




BBB® INDUSTRY REPORT | U.S.

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. That was until now, when demand for residential and commercial property management services should experience a 7.5% Compounding Annual Growth Rate (CAGR)¹ for the next five years.

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(1) www.mordorintelligence.com/industry-reports/us-property-management-market

Introduction

Despite the pandemic and workplace shutdowns, the property management industry has experienced consistent growth over the last five years. Property management companies didn't suffer 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 preventative 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

Their 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, it's time to look at the industry revenue² in greater detail.

Property management industry revenue²

Category	Amount	2017-22 Growth	2022-27 Growth
Revenue	\$109.4 billion	2.1%	1.2%
Profit	\$11 billion	5.0%	1.5%
Businesses	308,000	4.1%	2.7%
Employment	912,000	2.6%	1.7%
Wages	\$47.8 billion	4.0%	1.6%

The property management market in the United States has been growing since 2009. As a result, industry revenue should increase at an annualized rate of 1.2% to \$110.71 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 11.6% of industry revenue in 2023 and beyond, up from 8.8% in 2017.

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 mid-term elections.

(2) US INDUSTRY (NAICS) REPORT 53131 / REAL ESTATE AND RENTAL AND LEASING Property Management in the US Report by: Matt Pantalon, July 2022

Property management industry revenue breakdown²

Expense	% of Revenue
Labor/wages	43.7%
Other costs	36.0%
Purchases	2.6%
Rent	2.6%
Utilities	1.9%
Depreciation	1.7%
Marketing	1.3%
Profit	10.1%

Because property management is a service-based industry and doesn't provide a physical product, the most significant expense is labor. As a result, industry wages 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)	Profit (\$M)	Market Share
Prologis, Inc.	\$3,161.3	\$1,232	2.89%
Boston Properties	\$2,753.0	\$631.9	2.52%
Cushman & Wakefield	\$2,016.2	\$167.4	1.86%
CBRE Group, Inc.	\$672.1	\$31.2	0.62%
Newark Group, Inc.	\$672.1	\$55.8	0.62%
FPI Management, Inc.	\$521.0	\$11.5	0.48%
NAI Hoffman	\$119.5	\$11.5	0.11%

The property management industry remains highly fragmented, with companies targeting specific geographic regions to shorten response times and keep operating costs down. As a result, industry consolidation has remained low, as the top seven companies generate only 10% of the total industry revenue.

Most of the industry revenue, nearly 90%, 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	51.1%
Nonresidential properties	23.4%
Other services	19.3%
Real estate/brokerage services	6.2%

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, as represented by the "other services" category in the table above. 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.

(2) US INDUSTRY (NAICS) REPORT 53131 / REAL ESTATE AND RENTAL AND LEASING Property Management in the US Report by: Matt Pantalon, July 2022

Property management industry outlook for the next five years

Unlike many other industries, property managers weren't affected by the online customer shift created by the pandemic, as most property management work had gone digital. And 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, in light of recent weather events.

Trends driving change and growth in property management

Even with a CAGR of 7.5%, 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 CNN³, new home sales declined for the sixth straight month in July 2022, despite home prices continuing to escalate. Compounding the problem are rising interest rates intended to slow inflation. After being squeezed out of the buyers' market, many of those looking to move will need residential property management services instead.

Demand for commercial space has steadily risen over the last five years. The Commerce Institute⁴ reports that the number of new businesses started

in 2019 totaled 3.5 million, or nearly 100,000 per day, compared to 5.4 million in 2021, a staggering increase of 53%. 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 Home Builders⁵, 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). With the national homeownership rate below 66% and expected to continue to decline, the BTR model could become a serious contender to the traditional homebuying experience.

The demand for facilities management services is the fastest-growing segment of the property management industry², especially among government and major company tenants. Besides traditional hard and soft services, property owners are requesting a combination of preventive and scheduled maintenance, reactive maintenance, and on-demand capability for disaster relief, emergency maintenance, and reactive maintenance for unexpected asset failures. Companies that can meet those demands are already in high demand, thanks to recent weather events and natural disasters.

(3) www.cnn.com/2022/08/18/homes/existing-home-sales-prices-july-2022

(4) www.commerceinstitute.com/new-businesses-started-every-year/

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

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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- 4 Accreditation increases my **visibility** as a reputable business
- 5 Accreditation shows **we care** about our customers



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