

Understanding Commercial Property Management Report

By David V. Tran

Each month your property manager will send you a monthly report. Each company has its own format, using different property management software and internal processes. However, you should receive the following:

1. A one-page summary that highlights key issues about the property, e.g., one tenant is 30 days behind on the rent.

2. Income & expense statement. This should be a short statement showing the base rent, Common Area Maintenance (CAM) charges for each tenant, rent and CAM payments received from each tenant. It also shows maintenance expenses and management fee; so you may quickly determine if each tenant has paid rent or not. This statement itemizes all of the income and expenses which may include:

• Late fee: when the tenant pays late, he has to pay the rent plus the late fee. The late fee amount is normally stated in the lease. Normally, when the tenant pays late, the property manager has to do extra work to collect it. The amount of work depends on whether the tenant is too busy to

mail the rent check, does not have the money or simply does not want to pay. Typically, the property manager is entitled to the late fees as an incentive to collect the rent. To motivate the property manager further, you may want to reward her 100% of late fee if the late rent is collected on the same month the rent is due. If the late rent is collected in the following months, then she is only entitled to 50% of the late fee.

• Management fee: this fee is usually a percentage of the monthly income from the property that both you and the property manager agreed in the management contract. If you have a very stable property with the same income every month, then the management fee is the same. Otherwise, it varies from month to month.

• Leasing fee: you typically see this when there is a new tenant or a renewed lease.

• Security/Fire Protection: your property may have fire & security monitoring services.

• Electricity: this is most likely for parking or common area lighting.

• Water: this is for both drinking and irrigation.

• Disposal: this is for

garbage collection paid to the city.

• HVAC repairs & maintenance: this is the maintenance costs for Heating, Ventilation and Air Conditioning. Usually, there is a service contract for HVAC whereby the maintenance company will inspect the HVAC twice a year: once before the winter and once before the summer. So, you may receive the service bills only twice a year.

• Garbage dumping: sometimes people dispose their unused furniture, mattress on the property because there is no one around at night. The maintenance crew may have to clean up these things. Normally, you or the property manager will want a picture of the dumping to make sure that it is a legitimate bill.

• Landscaping: this is often the biggest expense item. Typically, the landscaper signs a one year contract to maintain the landscaping on the property, such as mowing the lawn, trimming the trees/shrubs, and planting flowers. Thus, the monthly payment should be the same for the whole year.

• Sweeping: the parking lot is usually swept daily, either late in the evening or before the tenants open for business. In the winter,



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there may be an expense for snow removal.

- **Steam cleaning:** the concrete sidewalk is normally steam cleaned once a month. This is done by the same company that handles the sweeping and landscaping.
- **Roof maintenance:** the roof of a commercial building is often flat and requires regular maintenance especially during the rainy season. The roofer may charge each time he is called to fix a roof leak. So, this is not something you see on the statement on a regular basis.
- **Supplies:** there are various things on the property that have to be replaced periodically: light bulbs, trash bins, sprinklers, etc.
- **Bank charges:** sometimes the tenants pay by check with non-sufficient funds. The bank will charge a fee each time the check is bounced.
- **Legal fees:** you may see this if the property manager has to evict a tenant.

As a rule of thumb, you should not spend more than 30 minutes to review the management report of a retail property with 10 tenants. If you have to spend much more than that, then your property manager has sent you too much information or not organized the report properly.

The property management company often proposes an annual maintenance budget for the property based on the prior year's maintenance expenses. Each tenant is then billed a fixed monthly amount, proportional to the size of his unit. Thus, the base rent and CAM charges are the same each month; so, the tenants may expect to pay a consistent amount each month. Annually, between January and March, the property manager reconciles the accounting for the prior year. If the actual expenses exceeded the budget, the tenant will have to pay his share of the difference. In the event, the ac-

tual expenses were less than the budget; the tenant will be refunded or credited back the difference.

Do's and Don'ts

1. Use email for most of your correspondence. This will allow you to have records (date, time) of all issues sent and received between you and the property manager. You may want to set up the mail option such that it automatically will save all out-going mail. In addition, you may want to create an email folder for each property and keep all email messages related to that property in that folder. This allows you to find information quickly.
2. Ask the property manager to email to you the monthly reports. You should save all of the reports on your computer. Time and time again, you will need to look at a report from a previous month. The easier and faster you can access them, the more likely you will do it.

Paper reports are much more time consuming to retrieve.

3. Have a copy of the rent roll handy with rent rate, lease start date, lease expiration, and CAM share portion. When you are asked to approve a new lease, check to make sure it does not expire on a year when you have several other leases expiring. This minimizes the risk of high vacancies on your property.

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