Strategies for turning around COVID-distressed properties - by Carmelo Milio

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Due to the ongoing pandemic, many landlords are faced with an increasing number of distressed properties. The dramatic increase in unemployment and reduction in income for so many has led to a mass exodus out of Manhattan, an increase in the number of empty rental units, as well as a dramatic rise in the number of people unable to pay rent. Thousands of individuals are suffering financially, and landlords and property owners are also hurting as a result.

The economic recovery law passed in March 2020 at the beginning of the crisis prevented many foreclosures by allowing borrowers with government-backed mortgages to postpone, or reduce, payments for up to 12 months if they suffered COVID-related financial hardship. New York residents have additional protection from residential evictions under the Tenant Safe Harbor Act. But when these forbearance provisions expire, a wave of foreclosures is expected to follow. In fact, the National Low Income Housing Coalition estimates as many as 19 million people in 6.7 million households are at risk of being evicted when the calendar flips to 2021.

Managing distressed properties can be among the greatest challenges that real estate managers will encounter. The positive news is that in many cases, the cause of distress is temporary and can be remedied. Throughout our 40-year history, we have experienced the full gamut of what the New York real estate market has to offer—but nothing compares to the damage COVID-19 has wreaked on our friends, families, businesses and the NY real estate industry. The 2020 pandemic has forced everyone to revert to a more hands-on approach to management.

During this difficult year, Trion’s key performance indicators demonstrated better than the industry averages in collections, leasing, and violations:

• 97% collection of residential income

• 93% November collection of residential/commercial portfolio

• 98% current occupancy rate

• 0.27% violations per unit

At Trion, we suggest landlords use a comprehensive approach:

The management team should be given the power of full coordination of all details of management, from communication to financial oversight and everything in between to fully understand the scope of the issues being faced by the property.

Proactive, transparent, open, and full communication both with ownership and with tenants is a must to ensure there are no conflicting messages and everyone has the same information.

Identifying and communicating direct sources of outside support for tenants so that they can begin recognizing ways to meet their financial obligations.

Combining all properties owned by one landlord under one team to benefit from bulk-purchasing vendor discounts and reduce expenses.

Implementation of the latest management technology to ensure weekly reports to stay on top of progress and stay ahead of the problem.

Identifying and addressing all code violations immediately to reduce financial exposure; often these are filed for simple problems that can be fixed fairly quickly.

Our coordinated approach is directed by our staff—from the collections and leasing teams to the managers and maintenance staff. We apply these same strategies on behalf of landlords with a goal of managing properties more efficiently but also to making their property a better place to live for owners and residents.

Communicating with tenants is critical and we recommend a proactive approach for buildings suffering from collections. In addition to collecting rent, the management firm should act as a direct resource for tenants, pointing them to the right aid agencies to get them help during these tough times. When tenants know what is going on, and that management is receptive to their issues, it reduces stress all the way around. Trion also has an in-house leasing team that pays close attention to tenant retention and is extremely aggressive in getting units rented quickly.

It is equally important to continue to maximize the value of the property while minimizing operating and maintenance costs. All buildings in the Trion portfolio benefit from a network of supers and managers who have many years of experience in keeping costs down. Clients also benefit from Trion bulk-purchasing and vendor discounts on supplies, oil, and insurance.

Trion possesses the latest management technology and sends weekly reports to owners with updates of all outstanding projects and action list items. Keeping transparent books and records and developing a detailed marketing plan for each property helps them run better, rent out faster and aids in the collection process.

Trion's management team also has extensive experience removing violations. For example, between September and December of 2019, a 60,000 s/f, five story walk-up apartment building with 57 apartments and 10 stores in Manhattan had accumulated 100 HPD violations. By February 1st, 2020, HPD enrolled the building in the Alternative Enforcement Program (AEP). The Trion management team jumped into action and on its first inspection in March, HPD removed 47 violations; 23 additional violations were removed on the second inspection. By the third inspection, HPD removed eight more, successfully removing the building from the AEP program. The building has now stabilized and fits well in Trion's portfolio requirement of less than one violation per unit.

While the market will remain challenging for some time, there are ways to reduce some of the stressors that landlords and property owners are facing as we transition into 2021. The key is to have a strategic and comprehensive plan in place as quickly as possible. Each property needs to be assessed so a viable strategy can be planned and implemented. The sooner property owners act, the better and quicker your odds of recovery.

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