




Property Management

Industry outlook for 2022 and beyond



The property management industry has two distinct markets, residential and commercial. Historically when one side is up, the other has trended down. But that was until now, as the demand for residential/commercial property management services should experience an 11.1% CAGR¹ for the next five years.

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Introduction

Despite the pandemic and workplace shutdowns, the property management industry has experienced consistent growth over the last five years. In addition, property management didn't suffer through the technology challenges faced by other industries because companies had already digitized much of the work before the pandemic hit.

While inflation continues to dominate the news, the decrease in home sales due to higher interest rates will fuel the demand for residential property management services. While at the same time, demand for commercial services will increase due to a record number of new businesses starting up or expanding each day.

Facilities management is already a hot-button topic for many property owners looking to protect their investments with preventive maintenance and emergency response plans. And Build to Rent (BTR) neighborhoods that provide a professionally managed single-family residence lifestyle could open a new customer market to the industry.



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The property management industry today

Aside from being assigned either a commercial or residential property manager tag based on the clients served, both sectors provide a similar array of services for their customers, such as:

- Marketing and advertising new vacancies
- Scheduling property tours
- Collecting rent & deposits
- Accounting – monthly, quarterly, and annual reports
- Negotiating leases
- Scheduling building maintenance and repairs
- Assisting tenants with insurance claims
- Annual safety inspections for elevators and public safety systems

The most significant difference involves negotiating leases. The tenant typically accepts the house or apartment as-is with a residential lease. However, many commercial leases can involve remodeling or tenant improvement work to meet the new tenant's specific requirements for layout or equipment needs. In these cases, the property manager can act as the tenant, owner, and contractor's liaison to shorten project timelines or mitigate the inconvenience to adjoining tenants.

To better understand how the commercial and residential property management revenue can increase simultaneously moving forward, let's look at the industry's revenue² in greater detail.

Property management industry revenue²

Category	Amount	2016-21 Growth	2022-27 Growth
Revenue	\$7.9 billion	1.5%	2.4%
Profit	\$2.2 billion	0.5%	1.5%
Businesses	32,785	3.6%	2.7%
Employment	33,896	0.7%	2.2%
Wages	\$2.1 billion	1.5%	2.2%

The Canadian property management market has been growing since 2009. As a result, industry revenue should increase at an annualized rate of 2.4% to \$9.7 billion over the next five years, despite a short-lived decrease of 2.7% in 2022 as the post-pandemic economy began to slow.

Industry profit should increase during the next five years, accounting for 30.5% of industry revenue in 2023 and beyond, up from 27.8% in 2021.

The number of new property management companies and their employees will continue growing, but at a slower rate than the previous five years. Many companies are adopting a wait-and-see approach before expanding services or their service area amid a sluggish economy, rising interest rates, and the fast-approaching midterm elections.

Property management industry revenue breakdown²

Expense	% of Revenue
Labor/wages	26.7%
Other costs	23.6%
Purchases	8.0%
Rent	3.1%
Utilities	2.8%
Depreciation	7.1%
Marketing	0.9%
Profit	27.8%

Property management is a service-based industry. It doesn't provide a physical product and the most significant expense is labor. Industry wages have increased as companies tried to retain key employees and staff.

Other business costs include insurance, credit checks, security, building maintenance, landscape and window cleaning services, and outside contractors for repairs or remodeling.

Property management market share²

Company	Revenue (\$M)	Market Share
Jones Lang LaSalle Inc	\$316.5	4.0%
FirstService Corp.	\$271.6	3.4%
Colliers International	\$255.6	3.2%
CBRE Group, Inc.	\$218.7	2.8%

The property management industry remains highly fragmented. Companies target specific geographic regions to shorten response times and keep operating costs down. Industry consolidation has remained low, as the top four companies generate only 13.4% of the total industry revenue.

Over 85% of industry revenue is generated by small, localized operations employing a handful of agents or reps. The customer base is almost evenly divided, with residential services making up 56% of the customer demand, leaving the commercial sector with 44% of the industry's revenue.

Property management services segmentation²

Services	Segmentation
Residential property management	59.5%
Nonresidential properties	34.8%
Other services	5.7%

Residential properties include individuals/families looking to rent a home or apartment. Nonresidential properties are the companies looking for office, commercial, or industrial property locations.

Facilities management is the fastest-growing sector of the property management industry, noted under "other services" in the above table. Facility management includes the maintenance and repair of hard services such as air conditioning, electrical systems, elevators, and building safety for the tenants and soft services such as cleaning, landscaping, security, and pest control for the property.

Property management industry outlook for the next five years

Property managers were not affected by the online customer shift created by the pandemic. Most property management companies had gone digital. Without a physical product, the industry didn't have to endure material shortages or logistics issues to service their clients.

The industry should benefit as outsourcing services expand, potentially lowering operating costs while increasing profits. In addition, facilities management, including emergency/disaster response, continues to gain the attention of property owners across the country, considering recent weather events.

Trends driving change and growth in property management

Even with a CAGR of 11.1%, property managers shouldn't be so quick to jump on the business-as-usual bandwagon. Economic factors beyond the company's control, such as inflation and higher interest rates, could still impact customer demand and profit margins in the short term.

Another trend impacting the industry is the cooling housing market. According to Global News³, new home sales declined for the fifth straight month in July 2022, despite home prices continuing to escalate. Compounding the problem are rising interest rates to slow inflation. After being squeezed out of the buyers' market, many potential homebuyers will need residential property management services instead.

Demand for commercial space has steadily risen over the last five years. ReviewMoose⁴ reports that the number of new businesses started in 2021 totaled

95,000 compared to just 44,700 in 2018. Many of these new companies grew out of pandemic side hustles, the WFH (Work From Home) revolution, and members of the Great Resignation movement.

As home purchases decline, Build To Rent (BTR) provides another option for those who prefer to live in a neighborhood rather than an apartment building. According to the National Association of Homebuilders⁵, several large homebuilders are already expanding into the BTR business model that combines the flexibility of a rental while living in a single-family home neighborhood that's professionally managed. These communities that originated in the 1980s are called Single Family Rentals (SFR) and Single Family Built to Rent (SFBR). The BTR model could become a serious contender to the traditional homebuying experience.

According to CanadaConstructionConnect⁶, the BTR movement is gaining the attention of investors and builders in Canada, as a solution for potential homebuyers pushed out of the market by rising interest rates. Additionally, BTR could also help relieve the current affordable housing shortage as immigration ramps up the new limit of 410,000 annually.

Property owners are increasingly requesting a combination of preventive/scheduled maintenance, reactive maintenance, and on-demand capability for disaster relief, emergency maintenance, and reactive maintenance for unexpected asset failures. Companies that meet these needs are in high demand thanks to weather events and natural disasters.

(3) globalnews.ca/news/9060552/canada-home-prices-july-2022/

(4) reviewmoose.ca/blog/startup-statistics/

(5) www.naahq.org/build-rent-it-next-big-thing-rental-housing

(6) canada.constructconnect.com/dcn/news/economic/2021/05/real-estate-experts-bullish-on-built-to-rent-market

How to build a loyal customer base

Create a customer-first mentality

With limited face-to-face interactions, it's important to step up your customer service game. Make time for your customers by maintaining transparency, communicating consistently, and answering questions.



Personalize your communication

A Segment survey found that 71 percent of consumers get frustrated by impersonal encounters by companies. Earn your customer loyalty by building and delivering an authentic, personalized experience.



Start a community

With social media abundant, Entrepreneur recommends creating an online community that encourages customer engagement and user-generated content, such as final product photos taken and shared by customers.



Respond to reviews and complaints

Whether it's a one-star rant or a five-star cheer, it's up to the business to respond positively and openly. Choosing to answer each review promptly and kindly can increase trust in your brand.



Honor promises

Whether there are supply issues, price quotes, or unforeseen mistakes, work to keep the line of communication open with customers. By honoring promises and operating with transparency, you're building trust.



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BETTER
BUSINESS***

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