



Self Management vs. Third-Party Management

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An important question that must be asked by a new owner of a commercial property investment is how to handle the day-to-day affairs involved in efficiently running the property. The work ranges from invoicing tenants and collecting rent, to choosing vendors to provide necessary services, to accurately reporting on the property's performance to measure the return being earned.

With the goal of saving money, many property owners choose to manage their commercial assets rather than employ professional management. While it may seem that they are saving from three to five percent in management fees, additional questions should be asked to determine the real savings. There is also the argument of increased control. Some owner's feel more comfortable touching the rent checks and paying the bills themselves.

Saving money by not paying a third-party fee must be evaluated beyond the dollars spent in management fees. An experienced manager will save an owner substantial funds through choosing the right vendors AND determine the appropriate level of service. For example, at Strategic Realty Group we pool our clients' assets to achieve lower insurance rates. We also balance the cost of physical improvements with the value that the improvements should bring through increased revenue - either occupancy levels or rental rates.

It would seem that increased control would come through handling the daily activities for the asset. However, few owners that choose to manage their own properties utilize software adequate to accurately report the property's performance. Excel spreadsheets and many of the relatively inexpensive management software packages fail to provide the feedback required to make adjustments to maximize returns.

Not only should reports be generated at the end of each month showing the property's cash flow and balance sheet, but weekly reports should be reviewed to keep track of which tenants still owe for a given month. At the end of each quarter a comparative expense and revenue analysis should be performed to see areas of potential improvement.

Owners often fail to realize that appropriate management is a full time job, and that even if they dedicate all their efforts, they still will not achieve the reduced vendor fees and other benefits that a professional manager can gain.

Finally, an owner should consider the after tax cost of management. If an owner pays 30% in taxes, the management fee is actually closer to 2 ¾% to 3 ½ % net. A competent manager almost always increases the property's cash flow by much more than the fee they charge.