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Outsourcing property management helping to cut costs

BY MARILYN BOWDEN

Institutions that own commercial real estate prefer to outsource property management, local brokers say, and are expecting more help from their management companies in trimming expenses.

"Institutional investors are outsourcing a variety of services," said Andi Lopez, vice president of management services at Transwestern's local office. "This has created a different role for today's property manager than what was the norm several years ago.

"We're now in charge of multimillion-dollar assets and get more involved in tenant relations, which are key in an economic downturn."

In general, she said, that means adding value as well as tenant retention and growth.

"It's really back to basics," Ms. Lopez said - "hard work, values, commitment, retaining talent, being creative and being involved throughout the entire process to help clients manage their cash flow and find efficiencies without sacrificing service."

"There's a benefit because they don't have to carry those salaries on their books," said Scott Strickland, leasing director at Jones Lang LaSalle. "Everybody is trying to cut costs. We are always trying to run a building as efficiently as we can for the benefit of tenants as well as ownership, but in these times we really have to watch every expense and do only what is necessary."

John Scott, director of Cushman & Wakefield's Client Solutions practice, said in the past three years the firm's prop-



Photo by Maxine Usdan

There has been a 'movement towards outsourcing management' for real estate-owned, or REOs, for banks, says Michael Manno, of Steelbridge Real Estate Services, a division of Steelbridge Group.

erty management portfolio has grown from 4 million to 10 million square feet.

"Institutional owners have been a big part of this growth," he said. "It's driven by reductions in their corporate staff and expenses, and a desire for support in research and trends. They are requiring a lot more data before they make decisions."

Whereas once owners would ask for a quarterly or at best monthly report, Mr. Scott said, "now they're calling week to week, trying to get a handle on the market. They're also moving towards an energy-efficient model, because they know that will reduce the bottom line for tenants and will help close the gap between operating expenses and lease rates."

Mr. Scott said the outsourcing of building management runs through every sector of com-

mercial real estate, from retail to industrial.

"In a nutshell," said Brett Harris, president and COO of Adler Group, "in a difficult economy, companies are looking at all their divisions and figuring out how to get back to their core business, which is not real estate."

They're also looking for economies of scale, he said - something that a management company with a large portfolio

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Scott Strickland

can provide. Part of that efficiency comes from a greater depth of resources - "people who have been in the market 20 or 40 years and can make the right decisions in a difficult time."

Another factor, said Mr. Harris, is that over the past two or three years, many institutions have purchased assets they wouldn't typically consider.

"Because the market for acquisitions has been so tight," he said, "they've been forced to purchase less desirable assets that are more labor-intensive. For example, it might be they bought a portfolio of assets, of which one or two are extremely time-intensive. They are looking at those properties and saying, 'this is not the type of property we should continue to manage.'"

Michael Manno, president of

Steelbridge Real Estate Services, a division of Steelbridge Group, said he learned about the inefficiencies of inhouse management earlier in his career, when he was employed by overseas owners with properties in Florida.

"We ended up opening a private management company for them," he said, "and helped them liquidate their properties as the market changed."

Some institutional owners hand oversight of their properties over to their managers, Mr. Manno said, but "in the post-Madoff environment, they want to move closer to their managers to know who it is they are dealing with.

"I prefer strong ownership; I want them to know of any issue that is coming up as soon as possible."

Although new ownership may put the building's management assignment up for bid, Mr. Strickland said, that very often doesn't entail a change in personnel. "If the building is well-run," he said, "the new owners may dictate that the existing management and engineering staff stay in place."

An emerging market, Mr. Manno said, is the management of real estate-owned, or REOs, for banks. "We have seen a movement towards outsourcing management for these properties," he said.

"Banks that used to have maybe five foreclosures to manage now have many times that," Mr. Harris said. "They're realizing they aren't going to sell them all in the short run, and they don't want to build an in-house management company. So that is another market where we see opportunity."