

How to Operate a Low Effort, High Profit, Small Property Management Co.

Steve Crossland, REALTOR, GRI, MPM, RMP

Crossland Real Estate – Austin TX

NARPM Broker/Owner Las Vegas 2015

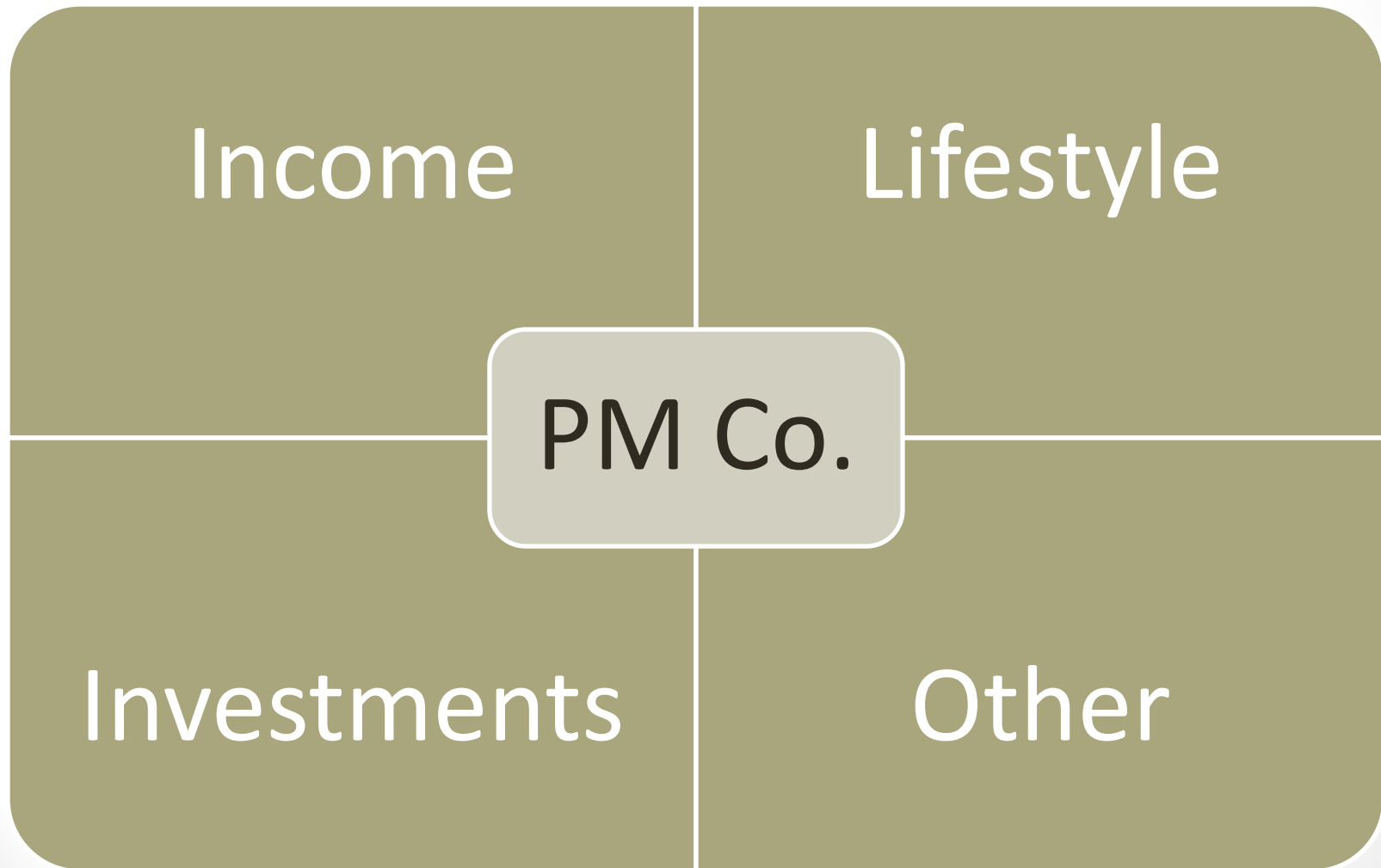
About this presentation

My approach to achieving...

- the optimal desired profit
- from the smallest possible portfolio
- with minimal effort
- and low overhead
- while living a Balanced Life ...

and providing top notch service
for Owners *and* Tenants.

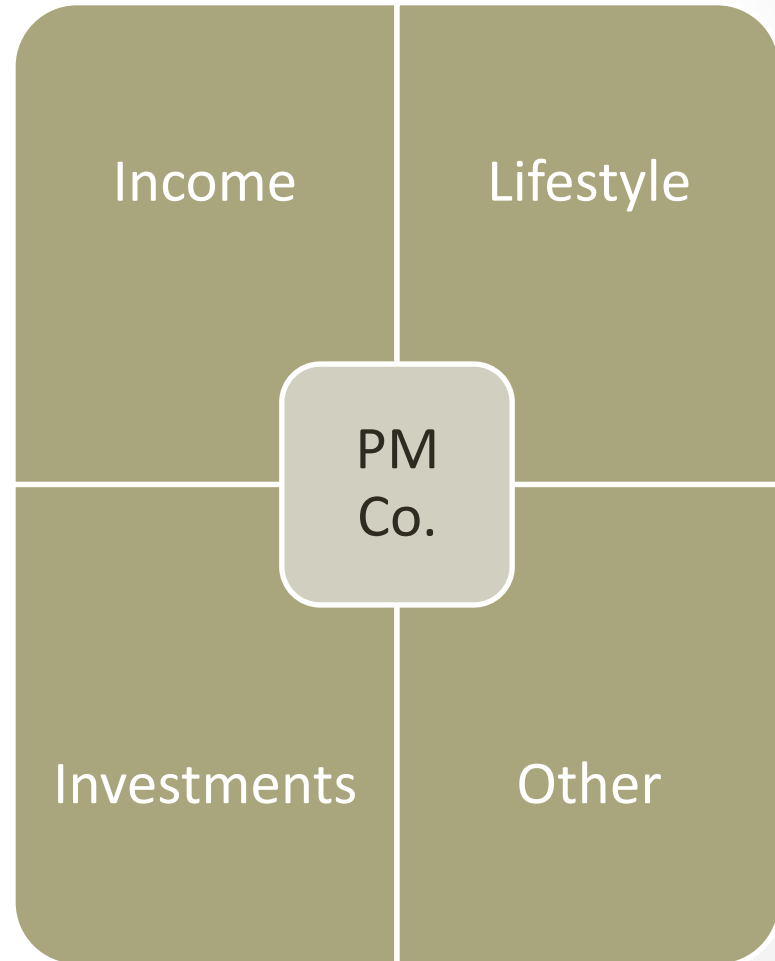
Integrating PM into your Financial & Family Life



Integrating PM into your Financial & Family Life

- **Income Needs** – How much do you need to make?
- **Lifestyle** - Free time, travel, hobbies, etc.
- **Investment** - Achieve financial freedom.
- **Other Considerations** - Stage of Life, Accrued Assets, Kids, Parents, Health, Other Income, Other Businesses, Etc.

These all must fit



Work/Life Balance

Know exactly what you want to accomplish **FINANCIALLY** and with your **LIFESTYLE** and how your PM business fits into the puzzle.

**Don't grow
blindly just to
grow!**

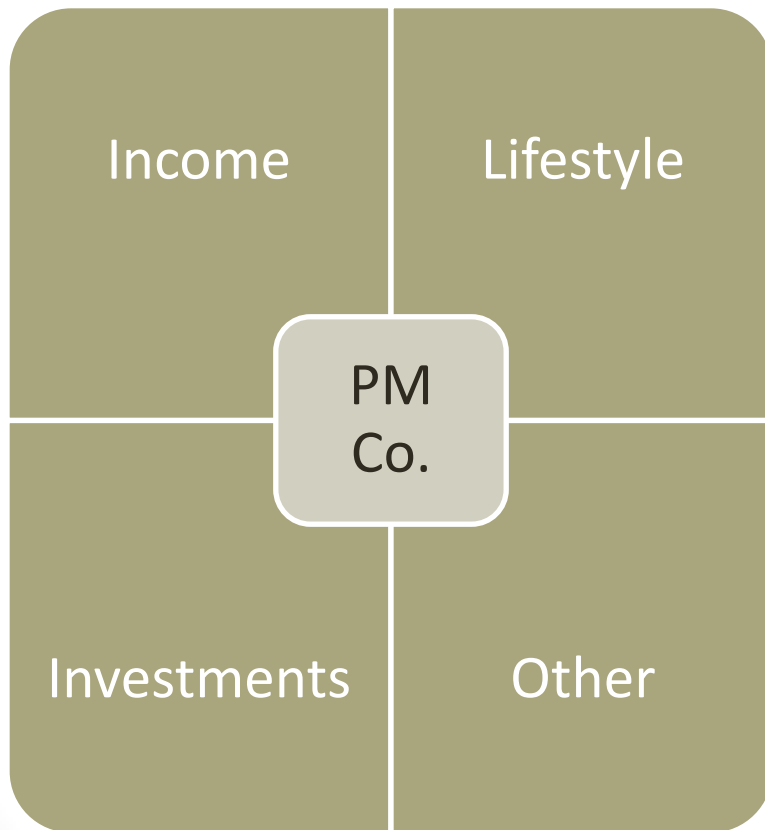


Austin Marathon Feb 15, 2015



Don't let PM Dominate

Seek to Achieve This Balance



NOT This Imbalance



Focus on Profitable Accounts

Know *your* market and numbers

- Austin = 1600-2400 sqft homes rent easy
- South/SW/Central to NW zipcodes
- Rents \$1,700/mo Average
- No outskirts/starter areas. Stay closer in.
- Maintainable homes, good public schools.
- No pools, hot tubs. No misfit attributes.
- Compatible owner wants low involvement.
- Basically, you want the low hanging fruit.

Formula for Target Unit Count

Desired Net Income = \$100,000, for example.

Divided by profit margin, let's use 50% for example.

$\$100,000 / 0.50 = \underline{\$200,000}$ CGI (Gross Commission Income)

Determine base + additional fees for target portfolio.

We'll use \$150 for example (\$100 base plus \$50 additional)

$\$150 \times 12 = \$1,800$ CGI per unit annually

$\$200,000 / \$1,800 = 111$ Units

Needed to achieve \$100K Net

Freelancer vs. Entrepreneur

- “Freelancer” does the work – is the “producer”.
 - Solo or small Team
 - Web Designer
 - Realtor
 - Artist, Singer, Actor
 - Small Vendor
 - Some people are just wired this way and enjoy “doing” work.
- Entrepreneurs build businesses bigger than themselves.
 - Pursue big Visions
 - Many start as “Freelancers”
 - Mark Zuckerberg had to quit coding at some point.
 - Some people are driven to build & grow companies.

Stages of PM Company Growth

0-75
Small

- Startup/Small. 1 Person.
0-> 75 units. (Freelancer)

76-250
Medium

- Small/Medium. 2-4 People.
76-> 250 units.

251+
Large

- Medium/Large. 5+ People.
251+ units. (Manager)

Stages of PM Company Growth

Startup/Small. 1 Person. 0->75 units.

- 1 Person should be able to handle up to 75 doors
- Owner/Operator is 100% “In Production”.
- Annual income potential is 2x median for market area or ½ median home value of market.
- Early growth stage is the “***Danger Zone***” when bad habit formation often fatally infects the operation and dooms it to high effort, low profit status.
- Master this level and max its profits before growing.

Stages of PM Company Growth

Small/Medium. 2-4 People. 76-250 units.

- 2-4 person team can handle up to 250 doors.
- Owner/Operator “In Production” + Delegates/Shares.
- First employee(s) come on board. New Dynamics.
- Annual income 1x to 2x median for market area or ¼ to ½ median home value of market per team member.
- Profit margin shrinks with growth, overhead increases.
- Transition to multi-person systems and communication is the “***Danger Zone***”. Physical space requirements.
- Master this level and max its dynamics before growing.

Stages of PM Company Growth

Medium/Large. 5+ Staff, 251+ units.

- 5+ person staff, multiple Employees, full office space.
- Owner/Operator “In Management”. Responsible for maintaining Growth, Profit and New Business.
- Systems and Org structure grow more complex.
- Profit margin shrinks as unit count grows.
- Annual income 25% to 50% of gross revenues.
- “**Danger Zone**” is maintaining quality service and controlling systems and the people who produce the outcomes.

A Tale of Two Portfolios

ACT I

- Growth Fast and Furious
- Focus on Unit Count
- No Geographical Limits
- 1-4 Fam, Condo, sm Apts
- Low Selectivity (C & B OK)
- No Minimum Fees
- Good Systems
- Office + Employees
- Maxed out at 240 Units
- Downsized to 135, Sold

ACT II

- Slow, Methodical Growth
- Focus on Net Dollar
- Geographically Limited
- Houses Only
- High Selectivity (A or B+)
- Minimum Fees enforced
- Better Systems
- Solo, No Emp or Office
- Maxed at ~~75~~ 80 100 Units
- Holding at 100, Topsiding

Requirements to Run Solo/Small Setup

- Let go of old pre-2000s precepts of what it means to own and operate a business. Brick and Mortar office not required.
- Ability to competently perform all required business tasks and functions. Must be a “Producer”.
- Willingness to live a blended life. “Work” and “off” times blur. No set work hours. Lots of “time shifting”. Not 9 to 5.
- Ability AND Willingness to run minimalist systems. No bloat.
- Effectively leverage Technology and Tools. (ex: DocuSign)
- Ability AND Willingness to function as an Authorized Fiduciary instead of a Subordinate Functionary. This is hard for some.
- Ability to Generate and Convert Leads in excess of needed.

Leads and Authority Are Most Important

Developing and Practicing a Fiduciary Mindset

Subordinate Functionary

- Low Authority
- Seeks Permission
- Other-Directed
- Unsure, hesitant
- Delivers Information
- Does the Task
- Uses Low Skill
- Rules and Procedures
- Responds to Needs
- Tries to be Nice

Authorized Fiduciary

- High Authority
- Makes the Decision
- Self-Directed
- Confident, willing
- Advises and Consults
- Owns the Result
- Masters High Skill
- Judgment and Intuition
- Anticipates Needs
- Says “NO” often.

Functionary vs Fiduciary

Key Point:

It is logistically **IMPOSSIBLE** for a Property Manager acting in the capacity of a “Subordinate Functionary” to be even ½ as efficient and effective as a Property Manager acting in the capacity of an **Authorized Fiduciary**.

Using Scripts to Gain Authority

“We believe that you hire a property manager to manage your rental home, not to assist you in managing it yourself.”

“ We offer a turnkey style of management service which is most appreciated by those property owners who prefer to be ‘out of the loop’ on all but the most important matters related to the management and leasing of the property.”

Mindset

You have to believe, in your core, that you are the best property manager your client will ever know.

And then you have to act like you believe it, run your business like you believe it, and prove it with results.

Authority and Vendors

Once the Owner has granted you high authority via the management agreement, what do you do with it?

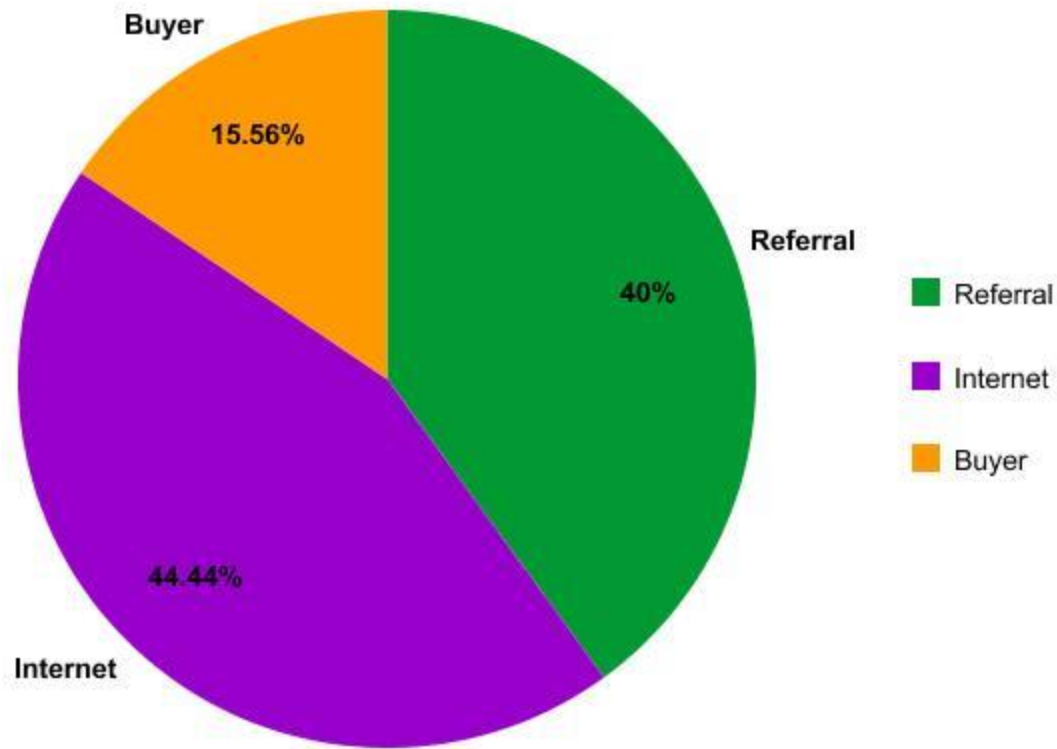
Give some to your trusted vendors, eliminating unnecessary communication and approval delays.

Leads – Where it all Starts

- You are in the “Lead Generation” business first and foremost. That’s your job – to generate leads.
- A steady supply of solid leads gives you the freedom to build a quality portfolio while turning away undesirable accounts.

Know Where Your Leads Come From

Where Do Your New Management Accounts Come From?



Crossland Real Estate - Past 3 years

Bringing your A-Game Leads and Decision Authority

HIGH			TOP SIDE
↑ L E A D S ↓	<u>"B" GAME</u> <ul style="list-style-type: none"> • Strong Marketing • Weak Authority 	<u>"A" GAME</u> <ul style="list-style-type: none"> • Strong Marketing • High Authority 	
	<u>"C" GAME</u> <ul style="list-style-type: none"> • Weak Authority • Weak Marketing 	<u>"B" GAME</u> <ul style="list-style-type: none"> • High Authority • Weak Marketing 	
LOW	← AUTHORITY →		HIGH

Operational Strategies

- **Streamline Monthly Tasks** – focus on number of “touches” each task requires, and reduce to minimum. i.e. – how many times is a payable touched, and by whom? Maintenance request processing.
- **Uniformity of Operation** – Everything the same for everybody, no exceptions. All leases and management agreements identical.
- **Automation/Semi-Automation** – Electronic payments, electronic lease signing, e-statements, online forms, text riders, etc.
- **Batch Processing** – Don’t do anything alone or separate that can be done in a group or batch effort. All rents on 1st, late notices 4th, owner statements 15th, payables 30th, 10th, 20th, deposit refunds 25th, etc. Leases Spring/Summer. Annual scanning, mailing.
- **Communication** – Don’t ask, Do tell. Give owners 2 choices and suggest one. Use “no response” communication when possible. Say “no”, a LOT, and without fear or apology.

Summary

- Establish Specific Goals Financial/Life.
- Decide what size PM Co. you want.
- Identify target properties.
- Learn to Lead Generate and Convert.
- Learn to be an Authorized Fiduciary.
- Grow one stage at a time, carefully.
- Keep it simple, minimalist, low effort.

THANK YOU

NARPM Las Vegas 2015

Steve@CrosslandTeam.com