

Management and sales tools for the residential real estate broker

## Business Strategies

### **NRT buys property manager, emphasizes rentals — but it's not an easy business**

With homeownership on the wane, the nation's biggest broker is raising its bet on rentals.

NRT, a division of Realogy Holdings, this summer bought a large property manager in Texas and formed a national operation to handle rentals.

Ryan Gorman, senior vice president at NRT, stresses that the broker is no newcomer to the rental business. He notes that NRT already manages some 20,000 properties, and he says the latest move wasn't a response to the falling homeownership rate.

"We weren't really making any macroeconomic play," Gorman says. "There have always been many homeowners out there who rent their properties."

Still, it's easy to read broader meaning into NRT's timing. A combination of tight lending standards and a tough job market for young workers has many Americans putting ownership on hold. The phrase "Renter Nation" has grown familiar. Meanwhile, big institutional investors have snapped up single-family homes and put them on the rental market.

NRT bought Get There First Realty, a Dallas firm that manages 1,600 properties. For property managers, who are paid a

percentage of the rents they collect, size is a crucial factor in profitability.

"When done properly, it can have very attractive margins," Gorman says.

But the margins come only with scale, says Jack Meeks, who runs a brokerage and a property management firm in Florida.

Meeks, broker at Real Estate Professionals Southeast in Longwood, says rentals kept him afloat during the real estate bust.

But, he adds, property management isn't an especially lucrative business.

"So many brokers think they want to get into property management because it's a reliable, dependable, recurring monthly income," Meeks says. "What most people don't realize is the fee is 9 percent to 10 percent of the rents you collect."

In other words, if you're managing a home that rents for \$1,200 a month, you're likely to collect a fee of \$120 a month. The

#### **Expanding your reach**

What to consider when branching into property management:

- Revenue from each deal is small — generally 10 percent of the rent.
- Managers are responsible for background checks.
- Landlord-tenant law generally favors the tenant.

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typical split in property management is 50-50, so that leaves \$60 for the broker to cover overhead and \$60 for the rental agent.

“You’ve got to have a ton of properties to generate enough revenue to really be a profitable venture,” Meeks says.

Meeks’ rental firm, Advanced Management Specialists in Kissimmee, has 390 accounts.

“It is profitable, but nobody is taking a vacation in the south of France,” Meeks says.

### Cautions for smaller brokers

NRT’s Gorman stresses the synergies created by operating both a brokerage firm and a property management firm. Ideally, the property management firm is talking to tenants and, when they’re ready to buy, can point them to NRT agents. Sales agents, meanwhile, meet move-up buyers who want to keep the old house as a rental.

“They’re spending all of their days speaking with sellers of property and tenants,” Gorman says.

But Meeks says the sales and rental businesses are so different that it’s rare for

one agent to handle both types of transactions. Meeks split his property management firm into a separate company operated from its own office.

“There is a connection, but not one you can over-emphasize,” Meeks says. “The reason companies like NRT want to get into property management is that very large hedge fund investors are buying hundreds and hundreds of properties, then turning them over to companies to manage.”

For smaller brokers branching into property management, Meeks offers this advice: It’s not a bad business, but expect to earn your money.

When choosing tenants, background checks and interviews are crucial, he says. Landlord-tenant law is skewed toward tenants, and a deadbeat tenant who knows the legal system can deprive landlord and manager of revenue for months.

What’s more, when the toilet clogs or the air conditioning is on the fritz, the property manager gets the call.

“There’s great detail involved,” Meeks says.

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