

# Earning an Encore

Managers Stand Front and Center in Tenant Retention

By Paul Rosta

Observers of the American political scene sometimes quip that candidates and their operatives take only a day's breather after the election before launching their next campaign. That adage holds a lesson for property managers, colleagues and clients. Whether the customer has signed a one-year lease for an apartment or a 15-year deal for a regional distribution center, the campaign for repeat business never completely subsides.

"The tenant experience from day one is really important now," explained Michael Daniels, COO for Cagan Management Group Inc., a multi-family specialist that manages some 15,000 units in Florida, Louisiana, Indiana and Illinois.

Tenant renewal depends on the efforts of multiple stakeholders, particularly owners and leasing agents, but the property manager also has an integral role. The face of ownership to the tenant, the manager also advises the owner on matters that influence renewal decisions. That role takes on heightened significance when excess capacity and relatively slow leasing velocity in most property categories and geographic areas is heightening the importance of each renewal.

Competition for tenants remains keen across the board. The retail availability rate stayed at 13.2 percent nationally from the second to third quarters, CBRE Econometric Advisors reported in early October. In the industrial sector, availability remains at 13.7 percent even after four consecutive quarters of incremental improvement. Office availability stayed at 16.2 percent nationwide from the second to the third quar-



ters. Multi-family, the best-performing property sector, enjoyed a 70 basis-point drop in availability year-over-year, to 5.1 percent.

For third-party property managers, winning the competition requires a particularly delicate balancing act. "What seems to be a good idea to me may not be a good idea to an owner, and vice versa," explained Jo Anne Corbitt, director of property management for the Mathews Co. "I try to tell (tenants) that I'm the conduit. I'm not making the decisions." The property manager

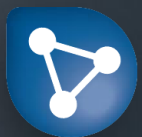
can feel caught between conflicting choices: Invest in the property today to retain tenants for the longer haul or cut outlays in the interest of a stronger bottom line short term.

Difficult as it may be, the manager has the responsibility to tell the owner things they do not want to hear. Whether or not the property manager wins the argument immediately, it is important to make the case that failing to make needed improvements may set off a downward spiral. Apartment management specialists, for instance, point out that a property's declining condition is likely to discourage renewals, and the ensuing reduction in revenue may make the owner still more reluctant to put capital into improvements. "I've seen property managers avoid that conversation for all the right reasons," reported Joe Greenblatt, president of San Diego-based multi-family specialist Sunrise Management. "That doesn't relieve you of the obligation to have that conversation."

When clients do agree to make upgrades, the investment can boost renewals. Several years ago, Cagan Management faced declining occupancy at Park Place Apartments in Lafayette, La. Recessionary pressures had pushed the property's customary 90 percent-plus occupancy rate as low as 78 percent during the recession. Cagan decided that it would be worth tapping into reserve accounts and forgoing 12 months' worth of owner's disbursements to finance an upgrade. Among other steps, Cagan added a recreation room—carved out from part of a maintenance shop—and expanded laundry facilities. Occupancy is re-



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## [Property Management]

bounding, and Daniels cites Cagan's willingness to invest in the property as the main reason.

Even in the apartment sector, which continues to enjoy the lowest availability nationwide and is drawing occasional new investment, renewal is by no means guaranteed. Though multi-family occupancy remains relatively strong, economic pressures can nevertheless hamper renewals, and leasing activity in general. To name one trend, underemployment restricts young people from striking out on their



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—Michael Daniels, Cagan Management Group Inc.

own. That, in turn, slows new household formation and raises the volume of available units.

Those trends are evident in the dramatic shift in pre-leasing at Cagan's multi-family complexes in Chicago, a market where October is one of the two busiest months for apartment lease starting dates. In a healthier market, demand encourages renters to nail down a new lease well in advance. About 60 percent of the units coming available by Oct. 1 are typically pre-leased at least a month before that date. This year, however, pre-leasing dropped to only 30 percent, Daniels reports.

To pick up the slack, Cagan hired staff to phone residents who had not responded to renewal offers. Those contacts turned out to be surprisingly revealing. "A lot of times, the lease renewal is the catalyst for people opening up and talking to us," Daniels said. Residents cite rent increases or personal reasons for not wishing to renew, but the property manager's failure to fix maintenance problems also comes up often. Cagan's resident outreach team is instructed to report any concerns directly to Daniels, who then follows up himself with the

complex manager. Not surprisingly, a brief chat with the COO tends to prod even slow-footed managers into action.

### Owners at Bat

With owners' involvement in tenant relations varying widely, property managers can also encourage clients to help retain tenants. These days, many owners are willing to join in the renewal campaign earlier than ever, reports Jeffrey Ludwig, senior vice president of Alter360, The

Alter Group's third-party management unit. "They are asking the question earlier (as to when they can and should [reach out directly to the tenant]). They have a lot more to lose than all of us service providers put together."

One owner advised by Alter360 is a sterling example, taking an active role in renewal negotiations more than a year before the lease expires. The client, who owns a small portfolio of office buildings, told a tenant that he plans to invest in a backup generator so that building occupants can stay up and running if the building loses power. Whatever the tenant's final decision may be, the owner scored points by not only weighing in but committing to a capital improvement, Ludwig said.

Even a problem can be turned into a plus that makes the tenant more favorably disposed toward renewing. In early May 2010, catastrophic flooding struck the Nashville metropolitan area, killing 26 people and causing \$2 billion in damage. The rising waters knocked out one of the two chillers at a Nashville office building managed by the Mathews Co. When daytime temperatures hit the 90s soon afterward, the over-

matched chiller had only enough power to bring the inside temperature down to 78 degrees, still warmer than the building's standard.

As a result, conditions were less comfortable than usual during the two-week wait for a new chiller. Mathews' client came up with the idea of offering each tenant in the building half a month of free rent. Although it is too soon to say whether any will re-up as a direct result, the gesture generated good will from a situation that could easily have caused tenants to think twice about returning. "No one rejected it," Corbitt reported. "That was a big hit for the owner."

At the many properties around the country where tenants are struggling for survival, retention takes on an entirely different meaning. In these situations, property managers' role as the liaison between owners and tenants comes to the fore, as they often find themselves in the position of persuading their clients to compromise.

Compared to 2010, a growing number of tenants are losing ground in the largely retail portfolio managed by Portland, Ore.-based Elliott Associates Inc. "It's more dire now, and we're seeing businesses fail that we didn't expect to fail," said Julie Muir, senior property manager.

In the effort to find common interests between tenants and landlords, the real estate manager must walk a fine line. For less sophisticated tenants, managers should assist with analyzing nuts-and-bolts issues that can help them save money. "The biggest challenge is when tenants call seeking the landlord's help. They need to show that they've tried to help themselves," Muir said. "A lot of them don't know the cost of sales per square foot. We show them some areas they can cut themselves before going to the landlord for help."

Advising owners on tenants in crisis is another case in which property managers are obligated to say what their client may not want to hear. Offering temporary rent relief to a tenant in distress is an unsatisfying solution to landlords and lenders, but property managers should remind them that discounted rent produces more revenue than an empty space. And the manager may be the first to realize that even the best efforts may fall short. As Muir put it, "A lot of times, the tenants that want to stay open the most are the ones that shouldn't."

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