

# Appendix

## Evaluating Bids From Property Management Firms



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One of the most difficult but important tasks that a non-profit housing provider's board of directors must undertake is to evaluate bids from property management firms. Directors often lack the experience or understanding of the programs under which their housing is operated to be able to effectively evaluate the bids that they receive in response to a request for proposals. These guidelines are provided to assist board members in that process.

There are a number of steps in the evaluation process. The first is to dispel any belief that you must choose the lowest bidder to manage your project or that the Service Manager may direct you as to which bidder you must choose. What you should look for is the most cost-effective bidder, which will likely not be the lowest one. The experience of housing providers has been that property management firms varied significantly in their ability to effectively manage their social housing portfolios. Finding the best one for your non-profit requires that you carry out a thorough evaluation process.

It is essential to determine the criteria that the board of directors will use to assess the bidders and the weight that will be given to each. In addition to price, both qualitative and quantitative measures should be used. While the following list is a thorough one, the board of directors may wish to include other criteria that allow them to assess the ability of the property management firms to meet specific objectives or mandates of the group.

Quantitative criteria include price and performance measures such as vacancy losses, bad debts, operating surpluses and accumulated surpluses. Length of property management contracts can be an indicator of successful performance. Capital reserves and unit turnovers may also be quantitative criteria where the property management firm can demonstrate how their practices have led to a strong financial position.

Qualitative criteria include the ability of the property management firm to carry out activities of critical importance to the non-profit such as managing targeting plans, carrying out preventative maintenance, supervising contractors and complying with operating agreements or legislation such as the Social Housing Reform Act (SHRA) and the Residential Tenancies Act (RTA).

There are other qualitative criteria that fall into the value added category such as non-profit housing sector support roles, understanding of housing programs and local rules, ability to act for the owner at the Landlord and Tenant Board or Small Claims Court, and the ability to assist the board of directors with training and orientation or business planning.

### Quantitative Criteria

**Price** remains an important consideration. In evaluating price, it is important to use criteria that allow the non-profit to relate the bids they receive to others in the non-profit housing sector. The most commonly used is the percentage of gross market rent potential, which is the maximum rent if all units were at market. This also allows comparison to private sector management.

The bid by the successful property management firm should fall within a specified range of the other bids, which the board of directors should establish in advance. A reasonable target would be for the successful bid to be within 1% of the gross market rent potential of the lowest bidder. If the lowest bid was at 3.5% of GMP, the successful bid should not be more than 4.5% of GMP. The non-profit housing provider should be wary of any bid that is significantly lower than all of the others.

Typically, bids will fall within the range of 4 to 5.5% of GMP, depending on a number of factors that include client group, built form, project size, location, market rents, targeting plan and other criteria that affect the workload of the property management firm. Bids below 4% should be carefully evaluated because it has been the experience, of the most successful staff managed organizations in the non-profit housing sector, that they have spent significantly more than that to perform as well as they have.

**Performance Measures** are very important. They can help you distinguish good property management firms from poor ones. Price becomes a negative factor if any savings that you accrue are lost to high vacancies and bad debts.

- **Vacancy Losses** are a clear indicator of the ability of the property management firm to attain and maintain full occupancy of the housing units. Vacancy losses in the private sector vary from community to community and are closely tied to local vacancy rates. In the SHRA benchmarking process, an industry standard of 3% of market rents was used to establish the vacancy loss benchmark. Performing below that level produces an incentive that ultimately becomes part of the operating surplus calculation. Vacancy losses on rent-geared-to-income units offer limited information to the board of directors as they are greatly affected by client group and the policies of the funders.
- **Bad Debts** are an indicator of the ability of the property management firm to effectively collect rents. Bad debts in the private sector are generally at or near the 2% mark. That standard was adopted in the SHRA benchmarking process to set the target for bad debts. It applies to both market and rent-geared-to-income tenancies. As in the case of vacancy losses, performing below that level produces an incentive that ultimately becomes part of the operating surplus calculation.
- **Operating Surpluses** are an indicator of the ability of the property management firm to maximize incentives that are built into certain funding models, such as the SHRA one. A non-profit housing provider that has market rent units has four ways to produce an operating surplus. One of these was previously mentioned – holding vacancy losses to less than the benchmark. The others are charging market rents higher than benchmark rents, overachieving the non-rental revenue benchmark and spending less than the approved operating budget, which includes bad debts. The first three incentives are important since they offer ways to produce surpluses without lowering service to your properties and clients. You should be cautious if a property management firm spends less than the approved operating budget, as it may be that important tasks such as preventative maintenance are simply not being done.
- **Accumulated Surpluses** are a strong indicator of the ability of the property management firm to consistently maximize incentives. Within the SHRA funding model, the advantage of having this unique situation is that investment income from operating reserves or accumulated surpluses flow into the surplus process. Achieving a healthy financial position helps you to maintain it over the long term.
- **Capital Reserves** can be an indicator of the ability of the property management firm where they can demonstrate that their practices have led to the strong financial position. It has been the experience on the most successful non-profit housing providers that implementing and maintaining a comprehensive preventative maintenance program has been a major factor in their holding onto their reserves. Doing so has allowed them to invest their reserves in ways that has strengthened their financial position. It has been shown that the absence of a program will lead to breakdowns of equipment and facilities and the premature spending of reserves.
- **Unit Turnovers** can be an indicator of performance when combined with vacancy loss information. The two criteria demonstrate the ability of the property management firm to retain residents and to manage the parallel processes of selecting a new tenant and getting the unit ready for them. This can be a difficult area to assess, as turnovers can vary with client group, market rent levels and location of buildings, so it is important to ask them how they handle these processes.
- **Length of Contracts** can be a strong indicator of the ability of the property management firms to satisfy the requirements of boards of directors of non-profit housing providers, particularly if the boards have been effective in their governance role. It is important that references from the property management firms include board members and that those references are checked. You should prepare a set of written questions and record the answers that you receive.

## Qualitative Criteria

**Managing Target Plans** is an important aspect of the business of non-profit housing providers. The SHRA funding model has a certain amount of risk associated with it for groups with market rent units. Keeping those rented with clients that are likely to pay their rents on time will go a long way towards maintaining a healthy financial position. The advantage of being in that position is the ability to maintain a high standard of service to your clients. Keeping the rent-geared-to-income units full may have less of a financial impact on the housing provider but it will affect the local taxpayer so it is still important to manage the process well.

**Carrying Out Preventative Maintenance** is a comprehensive manner can produce quantitative results with respect to capital reserves. It also has a significant impact on the quality of life for your tenants. The breakdown of critical services such as heat, hot water and various other components of the building can disrupt the enjoyment of their homes. Having a thorough program in place not only extends the useful life of your facilities, it reduces breakdowns and allows you to plan for replacements.

**Supervising Contractors** is another important aspect of what your property management firm does for you. If contracts are not administered properly, the quality of service to your tenants suffers and the non-profit doesn't get good value for the money that it is spending. One example of this is the non-profit that had a preventative maintenance contract for its rooftop air exchange units. They had not been inspected or serviced in the three years since they were bought. The property management firm didn't know that because they kept no records and did no follow-up of the contract that they had recommended to the non-profit board of directors.

**Compliance With Operating Agreements/Legislation** is a very important aspect of the performance of property management firms. One way to assess this aspect is to ask funders about the result of operational reviews that they have done on non-profit housing providers that they work with. Most service managers are willing to comment of the working relationship that they have with property management firms that operate within their area of responsibility.

**Value Added Services** from property management firms can have a significant impact of the cost/benefit analysis that you are undertaking when you evaluate the bidders.

- Some firms will include representation to the Landlord and Tenant Board and Small Claims Court at no additional cost to the non-profit. Some firms do not have this expertise so you will have to pay for a lawyer or paralegal to carry out these activities. This can be expensive for a family project.
- The ability of the property management firms to provide training and/or orientation to directors on the SHRA funding model and other aspects of the legislation, or on operating agreements that apply to your projects, can be an important factor in increasing the effectiveness of governance.
- Business planning is a useful tool to help organizations manage effectively the day-to-day operation of their housing portfolio. Boards of directors that have engaged in this process with their property manager have a clearer understanding of their roles and responsibilities and more control over those aspects of their relationship with the property management firm that they have chosen.

## Questions for Property Management Firms

To help make the evaluation process simpler for boards of directors, the following list of questions has been prepared, which should be in addition to asking for the above noted quantitative and qualitative records. They should assist the housing provider in their information gathering activities. The property management firms may have already provided some of this information in their submissions to the non-profit housing provider.

### Financial

What reports of a financial nature do you provide to boards of directors and how frequently?

If the board of directors were to request that you provide additional specific financial information from time to time, would you do so within the fee quoted?

The board of directors would like to know how you propose to maximize the incentives in the funding model/agreement under which our project is operated.

- a. What is your approach to dealing with market rents, for both in-situ tenants and for units turning over?
- b. How would you minimize vacancy loss?
- c. How would you propose to increase non-rental revenue?
- d. What is your approach to managing expenses, including bad debts?

Describe your rent collection process. In particular, how do you deal with arrears of rent? Do you carry out all of the process in-house or do you use a paralegal for Landlord and Tenant Board or Small Claims Court actions?

What is the extent of your year-end financial preparations? Do you do adjusting and closing entries? Do you prepare draft financial statements for the accountant to audit? Do you complete the Annual Information Return?

### Tenant Services

What type of filing system is used for tenancy records? Is it a manual system or computerized? If computerized, what software is used?

Do you obtain credit reports and landlord references on applicants?

Do you periodically conduct market rent surveys to determine what market rents are achievable?

How do you deal with tenant complaints?

Do you periodically conduct tenant surveys to measure their satisfaction with your performance? If yes, how frequently?

Do you encourage or facilitate tenant associations in projects that you manage?

Do you provide funding to tenant associations?

### Maintenance

Do you have a written work order system? What is your response time for work orders?

Do you keep maintenance records for each unit and common areas? How are these records kept? Can you provide us with a sample?

What is your procedure for dealing with maintenance emergencies?

How much time do you require to turn a unit over when a tenant moves out on the last day of the month? What procedures do you employ to expedite this?

What is the skill level of the typical employee performing maintenance/repairs in the properties that you manage? What is the skill level of the person overseeing them?

How would you administer maintenance contracts (ie. snow removal) to ensure that we get full value?

Do you have a comprehensive preventative maintenance program in place for properties that you manage? Do you have examples that you can share with us?

Do you conduct annual inspections of units and common areas? How do you document these activities?

Our building condition assessments are tendered every five years. How would you keep our capital expenditure plan current in years when it is not tendered?