

The article is sponsored by the SOCIETY OF INDUSTRIAL AND OFFICE REALTORS® Educational Foundation.

Dedicated to Education and Research for the Commercial Real Estate Industry

The SIOR Educational Foundation's mission is to promote, sponsor, and support education and research initiatives that advance professionalism in the commercial real estate industry. Established in 1962 to publish the industry's first graduate-level textbook on industrial real estate, SIOREF has maintained its dedication to expanding understanding of the commercial real estate industry.

Top Notch Property Management



Steve Bergsman is a financial journalist, whose articles appear in such magazines as Barron's, Wall Street Journal Sunday, National Real Estate Investor, Urban Land, and Mortgage Banker. He is based in Mesa, Arizona.

By Steve Bergsman

Over the past two decades, the trend line for local real estate service companies, whether independent or affiliated, has been to evolve into complex organizations operating in property sales and leasing, investment, development, and more often than not, property management.

Today, the latter discipline is the toughest in which to make a dollar, but advocates say if the work is done conscientiously, there are numerous synergies with the brokerage side of the business, and that's what makes property management an important tool for service providers.

Steady Income Stream



"Property management is a very difficult business to make profitable," notes Randy D. Podolsky, SIOR,

President and Managing Principal of Podolsky Northstar CORFAC International, Riverwoods, Illinois.

That doesn't mean the service should be abandoned. There are a couple of ways to view the importance of property management. Simplistically, it's a counter-balancing factor in regard to corporate income. In other words, if

brokerage income is sometimes volatile, fees from property management are always steady.

"It is synergistic to the brokerage, and if you put the two together, property management makes sense," says Podolsky. "We can make money in property management. We are not going to retire on it, but it is an important aspect of what we do overall for our clients."

"It is a nice fee business," says



Mark Taggart, CPM, SIOR, President of Mark F. Taggart Co. AMO, in Columbus, Ohio.

"Fee income will not make you rich, but it will keep the lights on, the copiers running, and the secretary up front."

A second reason why real estate service companies maintain a property management division is that it offers inherent benefits in regard to the brokerage work.

Two-Way Synergies

Property management becomes an almost necessary service for the simple reason that clients ask for it.

"It's been a blessing for us because so many of the clients we deal with don't want to



have a brokerage firm and a different management firm," notes **Robert G. Thornburgh,**

CCIM, SIOR, Executive Vice President of Heger Realty Corp. in Los Angeles. "They love the fact that we can bulk all of our services together."

This is the one-stop shop methodology.

"Institutional clients need high-quality leasing services as well as asset/property management services. They need someone who cares for the property just like the owner would. High-quality leasing services go together with property management like hand



and glove," declares **J. Rex Thomas, CPM, SIOR,** President of Grubb & Ellis/Thomas Linderman

Graham in Raleigh, North Carolina. "Brokerage services produce property management business and vice versa."

Synergies work the opposite way as well. "If you are working

closely with the property manager in your company, certainly you will hear of tenants who need more space," says **J.**



Allan Riorda, SIOR, with NAI KLN Commercial Real Estate Services in Baltimore,

Maryland. "It adds another set of ears."

Allan concludes, "If you work with specific property managers, you know what their hot buttons are, what specific processes they require for tenancy, or if they are re-tenanting space. You also know which property owners are more conservative when it comes to spending money on improvements."

But not everyone agrees that the brokerage business and the property management business belong together in one company.

William Hugron, CCIM, CIPS,



CPM, CSM, RPA, SIOR, Senior Vice President of Ashwill Associates Commercial Real Estate in Newport

Beach, California, is now a real estate broker, but for 10 years he was a property manager. He firmly believes the demands of large institutional clients are best served by companies operating in specific disciplines, and that these same institutional clients will not do one-stop shopping. “The big institutional clients such as real estate investment trusts want professional firms to do nothing but property management or nothing but brokering real estate deals,” he says. “As an institutional player, you want a specialist. The broker will not be the property manager and the property manager will not be your broker.”

Each specialty demands industry-specific skills or knowledge, William explains. For example, a property manager should know all the government regulations regarding the American with Disabilities Act and how the Act affects zoning, parking, transportation lines, etc. A broker wouldn't need to know that. Also, knowledge of lighting, energy conservation, and air conditioning would be helpful to a property manager but not to a broker.

“Property management is not a lucrative profession,” says William. “It's costly, the margins

are slim, and there is a lot of competition. But the previous modus operandi was for brokerage firms to do property management in order to control the real estate [and] do the leasing and the sale. That was one of the main reasons why brokerage and property management aligned.”

One of the weaknesses in that strategy was that by using one firm, you weren't getting a true expert in property management. “The first thing I would ask when dealing with a new property management firm,” says William, “is what designations does the manager have and what experience level.”

Top-Notch Property Management

That is actually a good place to start—the people doing the property management job.

“We look for people who have business experience, who have a college degree, who are intelligent, analytical, detail oriented, organized, and have people skills,” says Rex. “You have to be dependable, be able to create results, pay attention to detail.”

Successful property management means not only being hands-on, but also treating each property as if you were the owner.

Julio O. Purcell, SIOR, Mackenzie Commercial/Cushman & Wakefield



Alliance in Baltimore, Maryland, calls this approach the “Disney World” attitude,

i.e., when you walk through Disney World you never see any trash because a multitude of

porters have been hired to constantly and consistently sweep up litter.

Julio is another broker who got his start in property management, so he knows both sides of the business intimately.

Not only is strong customer service important, Julio says, but so is attention to detail, especially when you walk through a property. “You really need to focus on the little things, the broken or stained ceiling tile,” he says, “[and ensuring] that the vacant offices are suitable for show, landscaping is up to par, maintenance people are doing their jobs, and trash is picked up.”

Most tenants care most about two things, whether they are cold or hot and whether the janitorial service cleaned the property, adds **Scott K. Perkins, BCCR,**



CCIM, CPM, MCR, SIOR, SLCR, Managing Director of Corporate Services for NAI James E.

Hanson in Hackensack, New Jersey. “Creature comforts drive the property management business.”

Start Right and Stay in Touch

It is often said there are no secrets to success in the property management business, and it is just a matter of doing the same old things better. There are, however, a couple of points to keep in mind. First, when starting a relationship with a tenant, make a good first impression and stay in touch.

“When the lease is signed, you immediately pursue whatever tenant improvements or requirements the landlord has put in the lease,” says Mark Taggart. “Get that done and get it done on time with as little problem as possible.”

Stuart L. Rosenberg, CCIM, CRA, SIOR,



President of ICI Commercial in Chicago, Illinois, would concur.

When his company takes over the property management of existing buildings, one of the first things to be done is to visit the existing tenants, find out what they like or dislike, and allay fears that something might be wrong with the property.

Second, after that first good impression has been made, stay in contact with the tenant. “Communication solves a lot of problems with tenants,” Stuart adds.

Randy Podolsky also reports his firm “is big on tenant communication” and that would include a third hint: responsiveness. The property manager needs to listen and respond.

Julio Purcell tells of the time in the mid-1990s when, after a series of extremely cold days, several sprinkler pipes burst in an office building he was managing. “I remember walking into this law office and thinking, “This is a disaster.” But after regrouping and calling vendors, he promised the law

firm they would be operational the next day. And they were.”

It takes more than responsiveness to really excel as a property manager. It almost requires being prescient. Or, as others might say, being proactive.

“You have to stay ahead of the issues before they become problems,” says Thornburgh. Preventive maintenance keeps things from breaking and breaking down.

John R. Steinbauer, SIOR, President of Steinbauer Associates Inc. in Miami, works properties in Florida’s hurricane alley, so at the start of hurricane



season he makes sure his property managers circulate among tenants, asking them all to prepare for the

season, giving out a list of ways to prepare, and if a storm does appear to be headed toward South Florida, calling tenants to remind them to check that nothing is outside that can be blown into the buildings. This would include bringing dumpsters inside.

“You have to always be looking ahead for problems and solve them before they happen,” says John.

(continued on page 60)

(continued from page 58)

Needed Now: More Financial Savvy

Two particular elements define being a property manager. In some ways, the first, taking care of the tenant is the most routine. The second, working with and satisfying the building owners, can be more demanding. That's because building owners demand more services from the property managers, including in-depth reporting.

Perhaps at one time, being a people-person was enough to do a good job as a property manager, but now you not only have to be personable and responsible—you also must be truly adept at basic financial reporting and able to work with increasingly complex financial software.

While the key element in property management remains tenant relations, the manager also has to be a strong administrator because you have to report to absentee owners, observes **Emmett Thiessen**, SIOR, a Senior Vice President with U.S. Equities Realty in Rosemont, Illinois.

"Accounting, budgeting, and cost containment are critically important," he says.

The trend line, says Emmett, is for expanded and detailed reporting on a property. "It seems like the monthly reports have moved from a half-pound package to five-pound package over the last 10 years."

"The exceptional property manager is someone who is

going to see there are better ways to make the building attractive to tenants while at the same time finding unique ways of improving the performance of a building and achieving cost savings in operating expenses."

Edward P. "Ned" O'Connor Jr., SIOR, Managing Partner



with Waterford Property Co., LLC, Overland Park, Kansas, introduced the Six Sigma concept,

which means identifying ways to achieve a goal with fewer steps and less expense. In other words, how can it be done better at a lower cost?

He gives this example: Every property manager with snow removal needs in Kansas City operates on the assumption this task will have to be done five times a year. "We did an analysis of average snow falls and determined there are only three snowfalls a year that need snow removal," he explains. "We bid our snowfall at three times a year and reduced costs by 25 percent."

A good property manager needs good accounting skills these days. Allan Riorda explains, "The institutional work we do requires a degree of sophistication in regard to utilizing the owner's reporting software for accounting, monthly reporting, budgeting, and forecasting."

Institutional investors require certain types of standardized reporting, says Stuart Rosenberg, "We spend a little extra time to simplify for the clients, because they don't want to go through

22 pages of material. They can see a couple of spread sheets and know where the building stands, where it has been, and where it is going. Even though it costs us more money, we do the custom reporting so owners can see within 60 seconds how the building is doing."

After increasing the amount of space under management,



Robert H. "Bob" Nuttall Jr., SIOR, a Principal at Anchor Commercial Real Estate Services in

Charleston, South Carolina, devised a better way to handle property management duties: He split the job. "The person with the steady personality handles the financial side, reporting and dealing with owners," he says, "while the manager with the outgoing personality is the front person with the tenants."

Bob, a veteran of the industry, was asked what has been the biggest change in the property management business over the past 10 years. His response: immediacy.

"With the advent of technology," he says, "everyone wants things to be done immediately. You have to have the information ready when the owner calls, not five minutes later."

When asked the same question, Emmett answered, "The reporting requirements and budgetary details are extensive. As a result, the type of person required to do property management can be more of a number-cruncher than someone with people skills."