

The In-House Maintenance
Blueprint

NARPM Broker / Owner Conference – April 19th, 2021

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+On Point Home Maintenance*

This is Duluth, MN!


One month of summer!

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Seven months of winter!

Brand Family



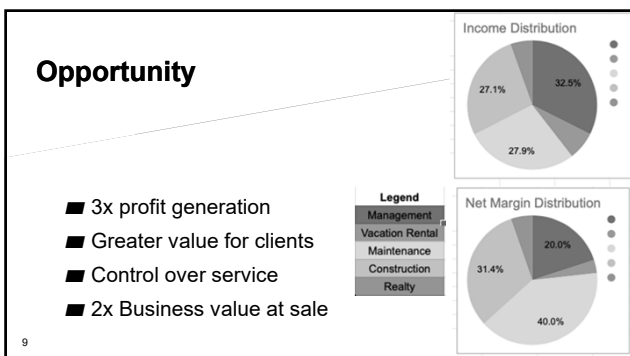
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The Contractor turned Property Manager.



Building a maintenance business will take a few iterations.



Dual Entity Corporate Structure



Heirloom
PROPERTY MANAGEMENT

- Pass-through costs / no markup
- Disclose relationship to maintenance business



On Point
HOME MAINTENANCE

- Provides invoices inclusive of markups / fees
- Provides hourly rate

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PMA Language

AGENT REPRESENTATIONS. Agent shares common ownership with On Point Home Maintenance LLC. Agent will favor On Point Home Maintenance LLC as a vendor and contractor. Agent deems the unique benefit of the partnership through the shared ownership of On Point Home Maintenance as a significant benefit to the Owner.

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When is PM big enough to start in-house Maintenance?

- New housing Stock
 - 200 units / FT Technician
- Aged housing Stock
 - 100 units / FT technician
- 3 technicians per coordinator

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Proper Maintenance Margins

- 35% Gross Margin Goal
 - \$12,000/mo. Department Overhead
 - 15% Net /Margin Goal
- =12,000 / 20% = 60,000/Mo. Topline Revenue

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Typical Revenue Distribution

| Distribution | Margin |
|-----------------|---------------------|
| ■ Labor 40% | 50% Margin |
| ■ Materials 20% | 30% Margin |
| ■ Vendors 40% | 30% Margin |
| | = 38% Blended Gross |

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Margin

Accountable Targets

- Labor
 - 40% X 60,000 = 24,000/mo.
 - 24k / \$64 = 375 Hours Sold
 - 375 / 160 = 2.3 Technicians
- Vendors
 - 40% x 60,000 – 24,000/mo.
 - 24k x 12 months / 52 weeks = \$5538/week

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THE 4 KEYS to profitable maintenance

1. Understand your value & charge right
2. Separate maintenance & estimates
3. Source right
4. Craft a maintenance hero culture

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“ Your charge rates don't reflect the task at hand, it reflects the problem you solve *which is any task, any size, any time.* You won't say no. That's the problem you solve.

1.

Value paradigm shift.

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“ Don't price your service based on what you would like to pay. *Nobody wants to pay for maintenance.* Learn what the going *retail* rate is in your market and price in line with it.

1.

Value paradigm shift.

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White Paper: Why does Maintenance seem Expensive?

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Pricing & signpost items

- Signpost Items are things consumers are familiar with:
 - A gallon of gas at the gas station
 - A nightly hotel room rate
 - The Management Fee % in property management
 - The hourly labor rate in a service business

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Multiple labor rate pricing strategy

| | | |
|-------------|-----------------------|---------------------------|
| \$45 | \$55 | \$65 |
| ■ Painting | ■ General Maintenance | ■ Plumbing |
| ■ Cleaning | ■ Turnover Work | ■ Electrical |
| ■ Flooring | | ■ Finish Carpentry |
| ■ Trash-Out | | |
| 21 0% | 50% | ■ 50% C = \$60 Avg |

1.

Material Markup

- Small ticket businesses always have larger margins
- Material is not a familiar signpost item
- 25-30% Margin on most materials is generally acceptable in a service business.
 - Does not work on familiar signpost items like appliances.

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1.

Ancillary Fees

- Easy to Implement:
 - Consumable Supplies / Shop Fee (\$5 or 3%)
 - Trash Fee (\$8/Bag)
 - Minimum Trip Fee (1 hour of labor)
- Next Level:
 - Inventory Items (200% - 300% Markup)
 - Daily Equipment Rental (\$5-\$15 / day)

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1.

35-40% Gross Margin in Maintenance

| Labor | Materials / Vendors | Ancillary Fees |
|-------------------------|---------------------|---------------------|
| ■ \$60 Avg Labor Rate | ■ 35-43% Markup | ■ +2-3% Consumables |
| ■ \$28 Avg Labor Burden | = | ■ +2-3% Other Fees |
| = | ■ 25-30% Margin | = |
| ■ 52.3% Margin | | ■ + 4% Margin |

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2020 - 500 Doors 1.

| | |
|--|--|
| <p>Maintenance</p> <ul style="list-style-type: none"> ■ 736,824.10 Gross Revenue ■ 44.2% Gross Margin ■ 15.6% Net Margin = \$114,944.56 ■ Average Markup: 67.2% | <p>Construction</p> <ul style="list-style-type: none"> ■ 1,096,330.08 Gross Revenue ■ 27.6% Gross Margin ■ 9.8% Net Margin = \$107,440.35 ■ Average Markup: 38.1% |
|--|--|

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“ I would define a *Maintenance Service Business* as one that bills work at time & material. Margins are fixed. 2.

Estimated work is contracting. The price is fixed, and the margin is not. Construction has both higher potential (volume) and higher risk.

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Accounting Process for Estimated Work 2.

You must measure:

- Performance of each product within each Job
 - Labor, Materials, Subs/Vendors
- Performance by Month across All jobs
 - Manager / Department Performance

You need a WIP accounting process

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2.

WIP Accounting Example

Example Remodel Job:

| | Expense | Markup | Estimate | Margin |
|-----------------|---------------------|--------------|---------------------|--------------|
| Labor (200 hrs) | \$ 5,141.10 | \$ 55.00 | \$ 11,000.00 | 53.3% |
| Materials | \$ 10,400.00 | 30.0% | \$ 13,520.00 | 23.1% |
| Sub-Contractors | \$ 14,000.00 | 43.0% | \$ 20,020.00 | 30.1% |
| Total: | \$ 29,541.10 | 50.8% | \$ 44,540.00 | 33.7% |

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2.

| Job Cash Flow: | Week 1 | Week 2 | Week 3 | Week 4 | Week 5 | Week 6 | Week 7 | Week 8 | Week 9 | Week 10 |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Income: | \$ 22,270 | | | | \$ 11,135 | | | | | \$ 11,135 |
| Expenses: | | | | | | | | | | |
| Hours | 0 | 30 | 30 | 30 | 25 | 15 | 50 | 50 | 10 | 10 |
| Labor | \$ - | \$ 771 | \$ 771 | \$ 771 | \$ 643 | \$ 386 | \$ 1,285 | \$ 1,285 | \$ 257 | \$ 257 |
| Materials | \$ - | \$ 4,000 | | \$ 1,500 | | | \$ 3,000 | \$ 500 | | |
| Subs | \$ - | \$ 7,000 | \$ 3,500 | | | | | \$ 3,500 | | \$ 3,000 |
| Total: | \$ - | \$ 11,771 | \$ 4,271 | \$ 2,271 | \$ 643 | \$ 386 | \$ 4,285 | \$ 5,285 | \$ 257 | \$ 3,257 |
| Traditional Book | | | | | | | | | | |
| Keeping: | | | | | | | | | | |
| Income | \$ 22,270 | \$ 22,270 | \$ 22,270 | \$ 22,270 | \$ 33,405 | \$ 33,405 | \$ 33,405 | \$ 33,405 | \$ 33,405 | \$ 44,540 |
| Expenses | \$ - | \$ 11,771 | \$ 16,042 | \$ 18,313 | \$ 18,956 | \$ 19,342 | \$ 23,627 | \$ 28,912 | \$ 29,169 | \$ 32,426 |
| Profit \$ | \$ 22,270 | \$ 10,499 | \$ 6,228 | \$ 3,957 | \$ 14,449 | \$ 14,063 | \$ 9,778 | \$ 4,493 | \$ 4,236 | \$ 12,114 |
| Profit % | 100.0% | 47.1% | 28.0% | 17.8% | 43.3% | 42.1% | 29.3% | 13.4% | 12.7% | 27.2% |

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2.

| WIP Adjustment | Week 1 | Week 2 | Week 3 | Week 4 | Week 5 | Week 6 | Week 7 | Week 8 | Week 9 | Week 10 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Labor to Complete | 100% | 90% | 80% | 70% | 60% | 50% | 30% | 20% | 10% | 0% |
| Materials to Complete | 100% | 60% | 60% | 40% | 40% | 40% | 10% | 0% | 0% | 0% |
| Sub / Vendor to Complete | 100% | 100% | 100% | 50% | 50% | 50% | 50% | 25% | 0% | 0% |

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| Book Keeping with WIP: | | | | | | | | | | |
|----------------------------|-------------|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Income | Week 1 | Week 2 | Week 3 | Week 4 | Week 5 | Week 6 | Week 7 | Week 8 | Week 9 | Week 10 |
| Booked Income | \$ 22,270 | \$ 22,270 | \$ 22,270 | \$ 22,270 | \$ 33,405 | \$ 33,405 | \$ 33,405 | \$ 33,405 | \$ 33,405 | \$ 44,540 |
| Adjustment | \$(22,270) | \$(15,762) | \$(14,662) | \$(848) | \$(10,883) | \$(9,783) | \$(3,527) | \$ 3,930 | \$ 10,035 | \$ - |
| WIP Income | \$ - | \$ 6,508 | \$ 7,608 | \$ 21,422 | \$ 22,522 | \$ 23,622 | \$ 29,878 | \$ 37,335 | \$ 43,440 | \$ 44,540 |
| Expenses | | | | | | | | | | |
| Labor Booked | \$ - | \$ 771 | \$ 1,542 | \$ 2,313 | \$ 2,956 | \$ 3,342 | \$ 4,627 | \$ 5,912 | \$ 6,169 | \$ 6,426 |
| Materials Booked | \$ - | \$ 4,000 | \$ 4,000 | \$ 5,500 | \$ 5,500 | \$ 5,500 | \$ 8,500 | \$ 9,000 | \$ 9,000 | \$ 9,000 |
| Materials WIP Adjustment | \$ - | \$(400) | \$(400) | \$(100) | \$(100) | \$(100) | \$(400) | \$ - | \$ - | \$ - |
| Sub-Contractor Booked | \$ - | \$ 7,000 | \$ 10,500 | \$ 10,500 | \$ 10,500 | \$ 10,500 | \$ 14,000 | \$ 14,000 | \$ 17,000 | \$ 17,000 |
| Sub-Contractor WIP Adjust. | \$ - | \$(7,000) | \$(10,500) | \$(2,000) | \$(2,000) | \$(2,000) | \$(2,000) | \$(1,250) | \$ 3,000 | \$ - |
| Total WIP Expenses | \$ - | \$ 4,371 | \$ 5,142 | \$ 16,213 | \$ 16,856 | \$ 17,242 | \$ 21,227 | \$ 27,662 | \$ 32,169 | \$ 32,426 |
| Profit Margin | \$ - | \$ 2,137 | \$ 2,466 | \$ 5,209 | \$ 5,666 | \$ 6,380 | \$ 8,651 | \$ 9,673 | \$ 11,271 | \$ 12,114 |
| Margin % | 0.0% | 32.8% | 32.4% | 24.3% | 25.2% | 27.0% | 29.0% | 25.9% | 25.9% | 27.2% |

3.

Winning the vendor game

- Sourcing Vendors Right
- The difference between Sub-Contractors & Contractors
- Validating the Retail Market Rate
- Sub-Contractor Relationships

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3.

“ In Real Estate you make money when you buy.

In construction you make money when you source.

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Who are Subs? 3.

- These are small hands-on contractors
 - 1 person or 1 crew businesses
- Non-Existent marketing, listed name, or vehicle branding.
- Not customer focused – they stay busy with jobs from other


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Sourcing Vendors for the Win 3.


- 3 Ways to find Sub-Contractors
 - Snap board - a company effort
 - Wholesaler post-up
 - Word of Mouth
- Graduate away from getting bids & provide pricing

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Contractors 3.



Sub-Contractors



Validate your Value in the Retail Market 3.

- Who is the easiest premiere vendor your client call from 1000 miles away?
- This is your retail benchmark to price against and beat with your sub-contractors & markup.
- *Whoop! – You just became a*

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No skilled trades person wants to do Maintenance. 4.

So don't hire for the task, hire for the outcome.

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Purpose Vs. Requirements 4.

East West Property Management is seeking an experienced maintenance technician. The right candidate would be a jack of all trades with working knowledge of all crafts (electrical, plumbing, carpentry, etc.).

-Duties

- Diagnoses and performs minor and routine maintenance/repair, as directed, involving the following on a daily basis: -
- Electrical and plumbing
- A/C and heating systems
- Appliances

Knowledgeable Technician needed to be our Home Repair Hero!

Does it seem like you are the person that everyone goes to when they need something fixed? If you enjoy learning how to do something new and love to tackle a variety of problems we have a place for you on the Heirloom Property Management team! We take pride in our knowledgeable fast moving Maintenance Technicians. At Heirloom these technical problem solvers are Hero status.

Heirloom Property Management has a strong reputation maintaining

Hero Culture vs 2nd Class Citizens 4.

- Celebrate the dragons your technicians slay.
- A hands-on person's currency is respect.
- Take the time to listen.
- Don't expect perfection.
- Even a problem solver won't bat 100%
- They wrap their identity and self worth

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Staff Compensation & Benefits 4.

- Buying good Maintenance Tech's is hard
- The best staffs are built.
- Opportunity to learn.
- respect is their currency.
- Tools and Trucks are part of the uniform.

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Sub-Contractors should also be treated like staff 4.

- Pay when job is done within 1 week
- Check in on them – a pleasant short leash
- Plan for schedule hiccups
- Invite to company events (Hero Culture)
- Tip them or buy them a tool

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Profit Share Incentive Structure 4.

| Projects | | September | |
|---------------------------------|-----------------------|--------------------|--------------------|
| BONUS | | Actual | Budget |
| Monthly Bonus Calculator | | | |
| Gross Revenue | | \$63,698.81 | \$65,000.00 |
| Gross Margin % | | 17.67% | 22.71% |
| Net Margin \$ | | \$6,565.49 | \$10,073.29 |
| <4,000.00 | Below Margin Baseline | \$0.00 | \$0.00 |
| \$4,000.00 | 10% Profit Share | \$256.55 | \$400.00 |
| \$8,000.00 | 25% Profit Share | \$0.00 | \$518.32 |
| Monthly Bonus 100% | | \$256.55 | \$918.32 |

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Profit Share Incentive Structure 4.

| Projects | | July | | August | | September | | October | | November | | December | | TOTAL | |
|---------------------------------|-----------------------|----------------|-----------------|-------------------|-----------------|-----------------|-----------------|-------------------|-----------------|--------------------|-----------------|-------------------|-----------------|-------------------|-------------------|
| BONUS | | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget |
| Monthly Bonus Calculator | | | | | | | | | | | | | | | |
| Gross Revenue | | \$52,551.40 | \$65,000.00 | \$90,519.96 | \$65,000.00 | \$63,698.81 | \$65,000.00 | \$63,298.97 | \$65,000.00 | \$53,686.79 | \$65,000.00 | \$91,742.43 | \$65,000.00 | \$816,386.23 | \$600,000.00 |
| Gross Margin % | | 17.83% | 22.71% | 20.83% | 22.71% | 17.67% | 22.71% | 15.14% | 22.71% | 13.89% | 22.71% | 18.11% | 22.71% | 18.85% | 18.85% |
| Net Margin \$ | | \$4,275.77 | \$10,073.29 | \$13,402.00 | \$10,073.29 | \$6,565.49 | \$10,073.29 | \$17,551.77 | \$10,073.29 | \$2,817.62 | \$10,073.29 | \$17,432.19 | \$10,073.29 | \$60,522.50 | \$42,964.69 |
| <4,000.00 | Below Margin Baseline | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$1,182.98 | \$0.00 | \$0.00 | \$0.00 | \$1,182.98 | \$0.00 |
| \$4,000.00 | 10% Profit Share | \$37.80 | \$400.00 | \$400.00 | \$400.00 | \$256.55 | \$400.00 | \$400.00 | \$400.00 | \$0.00 | \$400.00 | \$400.00 | \$400.00 | \$1,514.13 | \$2,400.00 |
| \$8,000.00 | 25% Profit Share | \$0.00 | \$518.32 | \$1,350.52 | \$518.32 | \$0.00 | \$518.32 | \$2,387.84 | \$518.32 | \$0.00 | \$518.32 | \$2,358.05 | \$518.32 | \$4,096.51 | \$3,109.94 |
| Monthly Bonus 100% | | \$37.80 | \$918.32 | \$1,750.52 | \$918.32 | \$256.55 | \$918.32 | \$2,797.84 | \$918.32 | -\$1,182.98 | \$918.32 | \$2,758.05 | \$918.32 | \$4,427.66 | \$5,509.94 |
| Quarterly | | | | | | | | | | | | | | | |
| Actual | | July | | August | | September | | October | | November | | December | | TOTAL | |
| Budget | | \$306.11 | | \$963.11 | | \$963.11 | | \$963.11 | | \$963.11 | | \$963.11 | | \$3,658.66 | |
| Actual | | \$306.11 | | \$963.11 | | \$963.11 | | \$963.11 | | \$963.11 | | \$963.11 | | \$3,658.66 | |
| Goal | | \$306.11 | | \$963.11 | | \$963.11 | | \$963.11 | | \$963.11 | | \$963.11 | | \$3,658.66 | |
| Variance | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | |
| % Variance | | 0% | | 0% | | 0% | | 0% | | 0% | | 0% | | 0% | |
| Annual | | | | | | | | | | | | | | | |
| Actual | | \$2,142.55 | | \$1,836.64 | | \$2,142.55 | | \$2,142.55 | | \$2,142.55 | | \$2,142.55 | | \$11,836.64 | |
| Budget | | \$2,142.55 | | \$1,836.64 | | \$2,142.55 | | \$2,142.55 | | \$2,142.55 | | \$2,142.55 | | \$11,836.64 | |
| Actual | | \$2,142.55 | | \$1,836.64 | | \$2,142.55 | | \$2,142.55 | | \$2,142.55 | | \$2,142.55 | | \$11,836.64 | |
| Goal | | \$2,142.55 | | \$1,836.64 | | \$2,142.55 | | \$2,142.55 | | \$2,142.55 | | \$2,142.55 | | \$11,836.64 | |
| Variance | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | | \$0.00 | |
| % Variance | | 0% | | 0% | | 0% | | 0% | | 0% | | 0% | | 0% | |
| Total Paid | | \$6,427.65 | | \$5,509.93 | | \$6,427.65 | | \$6,427.65 | | \$6,427.65 | | \$6,427.65 | | \$31,713.10 | |
