00
Drive to & from the unit to show	2	96.00	168.00
Show unit & have prospective tenants fill out rental applications	3	144.00	252.00
Perform credit & background checks (strongly advised)	4	192.00	336.00
Review & decipher information	2	96.00	168.00
Call back applicants to inform of your decision	1	48.00	84.00
Draw up rental lease	.5	24.00	42.00
Advise town hall the name of the new tenant	.25	12.00	21.00
Perform and document walk-through inspection with new tenant upon move-in	1	48.00	84.00
Field tenant problem/complaint call (repairs, late rent, etc.)	2	96.00	168.00
Schedule repairs for maintenance issues	4	192.00	336.00
Meet with/inspect repair jobs	10	480.00	840.00
Monthly scheduled visit to inspect property	12	576.00	1008.00
Perform walk-through upon tenant move-out	1	48.00	84.00
<b>TOTAL TIME SPENT PER RENTAL</b>	<b>57.75</b>	<b>\$2,772.00</b>	<b>\$4,851.00</b>

It's understood that everyone's situation is different so the time it takes for you to perform the tasks shown may differ from the chart. The point is virtually all of these issues have to be addressed each and every time you turn over your unit to a new tenant. And keep in mind if you offer your rental on a seasonal basis, meaning summer and winter, or you get stuck with a less-than-desirable tenant that doesn't pay his/her rent, you then have to multiply your total cost per year times the number of turnovers you'll have in a 12 month period. We're talking about a lot of time, which, by extension, means a lot of money.

Now, if you purchased income property more or less as a hobby, as something to do with your spare time with an added bonus of having some extra income, then the expenditure of all this time/money probably doesn't matter much. You knew it wasn't going to be easy, but you were prepared to spend the time and it's what you enjoy doing. Conversely, if all you saw were dollar signs when you decided to get into the rental game, then seeing the list of all the tasks you're performing yourself should come as quite a wake-up call. Take a minute and look at the list again. How many items on it do you perform almost subconsciously? Maybe you leave the office early to take care of that C/O inspection. That's productive. Or you miss your kid's ball game because there's that new tenant you have to move in. There'll be more games, right? How about the interruptions to your home life answering all those phone calls in response to your vacancy ad? As if telemarketing calls at dinnertime weren't enough. Do you really enjoy having to go through this for every new tenant? Aren't there other things you'd much rather be doing with that time? Be honest with yourself. It's your time we're talking about here.

Now let's analyze some of the numbers.

At an annual income of \$100,000 the time you're spending in self-management is costing you approximately \$2,800.00 per year. That's \$233.00 per month! Never thought about it that way? You should because a reputable property management company typically charges 10% of the gross rent for a single-family unit. (If your property is a multifamily dwelling you should be able to negotiate a lower percentage.) \$233.00 is 10% of \$2,330.00 so if your gross rent is not above that level per month you're losing money. All this assumes you value your spare time. Don't forget, the single, most important issue you have to come to grips with if you're going to allow yourself the "luxury" of hiring a property manager is that your time is valuable!

### A Matter of Trust

OK. So you've determined there truly is life after income property ownership and that it's economically feasible to retain a professional property management company. But there's still that lingering doubt about turning your investment over to a stranger. Who could possibly manage every detail of your property as well as you did? The answer is probably no one simply because no two people are alike. That doesn't mean there aren't qualified, trustworthy property management companies out there. You just have to know what to look for.

First, and foremost, you want to deal with a company that offers you some flexibility. Steer clear of any outfit that has an "all or nothing" approach. These companies only offer an all-inclusive management package in which they handle every aspect of your property. This doesn't mean that they aren't proficient, but, being new to the world of professional property management, you're probably better off dealing with a company that at least allows you the option to choose the services that are appropriate for you. Maybe you want to maintain control of the maintenance and repair aspects and get away from dealing directly with your tenants. This would relieve you of all the advertising, tenant screening, permits and inspections, rent and late fee collection and problem/complaint phone calls. You'll adjust to this new concept of having someone else handle a portion of your workload and, in a brief period of time, probably look forward to turning the entire program over to them.

You may feel comfortable enough from the onset to enter into a “full service” program. There’s nothing wrong with that provided you retain the right to approve all maintenance and repair work that involves a non-emergency situation. You should also be given the option to utilize your own professional tradesmen for any major repairs if you so choose.

Another issue you should retain the final say on is what tenant will be residing in your unit. The property manager should take care of placing your ad for a vacancy in the local paper(s), receive all phone calls generated by the ad, perform a preliminary phone screening of all prospective tenants and arrange to personally show the vacant unit. He/she should require any party interested in renting your property to fill out a leasing application that provides sufficient information for a fairly substantial credit, employment and background check. All of these tasks, except for the actual cost of advertising, should be included in the management fee.

Upon completion of the credit and background checks, your manager should provide copies of all information he has received with regard to your prospective tenants and make recommendations to you as to which one(s) he/she feels are a good fit for your rental unit. At that point the final decision on who you’ll offer the unit to should be yours to make. Don’t forget, it is your property and the bottom line responsibility for any situation that arises will ultimately be yours.

A formal management agreement will obviously contain many more issues than we have time to address right now. If you meet little resistance to obtaining the flexibility we’ve discussed above, though, you’ve found yourself a property management company that is probably deserving of your trust.

### Taking Control of Your Situation

Though you may not be totally convinced of the need for a professional property manager at this point, we hope you’ve at least begun to acknowledge the value of your time. That said, where do you go from here? Our first suggestion is to buy yourself a small pocket notebook that you can keep with you at all times. When you find yourself spending ANY time on ANY issue that is related to your income property, jot down what you were doing and how many minutes it took to do. Don’t forget to add in the travel time if you had to drive to your property. Does this sound silly? Well, it’s the same advice those financial advisers give to people that are dead serious about taking control of their budgets and it works! You will never know where your time (money) goes until you keep track of where you spent it. In the case of property self-management we’re really talking about both because as we agreed before, time **is** money. You’ll be surprised at the number of property related tasks you do subconsciously and the amount of time it takes away from your day.

The next thing to do when you think you’re ready to hang up your property management shoes is call a few companies that have an office in your area. Ask questions about the types of properties they manage so you can determine if their expertise is appropriate for the type of property you own. If you own a single family house or small multi-family apartment building you obviously wouldn’t want to hire a company that specializes in large condominium complexes. Ask about their fees, what services are included and how they get paid. Some companies will charge you for walk-through inspections with a new tenant. You shouldn’t have to pay extra for that. Others might want to be reimbursed for travel time to and from your property. This too should be included. And, believe or not, some actually get paid when your unit is vacant. Also ask for references...and then call them! You’d automatically do that with the references you get from a potential new tenant so you shouldn’t treat this situation any differently.

When you find a company that offers you the amount of flexibility you want and a comfort level you can live with arrange a meeting with them at your property. Let the person do most of the talking. In other words let them sell you by revealing what they feel are the most important

features of their management services. Unless your property is the Taj Mahal, they should also offer some recommendations regarding potential minor improvements you might make to the property that can increase your rent. Additionally, they should be able to give you a pretty close estimate of the amount of rent they expect your property to bring. Ask for a copy of their management agreement that you can review prior to making your decision. It should be comprehensive yet relatively easy to understand.

If you're ready to relinquish the responsibilities of managing your income property and have determined the company that's most qualified to provide what you want, if you've finally admitted that your time is just too valuable to keep doing this on your own, then don't second guess yourself. Commit and move on. Ben Franklin once said, "You may delay, but time will not".

We wish you the best of everything in your newfound life. Take the time, your time, to enjoy it!

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