

PROPERTY MANAGEMENT

Many landlords believe that property management fees simply cut profit margins to a minimum in exchange for basic services to maintain your rental property. But the reality is that property managers can simplify your life and smooth out the kinks in your investment properties—for a reasonable rate.

However, it's important to note that not all companies' fee structures are the same. Make sure you understand how a manager's fees work, otherwise you might shave your profit more than necessary.

Most real estate investors budget between 8-10% of monthly rent for property managers. 10% tends to be the norm—and additional fees may cause that number to increase.

Before signing on the dotted line, review your financials to make sure hiring a property management company makes sense. Many landlords will find it does, but if you only have one or two properties or your budget is tight, you may want to go it alone.

Property Management Fees to Know

These are some of the most common “hidden” fees, extra fees, and fee structure differences to watch for when comparing providers or finalizing a contract:

1. Rent Due and Rent Collected

Many property managers charge monthly management fees as a percentage of rent, but watch how this is worded—there's a difference between charging as a percentage of rent due and a percentage of rent collected.

Rent due means your company will charge you based on how much money a tenant owes you. You may end up paying for property management even when your property is vacant.

Rent collected means you'll be charged based on actual rental income. This is generally more favorable for the owner.

2. Early Cancellation

You may be charged an early cancellation fee should you break the contract with your property manager before the end of its outlined term. For example, if you agree to work with them for a year and you want out after eight months, you might pay an additional few hundred dollars. Be especially wary of this fee with untested property managers.

3. A La Carte Management Fees

“A la carte” management fees refer to a suite of extra fees a property management firm may charge you in addition to basic services. Usually, a property manager will either charge a higher price (and no additional fees) or a lower price with multiple additional fees. The best choice depends on your property and ownership style.

Setup Fee

Many property managers will charge an initial property management fee at the start of your contract. This usually costs a few hundred dollars and is necessary to initiate your account.

Vacancy

If a company charges you based on *collected* rent, not rent due, there may be an additional vacancy fee, which acts much like a retainer.

Advertising

Some property managers may charge an additional advertising fee. This covers the cost of creating media, such as taking photos or videos, and marketing the property.

Leasing Fee

A tenant placement fee may apply when you're hunting for a new tenant. This covers the cost of drafting and securing a new lease agreement and tenant screening, including background checks. It's generally low in cost. In fact, high leasing fees should raise red flags—especially if your resulting tenant turnover seems to increase.

Lease Renewal Fee

Lease renewal is a simpler process than the initial leasing, but it may still require a fee. Property managers might draw up new paperwork or renegotiate terms with a tenant, and they may charge for that extra work.

Maintenance

Most property management fees cover basic instances of maintenance and repairs that property owners wouldn't want to handle themselves. Some companies may charge extra for big jobs or for an inspection before placing new residential property tenants.

Eviction

Eviction can be a messy process, and you'll be grateful to have a property management service in your corner. Most managers handle the eviction completely on your behalf, but some will charge you an extra fee. Expect to pay at least a few hundred dollars for this process.

Comparing Property Management Fees

Different companies might charge different property management fees. However, if they're offering similar services, you'll likely find the bottom-line price of each to be competitive with one another. The big difference here is how you plan on using your property management company. For example, if you're looking for a long-term partnership, an early cancellation fee shouldn't factor much into your decision.