Despite recent improvements in the office market, property owners must remain vigilant and proactive

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Recent improvements in the office market have some characterizing the current environment as an early sign of recovery. However, property owners must remain vigilant and continue to actively manage their assets through this period. A proactive management stance can quickly shore up operations and help maximize property value. These are block and tackle good pieces of advice for any environment, but especially in difficult times.

Understand the Market

A lot has changed in the past two years. Contact a sales firm and ask for a free evaluation of the property. This should include not only a financial assessment of the asset, but also an overview of the broader market, your specific location, and what steps can be taken to make the property more competitive and maximize value. This is a good, low commitment way to educate yourself, begin the process of developing a relationship that may be useful someday and is an outcome-oriented approach relatively free from conflicts of interest. Ask the same of your property manager.

Understand Your Tenants

The current crisis has affected everyone. Don't let a tenant surprise you with a sudden default. Make sure you have a current understanding of their leases and, for larger tenants, their underlying business. Try and assess - directly or indirectly - their financial health. While there may be little you can do, a proactive stance will leave you better prepared if one or more appears to have default risk.

Time Your Improvements

Addressing current or deferred maintenance issues may be relatively cheaper now as trades reduce their bids and some underlying materials costs have fallen. Small jobs can be supervised in-house. For large ones, a good construction manager/project manager can pay for themselves by properly assessing and managing the scope of work and creating a competitive bid process.

Manage Occupancy

The impact existing or impending vacancy has on current valuations - whether in a financing or purchase scenario - is dramatic. Underwriting and acquisitions are performed on in-place NOI. Vacancies hurt disproportionately: 1) future rents are likely lower than historical rents and 2) your fixed costs remain. It is a fairly simple task to pencil out the valuation impact that vacancies create - and, thus, the cost benefit of looming tenant negotiations.

Negotiate Contracts

Existing contracts should be re-reviewed. What are the cost drivers there? Assess if there are grounds for them to be renegotiated in renewal. Many services can likely be procured at reduced cost or at more advantageous terms than in recent years. Pay particular attention to your property management contract. When was the last time you actually reviewed the contract? Is the manager proactively operating the property in a value-maximizing way? Are all services being performed as stipulated or has the relationship gotten 'comfortable'?

Review Operating Results

When was the last time you prepared a budget or pro-forma? Set aside the time to review your cost structure, and get a firm understanding of your actual cost drivers. What specifically can you do to impact each driver? Which are fixed and which are variable? Is there an 80/20 rule or other central tendency that emerges? Benchmark yourself with IREM, BOMA, and/or other data sources. Pick five drivers and try to lower them. It can be a valuable exercise.

Review Your Employees

Are you getting the most out of your employees and does it make sense for them to take on additional responsibilities, receive additional training, or begin a more formal and thorough performance review process? This is one of the biggest 'silent' leaks. People are often capable of far more than they otherwise produce if they are properly motivated and compensated. If fewer people can accomplish more, it's a win-win. In addition, it may be advantageous to outsource tasks that are currently performed in-house.

Plan Ahead for
Any Liquidity Event

The underwriting pendulum has swung to the other side and owners must respond to rigorous due diligence requests which are then thoroughly reviewed. It will be a non-trivial event to properly prepare for that review and will require increased lead time for document gathering and preparation. During this process, be vigilant for any long lead-time issues and begin addressing them immediately.

Smart management can quickly enhance value while reducing supervisory time and operating expenses.

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