

# Choosing a Commercial Property Management Firm

**A Competent and Professional Manager Can Safeguard Your Investment and Keep Your Tenants Satisfied.**

by ATHENA Z. HARMAN, CCIM, CPM, CSM



*A property management firm normally negotiates all tenant leases and renewals, or at least recommends the best leasing company in the area who can.*

**I**n today's complex real estate markets, selecting the right commercial property management firm is one of the most important decisions investors can make. Trained, experienced, and creative real estate managers can obtain the maximum return on an asset by improving cash flow, retaining tenants, and increasing values. With more than 10,000 property management firms in the United States, investors are often at a loss about how to select one that will meet their personal investment objectives.

Frequently, investors seek advice on property management firms from commercial brokers who represent them in transactions. Recommending a qualified real estate manager may be part of your contract with a client or an added service that is especially helpful to out-of-state or foreign investors who are not familiar with property managers in your area.

Whoever you recommend naturally will reflect back on you, ideally enhancing your clients' perception of you. Although you are probably familiar with the basis of property management, this may be a good time to acquaint yourself with the process of evaluating real estate property managers. It may be particularly timely if you are thinking of putting your own property in the hands of a qualified professional—a decision that may lead to more-profitable use of your time. Whether you're lining up a firm to recommend to a client or seeking the services yourself, these guidelines will help you find the right fit between property and management service.

## What to Look For

For the perfect fit, a management company's expertise should match an investor's needs. Is the real estate investment an office, an industrial building, a multifamily housing complex, or a suburban strip center? Does the building have a vacancy problem, a maintenance problem, or a marketing problem?

Investigate the experience of a firm by asking what other properties like yours (or your client's) it manages, how long it has managed the properties, and what have been the results of its management.

Find out the type of investors with whom the property management firm usually deals. Does it manage for individual investors or does it specialize in working with institutional investors? The firm you are considering must have expertise in serving your type of investor as well as your type of property, because the reporting requirements of each investor type will be different.

## Reputation Counts

A good company will have positive word-of-mouth in the industry, so ask around and determine a firm's standing in the business community. It should have a solid reputation for providing professional management services, as well as for integrity and honesty.

Though the number of years in the business is not necessarily a determinant of professionalism, it does reflect experience and longevity. However, do not assume the best service always comes with age: a company new on the scene may make up for lack of experience through aggressive management or thorough attention to detail.

Organizational stability is a related matter. How long have individual members been with the firm? Do you deal with the same manager or group of managers who bring continuity to the property, or is there considerable staff turnover? Lack of stability could signify poor company management or lack of financial stability; whatever the cause, you want consistent service and familiar faces that tenants recognize and get to

know, so rapid staff turnover should raise a warning flag.

## Look for Accreditation

As in other areas of real estate, a property management firm that is accredited is set apart from other firms as having met higher standards. Some CCIMs specialize in property management and many of them may also have specialized designations such as Certified Property Manager

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(CPM), Real Property Administrator (RPA), and Certified Shopping Center Manager (CSM). The Institute of Real Estate Management (IREM) awards the Accredited Management Organization (AMO) designation to firms that meet its criteria.

Look for a firm with accredited staff and leadership. These members must meet stringent education and experience requirements in fiscal and operational management.

Of course, firms whose employees hold other, related designations of expertise are likely to have a broader, deeper understanding of the many aspects of managing investment real estate. The property management company with whom you work should be experienced and flexible; knowledgeable about accounting, architecture, leasing, sales, law, appraisal, marketing and maintenance; and honest

and forthright in dealing with clients, tenants, and their own employees. Ask about the workload of the manager who will be assigned to your account. You should know how often the manager will make site visits.

## Check Insurance

Inquire about a firm's insurance coverage and make sure that the management staff is familiar with loss prevention and risk management programs. Make sure the firm has a fidelity bond to protect against the loss of money or property through the fraudulent or dishonest acts of employees. It must carry depositor's forgery-and-alterations insurance to protect against loss due to forgery or alterations of checks, drafts, and promissory notes. A firm also should adhere to requirements for professional liability insurance.

Finally, avoid property management firms with conflicts of interest that may prevent you or your client from getting the most value. Ask the firm to disclose any companies that it may own or use exclusively, such as landscaping or maintenance firms. Where there is potential conflict, make sure the management firm employs competitive bidding procedures and is willing to provide evidence of this. The firm should make every effort to take full advantage of discounts, purchasing opportunities, and other ethical means at its disposal when purchasing or contracting for supplies and services on behalf of the client.

## What Services to Expect

Property management firms can provide a broad array or a limited number of services, depending upon a client's needs. Do not assume that a certain service is provided automatically by the firm. Ask what specific services it will provide and, once you or your client decides on a firm, work out a comprehensive written management agreement with the firm. The agreement will outline services the firm will provide, letting the owner know exactly what to expect from the property management firm and what the services will cost..

Commercial property management firms typically provide the following services.

**Management Planning.** A commercial management company can analyze the business environment and the specific property within that environment, set out a marketing strategy, and recommend how a client's objectives can best be fulfilled.

**Financial Reporting.** Record keeping and financial reporting are key services provided by management firms. Ask to see samples of the firm's reporting documents.

**Budgeting.** The management firm develops and monitors the property's budget, which covers everything from maintenance to marketing, personnel to operations. As the year unfolds, the manager should inform the owner of any necessary budgetary adjustments and explain why they are needed.

**Maintenance Programs.** Commercial property management firms provide monthly maintenance cost monitoring and the development and implementation of preventative maintenance programs.

**Market Rent Analysis.** Management firms will provide an analysis of market rents and those of the competition, changes in area demographics, and anticipated absorption levels.

**Marketing Programs.** Firms can develop and implement marketing programs that improve the image of properties and ensure successful leasing. A comprehensive program may include such essential marketing tools as brochures, advertisements, special events, property newsletters, videos, maps, and site signs.

**Rent Collection.** The collection of rent, including a daily record of deposits, is a basic service provided by management firms. A cash management system, which includes investment returns on rental dollars collected, should be implemented.

**Lease Negotiation.** A firm is usually responsible for negotiating all tenant leases and renewals, or, in the alternative, for recommending the best leasing company in the area and coordinating leasing activities with that company.

**Tenant Relations.** The professional property management firm is attentive to tenants' needs and responds to their concerns immediately. It should have a written policy for receiving and resolving tenant concerns.

**Purchasing Procedures.** Firms establish procedures for the purchase of all equipment, supplies, contracted building services, and insurance coverage.

**Contract Specifications.** Commercial property managers prepare specifications for all contracted work (such as tenant improvement construction), obtain competitive bids, and supervise the projects.

**Documented Procedures.** Commercial management companies establish documented procedures to ensure compliance with all federal, state, and local governmental statutes as well as administrative regulations, ordinances, and fire, health, and safety codes.

## Making the Final Selection

Whether evaluating firms for yourself or your clients, look for a commercial management firm that provides the type of management services needed. Not all management firms manage all types of properties. As you get close to making a final decision, meet again with the selected firm to review its proposal and specifications. This is the best time to clear up uncertainties and negotiate the management agreement—don't wait until after the contract has been signed.

Remember that property management fees are directly proportional to the quality and quantity of services provided. Management fees generally are based upon a percentage of collections, though they vary in different parts of the country for different types of properties and are strictly negotiable between the parties. Percentage fees can be based on different portions—or all—of the income stream. For example, with shopping centers, the fees for basic services can be a percentage of net rent collections, gross rent collections including triple net expenses and advertising and marketing fees, a flat fee up to a certain level of income and a percentage after that, or some other calculation. There can also be a percentage administrative fee applied only to triple nets, in addition to a basic percentage of net or gross income.

Alternative fee structures include a flat fee or a flat fee plus a percentage of income. Factors for consideration include size of the property, location, amount of time needed to manage the property, and any special reporting required.

More than ever, investors must select commercial management teams with care. The right property management firm will provide the management expertise, financial stability, professional excellence, and integrity required in today's competitive real estate market.

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### About the Author

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