

**MULTIFAMILY  
LAUNCHPAD**

WITH JONATHAN TWOMBLY

REAL ESTATE INVESTMENT  
EDUCATION



# ASSET MANAGEMENT PART 2 – MANAGING THE MANAGER

**Module 10 – Video 5**

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# VIDEO OVERVIEW

What's covered:

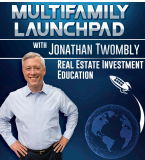
- Managing the Manager so the property performs to expectations
- What to do if it does not
- For the method for selecting a good property manager, see Module 1, Video 7





# MANAGING THE MANAGER

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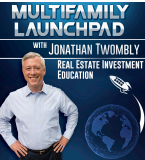
- Even when you have a property manager on site, real estate is not a passive asset
- You must actively manage the manager to ensure the property gets the best results
- You manage the manager through:
  - Your management contract
  - Communicating your expectations to the manager and holding them accountable
  - Reviewing the weekly and monthly reports you receive from the manager
  - Regular calls with the manager
  - Periodic site visits
  - Overseeing the annual budgeting process
  - Terminating the manager if they fail to perform
- A sample management agreement is included with this video

# THE MANAGEMENT CONTRACT



- The manager's role is governed by the management contract
- These are fairly standardized, and you may want to ask your lender for a redacted copy of a management contract they have approved to understand them
- Your lender will have to approve the contract in any case
- The key issues you want to look for are:
  - ✓ Fees and costs – what is the management fee, and what does it cover? All other fees and charges must be specified in the agreement.
  - ✓ 30-day termination provision – you should be allowed to terminate them for any reason or no reason at all with 30 days notice, with no penalties
  - ✓ Dollar limitation on the amount they can spend without your authorization
  - ✓ Requirement that for capital work over a certain dollar amount, they must obtain at least 3 bids and submit them to you for approval, unless there are emergency circumstances

# COMMUNICATING EXPECTATIONS



- You cannot expect your manager to perform up to your expectations if you do not communicate them and hold manager accountable
- Even before closing, you should be discussing your plans for the property
- Submit a written business plan to the manager before takeover
  - Talk through the plan with the manager
  - Make sure they understand it completely
  - Agree on action items and deadlines
  - Hold manager to deadlines
- Your business plan should include your profit structure
  - What returns you owe your investors and when you must pay them
  - How you are compensated under your agreement with your investors
- Keep a log of conversations with your manager, so that you can track projects and keep on top of them

# REVIEWING MANAGEMENT REPORTS



- You will receive the following reports from the manager. You must learn to read them, understand them, and review them diligently
- Weekly documents:
  - Weekly report (aka “Monday morning report”), which includes data on:
    - ✓ Occupancy/vacancy
    - ✓ Notices to vacate
    - ✓ Lease renewals
    - ✓ Pre-leased units
    - ✓ Traffic to the property
  - Aged receivables by tenant
  - Aged receivables summary

# REVIEWING MANAGEMENT REPORTS



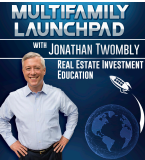
- Monthly documents:
  - Operating Statement with variances to budget
  - General ledger
  - Balance sheet
  - Cash flow statement/cash position report
  - T12 operating statement
  - Current rent roll

# WEEKLY CALLS WITH MANAGER



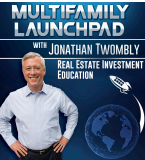
- You should have a weekly call with the manager for at least the first year
- After first year, it is acceptable to go to 2x/month, but weekly is still best
- Agenda for call:
  - Update from manager about the property
  - Discuss notes from last time regarding projects/occurrences at property for progress update
  - Discuss weekly report, aged receivables, etc.
  - Discuss monthly financial statements (1x/month)
  - Discuss challenges and opportunities to cut costs or increase revenues
- Take good notes in a Google spreadsheet or other document you can access anywhere
- Notes are critical to keep track and to update investors in your investor reports
- The more you show the manager you care about your property, the more the manager will care about your property

# REGULAR SITE VISITS



- You must conduct regular site visits
- At least once a quarter for a year and then at least 2x/year thereafter
- At least one visit per year should be unannounced
- What are you looking for:
  - Overall curb appeal of property. Is it appealing to renters?
  - Anything visibly out of place, missing, broken, dirty, etc.
  - Condition of leasing office. Is it welcoming or off-putting? What will a prospective tenant think?
  - "White board" in leasing office – how many vacant apartments, rent-ready, non-rent ready
  - Visit all vacant and down units
  - Ask for most recent rent roll and last five signed leases
  - Inspected ongoing capital projects
  - Manager & leasing agent: Recent traffic, local market developments, opportunities for improvement
  - Drive neighborhood and competition to see if there are good or bad changes

# ANNUAL BUDGETS



- Manager must prepare annual budget for next year
- You must submit annual budget to lender
- Manager will always try to produce budget that they can “beat” (i.e., they will produce more revenue and lower expenses)
  - Push back and see what the response is. You want them to resist because the numbers are as accurate as they can forecast. Giving in too easily is a sign the numbers were just a guess.
- Go through budget together with manager and have each category explained
- See if there are ways of saving money realistically
- Discuss opportunities to increase revenues
- Make sure that the budget is going to hit your required DSCR, as well as your profit expectations.
  - If not, understand why not, and whether there is anything you can do about it.

# TERMINATING THE MANAGER



- If the management company does not perform up to your expectations, you may need to terminate them
- If you start thinking that you need to terminate them, do not delay.
- Once termination notice is received, old manager will do bare minimum
- Lender must approve new manager, which can take months
- Do not notify present manager of termination until lender has approved new manager
- Must terminate in writing. Use letterhead. Do not explain reasons.
- Simply state, "Pursuant to Paragraph XXX of the Management Agreement, dated \_\_\_\_, [Your Company] hereby exercises its right to terminate the management contract, effective 30 days from the date of this letter."
- Select end-of-month date for termination/new manager start



# Q&A IN THE FACEBOOK GROUP

Next up:

**Module 10 – Video 6**  
**Understanding the Documents**  
**Received from the Manager**