



## **Third-party property managers offer a strong value proposition**

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Property management (PM) across all markets (i.e., retail, office, industrial and residential) represents a \$69 billion industry. There are over 206,000 PM firms in the U.S. today. With an estimated 3% annual growth rate and based on forecasts, things are looking up for PM firms. This is especially true for third-party PM firms who offer real estate owners an indisputably strong value proposition.

### **Alleviating the Headaches**

Whether a retail, office, industrial or residential building, there are headaches associated with ownership. There are challenges associated with tenants who fail to pay their rents on time, hiring and managing contractors, dealing with local municipalities, keeping a property fully-tenanted or marketing it for sale, and maintaining sound financial operations. For owners who do not have the experience, qualified staff, relationships, or the time or desire required to do the job effectively, an experienced, third-party PM firm can be a real asset, freeing up the owner from all of these tasks and the associated headaches.

### **The Value Proposition**

Of course, there are many more tangible benefits presented in the PM firm's value proposition, including:

- \* Improved financial management including property budgets, efficient management of accounts receivables and payables, rent collection and cash flow;
- \* Property income optimization;
- \* Lower total cost of ownership;
- \* Properly maintained property;
- \* Real estate asset protection and risk reduction;
- \* Efficient problem resolution;
- \* Enhanced owner/tenant relations;
- \* Positive reputation as a responsible owner; and
- \* Better positioning with lending institutions.

All of these benefits add up to a better, more profitable ownership experience and allow an owner to pursue other business or recreational interests. There is a caveat though. Not all PM firms deliver a high value proposition. Some are clearly more qualified and some are simply better fits for certain owners. Therefore, it is important to perform the necessary due diligence when selecting a PM firm.

### **One Size Does Not Fit All**

First, let's dispel the common misconceptions. Bigger is not always better when it comes to property management. In fact, the opposite is often true. A smaller PM firm provides a more personalized, higher level experience. Their owners, many of whom also have their own real estate portfolios, are

hands-on and can relate to a property owner's goals and needs. The small PM firm's staff is locally-based, accessible and very knowledgeable about the market (i.e., competitive properties, rents, sale prices, lending rates, etc.). They have close working relationships with local builders, sub-contractors, officials and other brokers. They are extremely accountable and responsive to the owners and tenants in properties they manage.

Within the smaller PM firm, staff members tend to be long-term, experienced, senior level professionals. They've worked together as a team for many years and as a result can be extremely responsive and efficient in addressing needs. Tenant concerns are managed, communicated and resolved quickly. There's high accountability.

Because of their size, smaller PM firm also can offer more flexible contract terms in its management agreements with its owner clients, whether that encompasses less restrictive cancellation clauses or fee structures.

### Expectations and Deliverables

Assuming that the PM firm can accommodate an owner's needs, applies best practices, can provide references and has the proper credentials (e.g., certified shopping manager (CSM) credential awarded by the International Council of Shopping Centers for retail property managers), knowing what to expect from the relationship will facilitate a higher ROI. A full-service PM firm should be expected to provide the following services:

- \* Financial management - property budget and financial plan development; billing and collection of rents; determination of lease terms that meet the owner's financial goals while helping to attract and retain high quality tenants; development of asset protection and optimization strategies encompassing cost-effective property maintenance, insurance, taxes and contractor/vendor contracts; deployment of a sound accounting and property management system; adherence to tight internal financial controls; detailed financial reporting; and performance of its role as a responsible fiduciary on behalf of the owner, serving with transparency and adhering to strict policies such as not accepting commissions, fees, rebates, etc. without full disclosure.

- \* Property maintenance and management - reflecting the owner's short- and long-term goals and encompassing a detailed property budget (i.e., itemized expense projects covering routine maintenance, preventive maintenance and capital improvements), policy relating to contractors' insurance requirements, collection of certificates of insurance and other documentation, emergency preparedness/disaster recovery plan for contingencies ranging from natural and manmade disasters to security or data breaches, environmental hazards, safety incidences, etc., and a commitment to protecting and maintaining a safe property with adoption of appropriate measures (e.g., surveillance cameras, sufficient parking lot lighting, security guards, as appropriate, etc.)

- \* Property marketing/brokerage services - customized marketing plan which identifies target tenants and/or buyers, presents creative marketing strategies for attracting prospective tenants/buyers (i.e., advertising, online marketing, social media, broker campaign, etc.) and a well-developed leasing plan conveying the attributes of a property, unit rental rates or sales prices, square footage/space options, competitive property data, market conditions, as well as an ongoing strategy to position the property favorably within its community and with outside centers of influence

By understanding the full scope of services that should be provided and choosing a PM firm wisely, property owners can derive considerable value from this important relationship.

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