

# Perfect Fits

## Trust, Communication Make Client-Manager Relationships Click

By Paul Rosta

A great deal rides on the relationships between property managers and their clients these days. Even the most sophisticated owners and their asset managers are stretched thinner than ever. As a result, they count on property managers to provide a wide range of services, from keeping their properties competitive and profitable to presenting the first point of contact with tenants and the public to advising on long-term strategy.

Those responsibilities would provide a full plate for service providers even in the best of times, but the still-uncertain economic picture adds an extra level of complexity to the relationship. As the commercial real estate market continues to be transitional at best, service providers and their clients alike feel the pressure to maximize revenue and control costs. How clients and their service providers interact will continue to be a central issue in the next several years. As the pace of transactions accelerates for core assets and distressed properties alike, new owners—and their service providers—will face the challenge of establishing or renewing their partnerships.

And the trend toward outsourcing property management services will also demand productive relationships. In one of the highest-profile recent moves of its kind, RREEF Real Estate closed down its in-house property management service group last year. The commercial real estate arm of Deutsche Bank assigned CB Richard Ellis Inc. to handle a 76 million-square-foot portfolio of office and industrial properties. Transwestern took on the task of managing a 47 million-square-foot portfolio of industrial and office properties.

Property managers and owners emphasize different factors that make partnerships work, yet they all agree that a successful partnership requires good will, planning and constant attention on both sides. “There is no need for the building owner to play the role of proud know-it-all,” said David Bowles, CEO of developer and contractor Environmental Services of Charlotte Inc. “Let the professionals do their job. Be clear about each other’s strengths and limitations and define your scope of services from there. Some owners may have technical expertise from which the property managers may benefit.”

Yet veteran owners and property managers also note that no single approach fits the tremendous range of commercial real estate investors. Institutional owners usually handle accounting services internally, noted Beth Machen, president of Machen Advisory Group, a property management consultant and Bowles’ partner on a Charlotte redevelopment that is slated for Platinum-level LEED certification by the U.S. Green Building Council. Corporate clients, Machen added, often request a fuller

range of financial service: full accounting, as well as budgeting, monthly reporting, tenant relation services, vendor negotiations and monthly comparisons of actual performance versus budgeting.

Particularly for more sophisticated owners, maintaining the most productive possible relationship with the service provider requires a balancing act. In the end, property managers and clients agree, even the most knowledgeable owner must trust the service provider to do its job. For the owner, the balance is to clearly convey expectations while still stopping short of dictating the fine points of execution. “If a company is going to hire a service provider and dictate (every decision), they’re probably overpaying for the service,” argued Randy Buddemeyer, who recently joined Grubb & Ellis Co. as executive managing director in charge of Florida and the Carolinas. Clients may gain a feeling of control by specifying details—for example, naming vendors for a property in a market. But clients also risk losing some of the benefits of the property manager’s local expertise.

In some respects, the most critical time in the relationship is before the property management firm goes to work for the owner. Before the contract is signed, the owner should take the time to size up the person that each candidate wants to assign to the property. That helps to evaluate the skills and experience of the people that the service provider intends to assign to the job. Whether the service provider’s footprint is global or local, a best-in-class property manager has the flexibility to serve clients with a wide variety of procedures, strategies and expectations.

“As long as you tell them what you want, what you want it to look like and when you want it, they’re happy to comply,” said Jim Connor, executive vice president for Duke Realty Corp., who oversees the firm’s Midwestern operations. Duke has an extensive in-house team that manages much of the Indianapolis-based REIT’s 135 million-square-foot portfolio of office, industrial and retail properties. However, the company also selectively retains outside property managers in locations where it is more efficient and effective to do so, Connor explained.

### Clear as Crystal

Communication is the lifeblood of a productive client-consultant relationship, and by most accounts the level of communication required to make such partnerships flourish has risen many levels in recent years. The reasons go far beyond the new methods of connection made possible by technological advances, say veteran property managers. “We are seeing more communication than we had in the past,” explained Michael

Ogden, managing senior vice president & principal for management services for Transwestern. “It all goes back to asset managers and owners being pulled in so many directions.” Quarterly meetings with asset managers and monthly reports are now an industry standard.

Like other elements of a successful partnership, establishing a frank yet cooperative dialogue starts even before the contract is signed. The owner should be explicit from the beginning about expectations for how much information is expected from the property management consultant and how often it should be delivered. That requires the owner to state preferences for all the options available today for maintaining a sufficient flow of information: face-to-face meetings, conference calls, written reports and informal communication.

“If you tell (the service provider’s team) you want monthly reports by the 10th of the following month but you really need weekly updates, you have to tell them that you need weekly updates,” Connor said. Through constant open dialogue, as well as some trial and error, how much information the client wants and needs will soon emerge. Even hands-on owners may come to feel that their service providers are inundating them with excessive detail—too much of a good thing, say some veteran property managers.

Clear signals from the owner’s side are also indispensable for property managers to fulfill their potential as strategic advisers to their clients. “It’s absolutely imperative for a service provider to understand the client’s investment objectives,” said Buddemeyer. How long a hold the owner plans, the property’s position in the marketplace, redevelopment opportunities and other considerations must guide the property manager’s choices.

Earlier in his career, while overseeing property services in metropolitan Washington, D.C., for CB Richard Ellis Inc., Buddemeyer managed a portfolio including

several parking structures. Maintaining the structures included decisions about mitigating the effect of road salts used in snow removal and subsequently tracked in by vehicles. When those salts seep through cracks in the deck, they hasten the concrete’s disintegration. The longer-term solution to the problem is applying a material to the concrete deck surface that protects against corrosion for as long as 10 years.

The owner’s investment strategy ultimately influenced the choice on that nuts-and-bolts issue. For an owner planning to hold on to a structure for 15 years or more, that solution would have made sense. But the client’s plan was to hold the structures for five to seven years. The preferred solution was to apply a protective sealant that slows down the growth of cracks for two to four years. For a sizeable parking structure in a major market, that method can cost several hundred thousand dollars every few years and also requires regular repairs. The longer-term fix provides more bang for the buck, but the upfront investment is several times as much as the short-term fix. So for an owner eyeing a mid-term rather than a long-term hold, the lower-cost solution makes more sense, Buddemeyer explained.

Even in the most productive client-service provider relationships, sources of friction can arise. For service providers, a pivotal challenge is telling clients things they may not want to hear. A particular hot button at the moment is budgeting capital improvements. Owners who have spent the recession watching every dollar may well reject the property manager’s suggestions for investing money in upgrades. But even that possibility should not deter the property manager. “I think if you get to the point where you don’t want to take an idea to an owner because you might get shot down, you lose some of your effectiveness as a prop-

erty manager,” said Don Wilkerson, president of Reno, Nev.-based Gaston & Wilkerson Management Group.

### More than Spin

A still-more-sensitive communication issue is determining how to convey unwelcome news to the owner. Most sophisticated owners and their asset managers are presumably experienced enough to avoid blaming the messenger. A physical problem with the building, a tenant in financial trouble, prospective business won by a competitor—relating these issues is an unpleasant but necessary task. Communicating problems effectively goes far beyond spin; it speaks to the way problems are actually handled. How the message is passed along can make all the



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difference. “The criticism that I’ve heard more than anything else from clients is having a problem related to them without any solution,” Buddemeyer said.

When the inevitable problems arise, minding the client’s chain of command, presenting a united front and reporting a plan of action go a long way toward maintaining the client’s confidence. Rather than expecting the property site manager to call the owner’s point person when a chiller goes down, it may be better for a more senior member of the team to inform the owner. “The key is to convey a course of action,” Buddemeyer said. “Now, instead of one person, you’ve got an entire company working on the issue.”

In theory, the typical property management contract is designed to keep consultants on a short leash. A standard provision allows the owner to dismiss the property manager with only 30 days’ notice. The knowledge that they could be cut loose at any time is a powerful incentive to keep property managers on their toes. In practice, property managers are most likely to change when the building trades. Meanwhile, monitoring the property manager’s performance throughout the life of the contract is central to maintaining a good relationship. Benchmarks vary widely among owners, but in one form or another, most are tied to the bottom line. “I think the very best measure is the financial performance of the property,” Wilkerson said.

Some basic but revealing questions include: Has income improved? If so—or if not—why? What ideas does the property manager have to improve performance? For her part, Machen recommends comparing

the monthly budget to actual costs. If there is a variation, the question becomes whether they are understandable or whether the property manager missed an opportunity to do things differently.

Those judgments should be tempered with detailed understanding of market realities, experts say. Here, as in so many other areas, communication is essential—and it is the property manager’s responsibility to take the initiative in conveying changing market conditions. That will enable the owner to view declining rents, rising vacancy and other issues in context. Where same-store comparisons are applicable, providers and owners alike rely on comparisons with prior years’ performance to evaluate the property manager.

Because Duke Realty brings in outside managers in cases where it sees an opportunity to trim costs and boost efficiency, the company measures those service providers against the results previously achieved for the properties by the company’s in-house team. Duke put that assumption to the test in 2008. The company decided to bring in an outside service provider to manage an office building it owned in Indianapolis’ central business district, the only property it owned in the submarket.

Connor said that hiring an outside consultant accomplished the goal of freeing the local staff to focus on managing the company’s 3 million square feet in the Indianapolis suburbs rather than being distracted by a single CBD asset. Duke has since sold that property, but the experience proves Connor’s point about expectations for service providers’ performance of property management tasks: “They ought to be able to do it better and cheaper than we can.”

CPE

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