

Management and sales tools for the residential real estate broker

## Business Strategies

### Thin margins but steady income lure broker into property management

T.J. Larsen is quick to point out the down sides of his fledgling property management business. There are the slim profit margins, the steep overhead, and the constant complaints from tenants.

Even so, Larsen says he wakes up excited about the prospects for My Home Leasing, his property management company in Charlotte, N.C. Despite the hard work it requires, the company generates a steady and stable income stream.

Larsen came to property management from a brokerage background. He started My Townhome Realty in 2000 to focus on sales of new condos for developers. Larsen later diversified into traditional brokerage of single-family homes.

Since launching My Home Leasing in 2007, Larsen has learned a number of valuable lessons about successfully diversifying.

"I thought I knew more than I did," Larsen says. "Property management is a totally different revenue stream. You have really razor-thin margins, and it's a volume business."

The revenues in property management are less sexy but more predictable. Instead of cashing commission checks worth thousands, My Home Leasing collects fees that are sometimes worth less than \$100.

My Home Leasing keeps 8 percent of

each monthly rent check it receives, so on a \$1,500-a-month rental, the company grosses \$120. That's hardly enough to interest a typical real estate agent, who's accustomed to bigger paydays. What's more, by the time Larsen pays his leasing agents and other overhead, his cut shrinks to much less than \$120.

"You don't get big pops," Larsen says. "It's \$10 here and \$20 there. These are paydays most sales agents would scoff at."

On the bright side, that \$120 comes in every month, and the small monthly amount quickly grows to \$1,440 over the course of a year. That's why Larsen, who's 35, thinks of his property management division as a retirement account.

#### Transferring information and knowledge

Larsen sees synergies between the property management division and his brokerage operations, which provide referrals, back and forth.

#### Making a property management division work

T.J. Larsen's tips for succeeding in the property management business:

- **Adjust your expectations.** Paydays are smaller than in sales, and midnight calls are part of the business.

- **Expect to invest.** Larsen put \$100,000 into costs such as property management software and a staff.

- **Get the word out.** Advertising can be even more important than in the brokerage business.

There are other positive exchanges between the two divisions, such as the service focus he brought from brokerage to property management. Unlike his competitors, Larsen has an agent accompany prospective renters on tours. Many other companies send clients off to properties by themselves.

**“If you’re not going to invest a lot of time and a lot of capital, I think it’s a mistake.”**

“That concept floored me,” Larsen says. “In the sales business, we’d never say, ‘Take a look at it. If you like it, we’ll do a lease.’”

The policy raises overhead but also increases success rates, Larsen says.

Other notable differences: Property managers tend to build longer-term relationships than Realtors. And the complaints — midnight calls about issues such as broken air conditioners and clogged toilets — can become truly mundane.

“There’s a lot of nuances to the business that you simply don’t get in the general brokerage market,” Larsen says.

In other words, property management requires a different mind-set than selling homes. Agents often catch buyers and sellers at their best, but property managers get tenants and landlords at their crankiest.

“You rarely get a call when things are going well,” Larsen says. “In general brokerage, there’s a lot of high-fiving at the closing table and people feeling good about the transaction.”

The downturn in sales volumes and sales prices has many brokers looking to property management as an alternate income stream. But while overhead is a dirty word in the brokerage business, it’s a fact of life in property management.

Because property management is such a detail-oriented business, Larsen warns that the initial investment can be steep. He spent about \$100,000 on items that included property management software, salaried employees, a high-end website, and an advertising campaign.

Larsen believes in traditional advertising, and to boost My Home Leasing’s brand, he runs ads on TV and radio and in print.

“A lot of general brokerage agents say, ‘Boy, I’d like to get a leasing fee,’” Larsen says. “If you’re not going to invest a lot of time and a lot of capital, I think it’s a mistake.”

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