

The New Property Management Opportunity

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The financial, social, economic and technical events of the past eight years have combined to create a whole new environment within the American residential real estate marketplace. Today it is an environment in which the priorities, values and truths of the past twenty-five years have morphed into totally new realities. For today's real estate service provider it is a time when one's failure to appreciate these philosophical leaps can lead to economic disaster.

Today it seems hard to recall that for most of the past four thousand years home ownership, were available, was all about providing a safe and secure place for one's family to leave and one's children to be raised.

It wasn't until the early 1970's that the then new and untried Boomer generation began to suggest that perhaps the primary purpose of home ownership wasn't shelter after all but in fact the basis for the accumulation of wealth. Forget that ridiculous neighborhood gig. Most of the folks around here are just losers anyway. How could anyone live in the same house for ten or even fifteen years? Why as soon as this place picks up some equity we are out of here.

Homeownership, the long time flagship of the American lifestyle took on another new twist to become homeownership in the "right neighborhood." REALTORS® became the lifestyle and status experts as the real estate consumer worked to squeeze every ounce of status out of every dollar.

Enter the new world of the short sale foreclosure and shadow inventory. While it will take years to fully understand the impact that the past five years have had on the real estate marketplace it is certainly clear that both the impact and its complications have been dire.

So here we are in the new world of the post recession real estate marketplace. While it will still be several years before all of the many lessons can be declared learned even now we can begin to measure the changes that have been brought about.

One of the many challenges of living with today's reconfigured real estate marketplace is the inquiry "why buy when you can rent?" A recent series in the Wall Street Journal offered a very detailed analysis of this question. Entitled *A Fresh Look at Rent vs. Buy*, its articles provided an in-depth analysis that found that a number of serious intellectual wrenches have been inserted into the home buying process.

But it isn't just the media that is complicating the issues of buy versus rental this. Millions of middle class Americans have suffered through the perils of bankruptcy process and will not be eligible for mortgage loans for seven years. Still other escaped the tragedy of bankruptcy only to discover a whole new range of down payment, eligibility and income hurdles to securing a new mortgage thus further frustrating their home ownership aspirations.

Add to that news that for many 18 – 44 year old consumers the realities of having seven different jobs or multiple careers during their working life will require frequent moves. Only this time IBM won't be around to pick up the costs of that move.

Finally last month's Core Logic Risk Summit puts yet another ace on the real estate market with the announcement that some 15 million families stand on the brink of default creating or expanding what has become known as the "shadow inventory."

There is little space in this article for a complete recital of all of the ramifications of this latest shot to the marketplace. Sufficient to say that over the next few years the home ownership rate (having already dropped from a high of 71% to the mid to lower 60's) will continue to drop and that for whatever reasons families previous included in the ownership column will be moving over the rental column.

The message to the brokerage community seems to be clear. This would be an excellent time to consider getting into the rental lifestyle business. Were this live television show a significant number of our readers would be seen smiling with that confident look on their faces saying, "No sweat, we have been into property management for years." But then the buzzer would go off as the announcer pointed out that no we didn't say property management, we said rental lifestyle.

The problem here is that the modern property management business was developed during the past twenty-five years of the home ownership boom. All of the prejudices of that era have been built into that system. Accordingly winners own homes and individuals with problems rent them. The whole system is build around that assumption, just one step up from that jerk RA in the college dormitory.

That is simply not going to work any longer. Many if not most of renters moving forward are not going to be losers but rather families that have chosen not to rent rather than own. Many will have significant incomes and financial statements. They are not looking for neither will they tolerate a "landlord" approach to property management. They are thinking "Marriott" not "flophouse" treatment. They will expect a concierge "no hassle" treatment that may often include the full housekeeping and landscaping services they enjoyed at their former \$900,000. McMansion.

The story gets even worse when one considers that a whole

new generation of investors is also entering the marketplace. For starters they will demand a more accountable and systematized approach to the management task. They will be buying into a much more substantial level of housing stock and will be dealing with government officials who will be trying desperately to save the quality of their neighborhoods with a wide range of ultimately unsustainable ordinances and regulations. They will be renting to tenants who want to be treated as guests and who will not tolerate deferred maintenance or standards less than they enjoyed while engaged in home ownership. They will be dealing with people who have the sophistication and wealth to enforce their expectations.

So what's a broker to do? First they will have to consider whether to get into the rehabilitation business and attempt to retrain twenty-year veterans of the old school of property management. Recall that we have not been that successful with our efforts to rehabilitate other members of the brokerage team.

There are some excellent solutions available here. A number of firms are offering more "enlightened" property management systems that meets the needs and expectations of the both the "guest" and the "owner."

Once such firm is the Real Property Management franchise program out of Layton, Utah. In 2009 at the request of a client I spent a week going through one of their training programs. Here you will find a group of Certified Public Accountants that has it together with respect to meeting the challenges of the new rental lifestyle challenge. They have developed an automated rental management system that rivals a combat air traffic control system. Who else could teach a 55-year-old boomer generation lawyer to fix a metered flow valve off of a 20-year-old toilet before lunch? Perhaps miracle worker is the term. Check them out on your way to becoming an expert in rental lifestyles.