The Hierarchy of Property Management

A guide to managing residential properties to maximize cashflow, and increase property value.
THE HIERARCHY PARALLEL

Although financial goals vary greatly with different real estate investments, the end goal is always the same: Strategically maximize financial performance and increase property value.

Investors often find assets that are not operating at peak performance and look for value add opportunities. When management teams approach these assets there is a period between poor and profitable performance. The framework outlined below will highlight this growth process, identify challenges, and demonstrate how to overcome them.

Abraham Maslow was an American psychologist best known for creating Maslow’s Hierarchy of Needs. This theory states that every person has innate human needs prioritized from the most basic physiological needs up to the most intrinsic need of self-actualization.

The purpose of this paper is to demonstrate how real estate can be viewed through a similar hierarchical framework. Rather than culminating to self actualization, real estate culminates to community, which results in maximum financial performance.
PROPERTY CARE

The property must be in good condition. If not, all other levels in the pyramid will crumble.

During tenant turnover periods, the property must be cleaned and repairs are not to be deferred. A preventative maintenance plan should be put in place to reduce service calls, eliminate deferment and cut overall cost and turnover time.

A well-maintained property will attract more qualified tenants, reduce turnover and increase cash flow.

Red Flags

- Signs of unqualified tenants
- Signs of unqualified pets
- High delinquency
- High eviction
- Signs of lease violations
- Neighbor complaints
- Extended vacancy periods
- Multiple turnovers exceeding budget
- Unkempt yard
- Signs of deferred maintenance

Actions for Mastery

- ☑ Maximize cleanliness at turnover
- ☑ Complete quality repair at turnover
- ☑ Preventative maintenance program
- ☑ Quick work order completion
- ☑ Improve exterior and yard care
LEASING

Once a property meets basic property care needs, management can advance to the next level and begin screening quality tenants. These residents are more likely to follow lease agreements, retain employment, report maintenance issues, renew the lease, and return the property in good condition.

In this stage, management must run credit and background checks, verify employment, secure past landlord referrals and follow all Fair Housing guidelines. The tenant screening process will decrease delinquency and eviction, while increasing resident retention end date.

Red Flags

- Above average delinquency rates
- Signs of lease violations
- Increased eviction rates
- Multiple turnovers exceeding budget
- Signs of Fair Housing abuse

Actions for Mastery

☑ Develop a repeatable screening process
☑ Screen prospective residents
☑ Follow up on lease violations/nonpayment
☑ Remove residents with lease violations
☑ Provide systems, training and support for accommodations and Fair Housing alignment
After moving through Level 1 and 2, the property is in good condition and occupied by quality tenants. The next level in the hierarchy is to provide the best service possible under the lease while staying within budgetary limits.

Phone calls and emails are returned quickly. The preventative maintenance plan reduces work orders. All service requests are handled quickly and correctly to minimize call backs.

Red Flags
- Increased number of service requests
- Maintenance takes longer to complete
- Repeat service requests
- Tenant complaints

Actions for Mastery
- Create preventative maintenance plan to reduce turnover repairs
- Build systems to reduce turnover time
- Review staff/vendor maintenance performance
- Limit service request turnover time to 24 hrs
BUILDING A LEASE RENEWAL PROGRAM

Building a lease renewal program begins with targeting lease end dates. To oversimplify, lease end dates will be the same as high traffic season for prospective renters. For example, if most prospective renters are moving in May and the least amount of prospective renters are moving in December, then most of the lease end dates should be in May and the least in December. More vacancies during high traffic seasons and less in low traffic seasons equates to lower overall vacancy rates.

RED FLAGS

- Lower renewal rate
- Higher turnover during off-season
- Higher vacancy rates

ACTIONS FOR MASTERY

☑ Continued focus on customer experience
☑ Communicate with resident during the lease
☑ Request lease renewal 30-60 days from end date
☑ Review lease term and renewal language
LEASE RENEWAL (CONTINUED)

When people are moving in do not automatically say, “We are offering a 1 year lease.” Instead determine when you want the property vacant and set the lease end date for that day. This strategy is called lease targeting, and this is the beginning to a good lease renewal program.

Follow Through

Lease renewal notices will be sent out 30-90 days prior to the lease end date. Depending on market conditions and current property trends and vacancy, different incentives can be provided, rent increases can be completed, or other programs to increase occupancy. Because the property is being cared for well, there are good tenants, and the customer service is outstanding, tenants are more likely to sign renewals and accept potential changes in the lease terms.

“A renewal program allows management to target lease end dates with the “hot season. This creates a system where tenants are moving out right when others are looking to rent.”
The basic maintenance needs of the property have been met. The property is occupied by quality tenants. Systems are in place to deliver great customer service. The lease renewal program is reducing turnover and increasing average occupancy duration.

The property begins to be positioned in a way that contributes to and connects the community in a unique way. An example of doing this would be to sponsor a coat drive, sponsor a “March of Dimes” event, or sponsoring a trunk or treat event. These are great ways to connect the property staff with the residents, the residents with each other, and can create a different level of loyalty and gratitude with the community and a sense of pride for the management team.
Conclusion

The framework of Abraham Maslow’s Hierarchy of needs is a helpful filter to think about property management. It provides an explanation of why property turnarounds typically do not occur in weeks or even months. The different aspects of property management are very interdependent and build on one another. The Hierarchy of property needs demonstrates this interdependence of services.
JAKE DURTSCHI

Founder of Jacob Grant Property Management

Jake began his career managing a small residential property portfolio. Thank goodness you don’t have to do everything right to be successful because he made every mistake in the book, and lost a lot of hard earned money in the process.

Jake has participated in every step of the management lifecycle, from cleaning, repairs, leasing, all the way through to ongoing management. Early on, it was instilled in him that a good looking property attracts good tenants. As he began to develop a management system to suit his experience he gave a lot of attention to preventative maintenance, ongoing care during tenancy, and screening to attract only the most qualified tenants.

“"The purpose of property management is to maximize the financial performance and longevity of the real estate asset"”

Jake created the Growth Builder, a uniquely designed system positioning real estate with proactive service and preventative systems to attract high performing tenants while building value and maximizing long term profitability. He looks forward to continual growth and improvement in managing income-producing properties, while continually improving service and results with current investors.

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