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# The 5X Profit Roadmap

How to achieve breakthrough profitability with the  
NARPM Accounting Standards



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# Daniel Craig

Author, NARPM Accounting Standards  
CEO, ProfitCoach

***ProfitCoach***

We are a virtual accounting team, 100% focused  
on trust and corporate accounting for PMs.

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# How many of you are forecasting?



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**Are you owning the financial  
outcome of your business?**





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A shocking statistic:

Average profitability in the property management industry is 6%



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The good news:

Average profitability of the top quartile  
of most profitable companies is 25%

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# Are you operating in financial fog?





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**Are you owning the financial  
outcome of your business?**



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## 3 Steps to 5X Profits

0  
1



**Define your target.**

0  
3



**Get clear.**

0  
2



**Stay on track.**

**ProfitCoach**

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# Accounting Standards



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# Sam Super-marketer



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## Shirley Small-shop- big-dreams



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## Barry Big-and-broke



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## Overview:

- Profile
- Profit & Loss
- Under the hood - 6 Do-or-die Metrics

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## Six Do-or-Die Metrics:

- Profitability
- Revenue Per Unit
- Direct Labor Efficiency Ratio
- Expenses as a % of Rev.
- Unit Churn
- Unit Acquisition Cost



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## Profile: Mr. Super-Marketer

- 2,034 units
- Grew by 807 units in the last year
- Providing classes on growth
- (but churned out 782 units)



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**Profit & Loss:**  
Mr. Super-Marketer

\$4,292,338

PM Income

\$2,200,994

Labor

\$777,162

Advertising

\$1,265,980

Remaining Expenses

\$48,202

Operating Profit

1%

*Profitability*

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## Under the Hood:

Mr. Super-Marketer

**\$178**  
Revenue Per Unit

**39%**  
Unit Churn

**1.95**  
Direct Labor Efficiency Ratio

**\$963**  
Unit Acquisition Cost

**16%**  
Facilities & Other OpEx % of  
Rev.

**1%**  
Profitability

---

## Under the Hood:

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Rev.

**1%**  
Profitability

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# Churn



Original

**39%**

Annual Churn

Benchmark

**11%**

Annual Churn

Forecast Goal

**20%**

Annual Churn

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# Unit Acquisition Cost



Original

**\$963**

Unit Acquisition Cost

Compare to

**\$1,032**

Unit Lifetime Profit BEFORE  
Sales & Marketing

ULTP Forecast Goal

**\$3,000+**

Unit Acquisition Cost

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## 3 Steps to 5X Profits

0  
1



**Get clear.**

**Define your target.**

0  
3



**Stay on track.**

0  
2



**ProfitCoach**

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# Accounting Standards





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## NARPM Accounting Standards

- Chart of Accounts Guide
- Financial Metrics Guide
- Financial Benchmarks Guide
- Financial Controls Guide



Chart of Accounts & Conversion Guide

[www.narpm.org/education/narpm-accounting-standards](http://www.narpm.org/education/narpm-accounting-standards)



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## Why a standard Chart of Accounts?

- Financial clarity (meaningful categories categories; separate divisions)
- Precise financial metrics
- Financial comparison
  - Yourself & Other companies
- NOTE: This COA is intended for corporate accounting

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## 3 Steps to 3X Profits

0  
1



**Define your target.**

0  
3



**Get clear.**

0  
2



**Stay on track.**

---

## Six Do-or-Die Metrics:

- Profitability
- Revenue Per Unit
- Direct Labor Efficiency Ratio
- Expenses as a % of Rev.
- Unit Churn
- Unit Acquisition Cost



National Association of Residential Property Managers

Accounting Standards

Financial Metrics Guide



## 4. Financial Metrics

Basic ratios that describe financial performance. These are considered self-explanatory.

### Expense Metrics

**Labor % of Income:** The % of PM Income spent on Labor. Formula below:

$$\frac{\text{Labor (6300s + 6400s)}}{\text{PM Income (4100s + 4200s)}}$$

**Direct Labor % of Income:** The % of PM Income spent on Direct Labor. Formula below:

$$\frac{\text{Direct Labor (6300s)}}{\text{PM Income (4100s + 4200s)}}$$

**Facilities % of Income:** The % of PM Income spent on Facilities. Formula below:

$$\frac{\text{Facilities (6100s)}}{\text{PM Income (4100s + 4200s)}}$$

**Payroll Taxes & Benefits % of Income:** The % of PM Income spent on Payroll Taxes & Benefits. Formula below:

$$\frac{\text{Payroll Taxes & Benefits (6500s)}}{\text{PM Income (4100s + 4200s)}}$$





National Association of Residential Property Managers

Accounting Standards

## Financial Benchmarks Guide





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# 1. Profitability

Unadjusted

**10%**

Average profitability

Adjusted

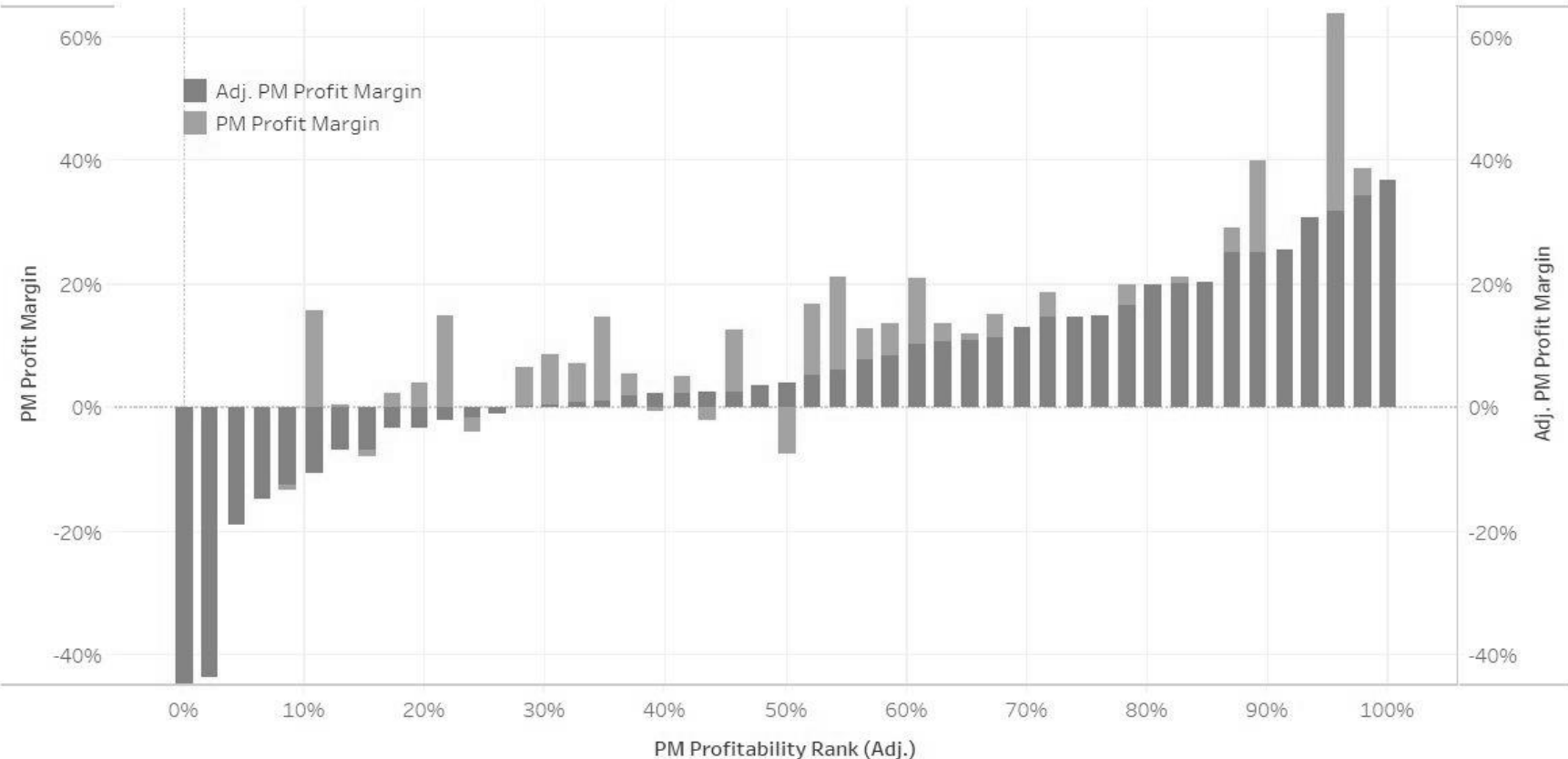
**6%**

Average profitability  
adjusted for owner  
compensation

Benchmark

**25%**

Average profitability of  
the top 25% of  
performers



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## Profitability: Why it matters

1. Because it often is NOT the bottom line of the business.
2. Because it SHOULD be the bottom line.
3. Profitability fuels the entrepreneurial engine.

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## Profitability: How to track it

PM Income (4100s + 4200s)  
- Operating Expenses (6100s-6600s)

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PM Income (4100s + 4200s)

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## 2. Revenue Per Unit (RPU)

Average

**\$171**

Average RPU of  
occupied units

Benchmark

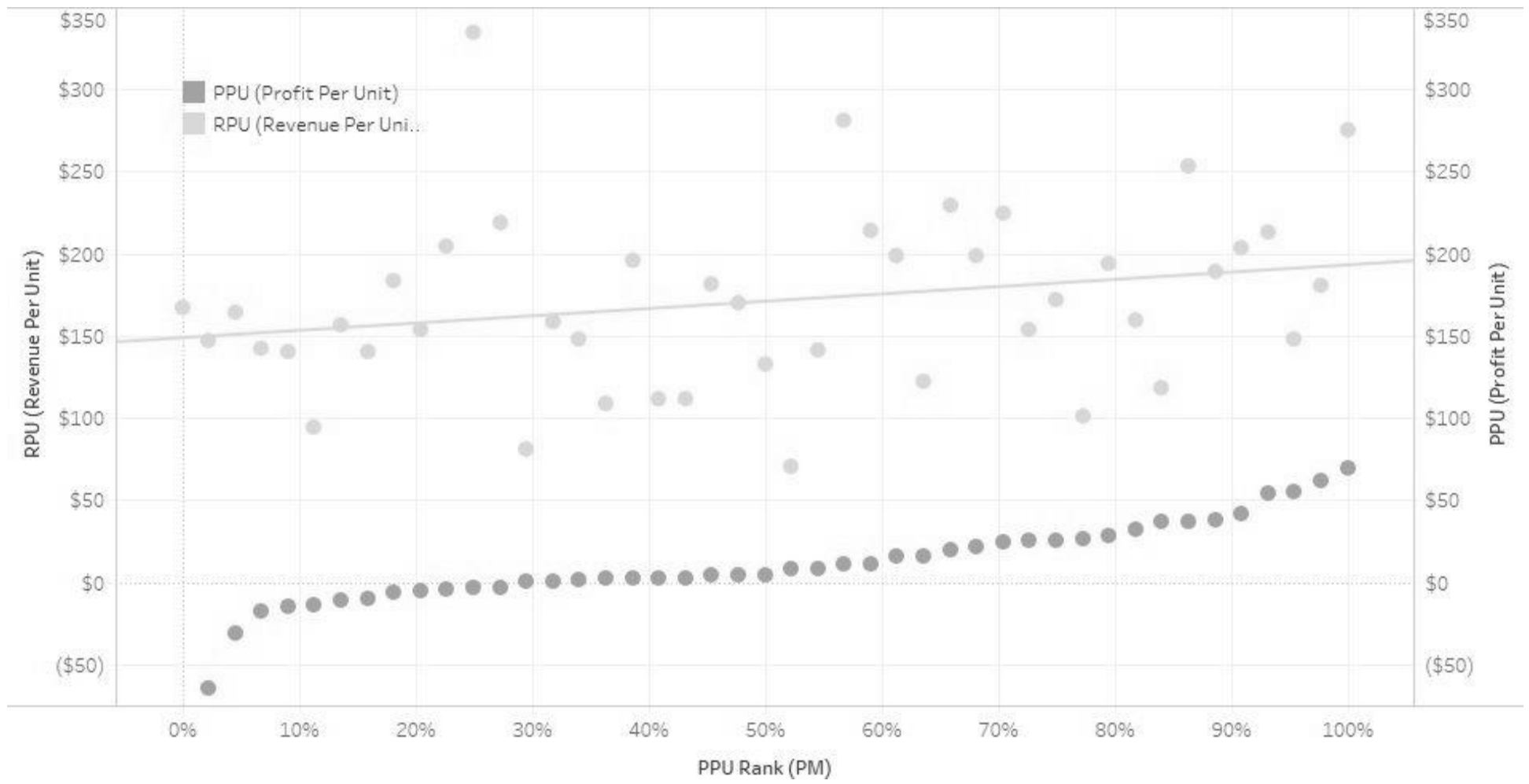
**\$238**

Average RPU of the top  
25% of performers

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## RPU: Why it matters

Top 2 driver of profitability. A 10% increase in RPU can easily produce a 100% increase in profitability.



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## RPU: How to track it

Residential PM Income (4100s)

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Occupied Units



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## RPU: Rule of Thumb

RPU Rule of Thumb

**10-15%**

Of AVG rents over \$1,500

RPU Rule of Thumb

**15-20%**

Of AVG rents under \$1,500

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### 3. Direct Labor Efficiency Ratio (DLER)

How many \$ of revenue do we generate for every \$ we spend on direct labor?

Average

**2.74**

Average DLER

Benchmark

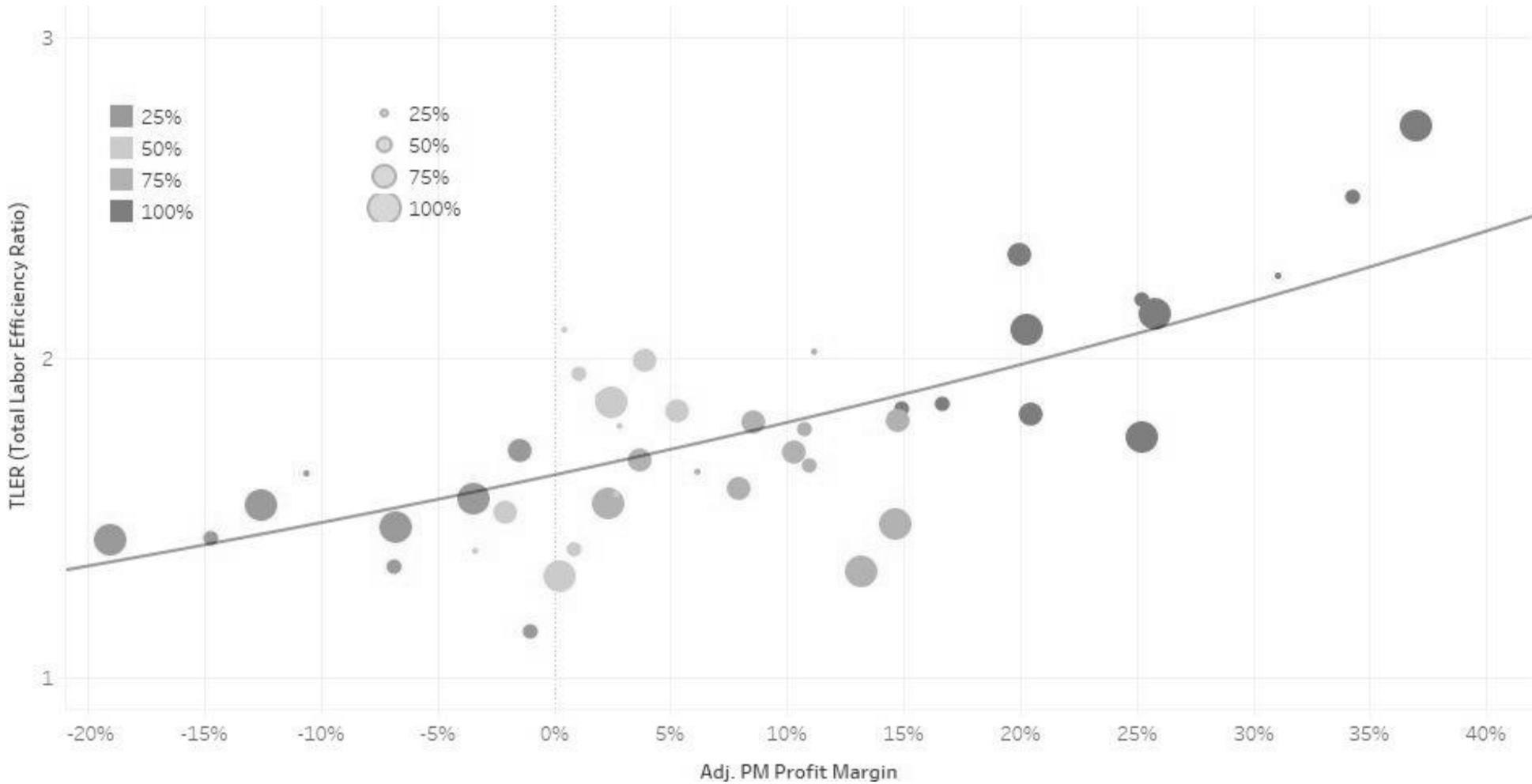
**3.42**

Average DLER of the  
top 25% most  
profitable companies

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## **DLER: Why it matters**

Top 2 driver of profitability. It represents the largest portion of expenses.



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## DLER: How to track it

PM Income (4100s + 4200s)



Direct Labor (6300s)

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## 4. Expenses as % of Revenue

Average

8%

Other Operating Expense as % of Revenue

Benchmark

7%

Other Operating Expense as % of Revenue

Average

13%

Facilities Expenses as % of Revenue

Benchmark

11%

Facilities Expenses as % of Revenue

Average

7%

Payroll Taxes & Benefits as % of Revenue

Benchmark

5%

Payroll Taxes & Benefits as % of Revenue

---

## Expenses as % of Revenue: Why it matters

These can creep up on you....



# Expenses as % of Revenue: How to track it

Other Operating Expense  
(6600s)

Payroll Taxes & Benefits  
(6500s)

-----  
PM Income (4100s + 4200s)

-----  
PM Income (4100s + 4200s)

Facilities (6100s)

-----  
PM Income (4100s + 4200s)



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# 5. Churn

Average

**25%**

Average Churn

Benchmark

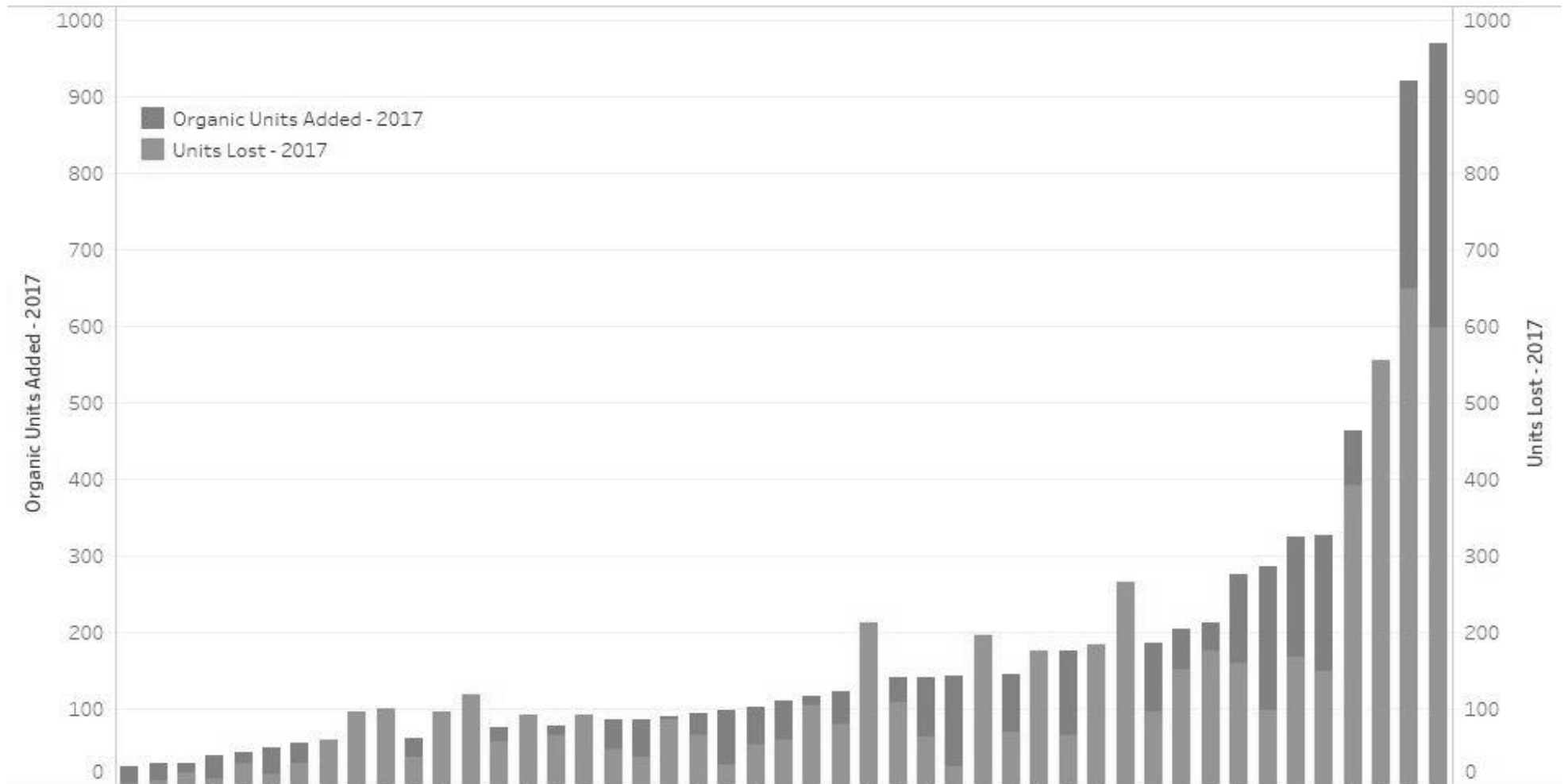
**12%**

Average Churn of the  
top 25% of performers

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## Churn: Why it matters

It's the silent killer.



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## Churn: How to track it

Churned Units

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Beginning Units

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## Unit Acquisition Cost (UAC)

Average

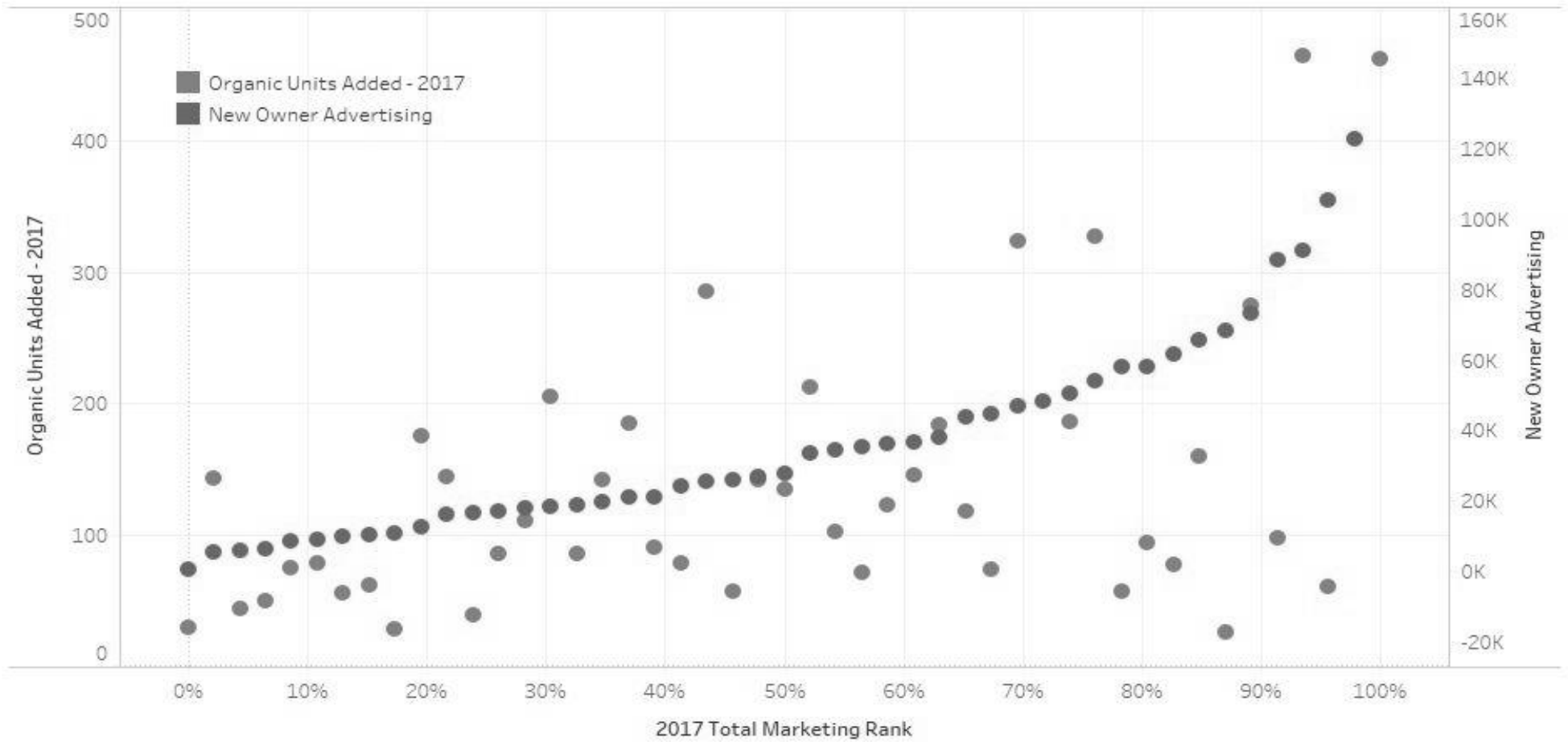
**\$341**

Average UAC

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## UAC: Why it matters

More advertising \$ doesn't necessarily mean more growth.



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## UAC: How to track it

New Owner Advertising (6200s)

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New Units





# DIY Metrics Calculation Tool

# DIY Metrics Calculation Tool

Email me @ [daniel@pmpprofitcoach.com](mailto:daniel@pmpprofitcoach.com)

Subject line "NARPM"

---

## Profile: Shirley Johnson

3G Properties

- 153 Units
- Just starting a maintenance division
- Very interested in growth



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**2017 Profit & Loss:**

3G Properties

**\$364,005**

PM Income

**\$135,318**

Brokerage Income

**\$211,001**

PM Labor

**\$25,400**

Brokerage Labor

**\$247,270**

Remaining Expenses

**\$15,652**

Operating Profit

**3%**

*Profitability*

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**2017 Profit & Loss:**

3G Properties

**\$364,005**

PM Income

**\$0****Brokerage Income****\$211,001**

PM Labor

**\$0**

Brokerage Labor

**\$172,381****Remaining Expenses****-\$19,377**

Operating Profit

**-5%***Profitability*

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## Under the Hood:

3G Properties

**\$249**  
Revenue Per Unit

**9%**  
Unit Churn

**1.93**  
Direct Labor Efficiency Ratio

**\$625**  
Unit Acquisition Cost

**39%**  
Non-labor Expenses % of Rev.

**-11%**  
Profitability

---

## Under the Hood:

3G Properties

**\$249**  
Revenue Per Unit

**9%**  
Unit Churn

**1.93**  
Direct Labor Efficiency Ratio

**\$625**  
Unit Acquisition Cost

**39%**  
Non-labor Expense % of Rev.

**-11%**  
Profitability

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# Direct Labor Efficiency Ratio







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# Direct Labor Efficiency Ratio

Original

**1.93**

= 52% of Revenue



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# Direct Labor Efficiency Ratio



Original

**1.93**

= 52% of Revenue

Benchmark

**3.5**

= 29% of Revenue



---

# Direct Labor Efficiency Ratio

Original

**1.93**

= 52% of Revenue

Benchmark

**3.5**

= 29% of Revenue

Forecast Goal

**3.0**

= 33% of Revenue



---

# Direct Labor Efficiency Ratio

Original

**1.93**

= 52% of Revenue

Benchmark

**3.5**

= 29% of Revenue

Forecast Goal

**3.0**

= 33% of Revenue





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# Direct Labor Efficiency Ratio

Original

**1.93**

= 52% of Revenue

Last 12 Month AVG.

**2.9**

= 34% of Revenue

Last 6 Month AVG

**5.3**

= 18% of Revenue

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# Non-Labor Expenses



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# Non-labor Expenses

Original  
**39%**  
of Revenue



**7%**  
Profitability



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# Non-labor Expenses



Original  
**39%**  
of Revenue

Benchmark  
**22%**  
of Revenue

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# Non-labor Expenses



Original

**39%**

of Revenue

Benchmark

**22%**

of Revenue

Last 12 Months AVG

**34%**

of Revenue

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# Profitability

Original

-11%

of Revenue



---

# Profitability

Original

**-11%**

of Revenue

Benchmark

**25%**

of Revenue

---

# Profitability

Original

**-11%**

of Revenue

Benchmark

**25%**

of Revenue

Last 12 Months AVG

**13%**

of Revenue

---

# Profitability

Original

**-11%**

of Revenue

Benchmark

**25%**

of Revenue

Last 12 Months AVG

**13%**

of Revenue

Last 6 Months AVG

**27%**

of Revenue



# DIY Metrics Calculation Tool

# DIY Metrics Calculation Tool

Email me @ [daniel@pmpprofitcoach.com](mailto:daniel@pmpprofitcoach.com)

Subject line "NARPM"



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## 3 Steps 5x Profits

0  
1



**Define your target.**

0  
3



**Get real.**

0  
2



**Stay on track.**

---

**Are you owning the financial  
outcome of your business?**



**ProfitCoach**

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# Accounting Standards



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## Owning the Financial Outcome:

- **Setting realistic targets** for the future, based on past performance.
- **Creating a monthly gameplan** (forecast) for how you're going to hit those targets.
- **Holding yourself accountable** to the monthly gameplan throughout the year.

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## The Power of Forecasting:

- Clarify the “Why?”
- Bridge the gap between aspiration and reality
- Simplify business decision-making
- Move from reactive to proactive

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Forecasting provides you the clarity you need to own the financial outcome of the business.



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## Profile: Mr. Big-and-broke

- 1,323 units
- 3 locations
- Cutting checks to the company
- Not living the dream



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**Profit & Loss:**

Mr. Big-and-broke

**\$1,525,622****\$756,974****\$480,381****\$398,674****-\$110,407****-7%****PM Income****Direct Labor****Facilities & Other OpEx****Remaining Expenses****Operating Profit*****Profitability***



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## Under the Hood:

Mr. Big-and-broke

**\$133**

Revenue Per Unit

**7%**

Unit Churn

**2.02**

Direct Labor Efficiency Ratio

**\$178**

Unit Acquisition Cost

**35%**

Non-labor Expenses % of Rev.

**-7%**

Profitability

---

## Under the Hood:

Mr. Big-and-broke

**\$133**

Revenue Per Unit

**7%**

Unit Churn

**2.02**

Direct Labor Efficiency Ratio

**\$178**

Unit Acquisition Cost

**35%**

Non-labor Expenses % of Rev.

**-7%**

Profitability

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# Revenue Per Unit





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## Revenue Per Unit

Original

**\$133**

11% of rent (avg. \$1,235)

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# Revenue Per Unit

Original

**\$133**

11% of rent (avg. \$1,235)

Forecast Goal

**\$180**

15% of rent (avg. \$1,235)

RPU Rule of Thumb

**15-20%**

Of AVG rents under  
\$1,500



---

# Revenue Per Unit

Original

**\$133**

11% of rent (avg. \$1,235)

Forecast Goal

**\$180**

15% of rent (avg. \$1,235)

RPU Rule of Thumb

**15-20%**

Of AVG rents under  
\$1,500

---

## Under the Hood:

Mr. Big-and-broke

**\$180**  
Revenue Per Unit

**7%**  
Unit Churn

**2.7**  
Direct Labor Efficiency Ratio

**\$178**  
Unit Acquisition Cost

**26%**  
Non-labor Expenses % of Rev.

**20%**  
Profitability



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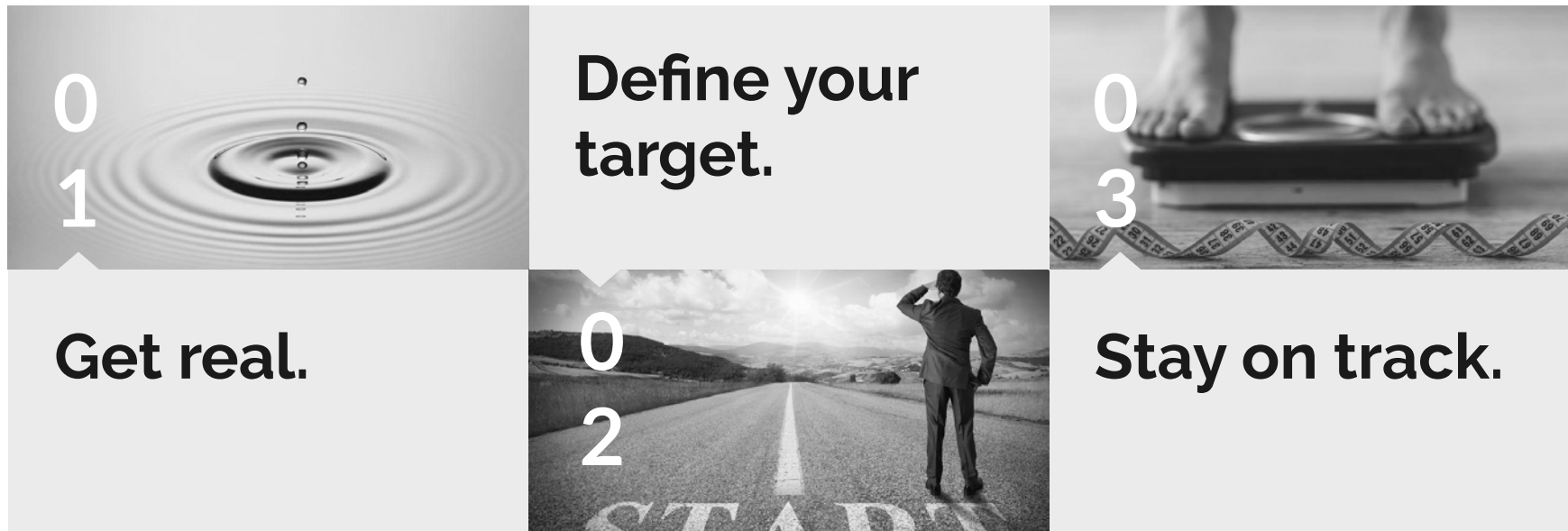
Barry Big-and-broke:

*“My staff has estimated that we will collect an ADDITIONAL \$650,000 in gross revenue this year...”*



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## 3-Step Forecasting Process



**ProfitCoach**

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# Accounting Standards



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## Forecasting Model Essentials:

- Simple
- Realistic
- Dynamic
- Ongoing

Category	Assumption	Value	Monthly%	Annual%	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019	July 2019
<b>Unit Forecast</b>											
<b>Beginning Units</b>			<b>Nov. 2018</b>	<b>Dec. 2018</b>	350	349	347	346	350	354	357
New Units (Organic)			5	5	5	5	5	10	10	10	15
New Units (Purchased)											
Lost Units	Churn % of beginning units		1.80%	23.9%	6	6	6	6	6	6	6
<b>Ending Units</b>					<b>349</b>	<b>347</b>	<b>346</b>	<b>350</b>	<b>354</b>	<b>357</b>	<b>366</b>
<b>Leasing Forecast</b>											
Occupancy %			90%	90%	90%	90%	90%	90%	90%	90%	90%
Occupied Units					315	314	313	312	315	318	322
Leases Ending					10	20	35	35	35	35	35
Renewal Rate			55%		55%	55%	55%	55%	55%	55%	55%
New Leases	New Lease Delay (in month)	1			3	8	14	15	19	19	19
Applications	Applications/Lease	1.5			5	12	22	22	29	29	29
Renewals					6	11	19	19	19	19	19
<b>Leads Forecast</b>											
Current Lead Flow					1	1	1	1	1	1	1
Conversion % (Current Lead Flow)			20%		20%	20%	20%	20%	20%	20%	20%
New Leads (Inbound)					0	0	0	0	0	0	0
Conversion % (New Inbound)			15%		15%	15%	15%	15%	15%	15%	15%
New Leads (Outbound)					0	0	0	0	0	0	0
Conversion % (New Outbound)			10%		10%	10%	10%	10%	10%	10%	10%
<b>Total Leads</b>					<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Conversions					0	0	0	0	0	0	0
Conversion % (Weighted Average)					0%	0%	0%	0%	0%	0%	0%

Category	Assumption	Value	Benchm	Var.	12-Month Total	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019	July 2019
<b>Income - STEP 2A</b>												
Management Fees/Occupied Unit		\$130				\$130	\$130	\$130	\$130	\$130	\$130	\$130
Average Leasing Fee		\$400				\$400	\$400	\$400	\$400	\$400	\$400	\$400
Other Ancillary Fees/Occupied Unit		\$50				\$50	\$50	\$50	\$50	\$50	\$50	\$50
Management Fees					\$512,451	\$40,950	\$40,798	\$40,649	\$40,502	\$40,943	\$41,376	\$41,801
Application Fees		\$69			\$20,018	\$331	\$799	\$1,500	\$1,503	\$2,013	\$2,006	\$2,000
Leasing Fees					\$77,365	\$1,280	\$3,089	\$5,799	\$5,808	\$7,780	\$7,754	\$7,728
Renewal Fees		\$175			\$29,356	\$963	\$1,925	\$3,369	\$3,369	\$3,369	\$3,369	\$3,369
Other Ancillary Fees					\$197,096	\$15,750	\$15,692	\$15,634	\$15,578	\$15,747	\$15,914	\$16,077
Maintenance Fees					\$0							
New Fee 1												
New Fee 2												
New Fee 3												
					\$0							
Total Other Ancillary Fees						\$15,750	\$15,692	\$15,634	\$15,578	\$15,747	\$15,914	\$16,077
<b>Total Residential PM Income</b>					\$836,286	\$59,274	\$62,303	\$66,950	\$66,759	\$69,852	\$70,418	\$70,974
<i>RPU</i>					\$212	\$188	\$199	\$214	\$214	\$222	\$221	\$221
					\$0							
					\$0							
					\$0							
					\$0							
					\$0							
					\$0							
					\$0							
<b>Other PM Income</b>					\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Income</b>					\$836,286	\$59,274	\$62,303	\$66,950	\$66,759	\$69,852	\$70,418	\$70,974
<b>Target Operating Profit - STEP 2B</b>		28%	26%	2%	\$234,160	\$16,597	\$17,445	\$18,746	\$18,692	\$19,559	\$19,717	\$19,873

Category	January 2019			February 2019			March 2019			Forecast
	Forecast	Actual	Variance	Forecast	Actual	Variance	Forecast	Actual	Variance	
<b>Income</b>										
Management Fees/Occupied Unit	\$130	\$95	-\$35	\$130	\$0	-\$130	\$130			\$
Management Fees	\$40,950	\$111,948	\$70,998	\$40,798	\$0	-\$40,798	\$40,649			\$40,
Application Fees	\$331	\$4,325	\$3,994	\$799	\$70	-\$729	\$1,500			\$1,
Leasing Fees	\$1,280	\$0	-\$1,280	\$3,089	\$0	-\$3,089	\$5,799			\$5,
Renewal Fees	\$963	\$0	-\$963	\$1,925	\$0	-\$1,925	\$3,369			\$3,
Total Other Ancillary Fees	\$15,750	\$22,168	\$6,418	\$15,692	-\$190	-\$15,882	\$15,634			\$15,
<b>Total Residential PM Income</b>	<b>\$59,274</b>	<b>\$138,442</b>	<b>\$79,168</b>	<b>\$62,303</b>	<b>-\$120</b>	<b>-\$62,423</b>	<b>\$66,950</b>			<b>\$66,</b>
RPU	\$188	\$117	-\$71	\$199	\$0	-\$199	\$214			\$
<b>Other PM Income</b>	<b>\$0</b>	<b>\$4,100</b>	<b>\$4,100</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>			
<b>Total Income</b>	<b>\$59,274</b>	<b>\$148,112</b>	<b>\$88,838</b>	<b>\$62,303</b>	<b>-\$120</b>	<b>-\$62,423</b>	<b>\$66,950</b>			<b>\$66,</b>
<b>Total Direct Labor</b>	<b>\$9,593</b>	<b>\$52,484</b>	<b>\$42,891</b>	<b>\$10,196</b>	<b>\$57,931</b>	<b>\$47,735</b>	<b>\$11,100</b>			<b>\$11,</b>
<b>Contribution Margin</b>	<b>\$49,680</b>	<b>\$95,628</b>	<b>\$45,948</b>	<b>\$52,107</b>	<b>-\$58,051</b>	<b>-\$110,158</b>	<b>\$55,851</b>			<b>\$55,</b>
Direct LER	6.18	2.82	-3.36	6.11	0.00	-6.11	6.03			6
Direct Labor % of Rev.	16%	35%	19%	16%	-48276%	-48292%	17%			1
<b>Total Management Labor</b>	<b>\$21,700</b>	<b>\$24,434</b>	<b>\$2,734</b>	<b>\$21,700</b>	<b>\$24,566</b>	<b>\$2,866</b>	<b>\$21,700</b>			<b>\$21,</b>
Management Labor % of Rev.	37%	0%	-37%	35%	-20500%	-20535%	32%			3
<b>Total Facilities</b>	<b>\$4,149</b>	<b>\$36,027</b>	<b>\$31,878</b>	<b>\$4,361</b>	<b>\$36,032</b>	<b>\$31,671</b>	<b>\$4,687</b>			<b>\$4,</b>
<b>Total Other Operating Exp.</b>	<b>\$2,371</b>	<b>\$15,674</b>	<b>\$13,303</b>	<b>\$2,492</b>	<b>\$9,133</b>	<b>\$6,641</b>	<b>\$2,678</b>			<b>\$2,</b>
<b>Total Payroll Taxes &amp; Benefits</b>	<b>\$2,964</b>	<b>\$13,019</b>	<b>\$10,055</b>	<b>\$3,115</b>	<b>\$13,918</b>	<b>\$10,803</b>	<b>\$3,348</b>			<b>\$3,</b>
<b>New Owner Advertising</b>	<b>\$1,778</b>	<b>\$5,900</b>	<b>\$4,122</b>	<b>\$1,869</b>	<b>\$2,236</b>	<b>\$367</b>	<b>\$2,009</b>			<b>\$2,</b>

# DIY PM Forecast Model

Email me @ [daniel@pmpprofitcoach.com](mailto:daniel@pmpprofitcoach.com)

Subject line "NARPM"

**ProfitCoach**

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# Accounting Standards







Chart of Accounts & Conversion Guide

[www.narpm.org/education/narpm-accounting-standards](http://www.narpm.org/education/narpm-accounting-standards)



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# Gratitude drives (lasting) profit.



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# Thank you.

Visit us at [www.PMProfitCoach.com](http://www.PMProfitCoach.com)

Contact me at [dcraig@pmprofitcoach.com](mailto:dcraig@pmprofitcoach.com)

