



IREM® From the Front Lines Podcast

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Bonus episode

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The hidden tensions in real estate: reshaping dynamics between owners, managers, and lenders

Erin:

Welcome to another edition of From the Front Lines, where we discuss both the day-to-day, and one-of-a-kind issues facing real estate managers. In this episode, Ashkán Zandieh from CRETI, the Center for Real Estate Technology & Innovation, joins us to talk about how misaligned interests between owners, managers, and lenders—known as the principal-agent problem—impact real estate. We also explore how technology, from AI-enabled property management platforms to real-time financial reporting tools, is reshaping those dynamics. To learn more about CRETI, visit creti.org. Welcome to the podcast, Ash.

Ash:

Thanks for having me again, Erin. It's a pleasure to be here.

Erin:

Of course. Now, at first glance, managing a property looks straightforward: collect rent, pay expenses, keep tenants happy. What are the hidden challenges that make property management far more complex?

Ash:

That's a loaded question. Managing real estate looks very simple from the outside. Just ask your tenant. But the reality is it's a balancing act between multiple stakeholders with very different priorities. Owners are thinking about long-term value, whether that's refinancing in five years or selling in 10. Managers are judged on the day-to-day metrics like occupancy, collections, and expenses. And lenders are really focused almost entirely on debt service coverage and collateral protection. The hidden complexity is that these goals frequently collide. Take a typical 32-unit multifamily property. The owner wants to invest in upgrades that reduce utility costs over a long period of time. Managers resist because the expenses hurt the NOI of the property, and the lender doesn't care about efficiency—they just want consistent debt payments. So the friction comes in decision making. Replacing windows, upgrading HVAC, or raising rents really becomes a negotiation where one side wins and the other side loses.

Erin:

All right, that makes sense. And what does misalignment of interest between owners, managers, and lenders look like in practice?

Ash:

Anyone in property management or on the equity side deals with this constantly. Misalignment is when each party optimizes for their own results, but the property as a whole loses value. And then that also doesn't include appreciation. Like if you're in an urban dense environment and you have a maximum appreciation, this does not take into fact that appreciation in just land value. What we're talking about is operational optimization. For example, at that same 32-unit property, a manager might delay a \$50,000 roof repair to hit their budget target. The lender is happy because debt service continues. The manager looks good on paper for expense control, but the owner ends up with \$60,000 in water damages at year-end. You take the same thing at scale at a 100 unit property or community. With leasing, the owner wants strong credit tenants on long leases, but the manager is incentivized to fill vacancies quickly to hit occupancy targets. And anyone that's in equity position, we want 100% occupancy all the time. That can mean weaker tenants, higher turnover, and short-term numbers that look good, but long-term performance suffers.

Erin:

That makes sense. And how do fee structures at boutique properties create challenges for managers and owners?

Ash:

Smaller assets often get caught in fee caps set by the lender. Say you've got a 32-unit property, and I like using that number because that's a good size property that people are just kind of getting started in. This can apply to 100-unit communities, commercial, you name it. Say you've got a 32-unit property with a lender-capped management fee at \$1,500 a month. That sounds clean for underwriting, but it's absolutely unrealistic. It doesn't reflect the actual workload of managing a property with move-outs, maintenance, and collections. So managers, what ends up happening and this is where a lot of misalignment comes in, managers make up the difference. They charge higher make-ready fees for turns, markup vendor costs or lean on leasing commissions. So what the bigger problem is managers are disincentivized to renew tenants and that's a big part of it. They earn more on a full term and on a new lease commission than on a simple renewal and the result is higher turnover, more expenses for the owner and NOI erosion, all because of how fees were structured by the lender that set a cap on income generated for managers.

Erin:

All right, absolutely. Do you think this is the same for larger properties, and how do fee structures at larger communities reinforce these same misalignments?

Ash:

Absolutely. I mean the same misalignments show up all the time. It is unless you have an asset that is voided of debt services, this happens all the time, just with larger numbers. Take a 100-unit property. The lender caps the management fee at 3% of effective gross income. So the number on that would be somewhere around 1.2 million in collections. That's about like \$3000 a month in rent. Sorry that's about \$3000 a month in fees. But again, the real workload exceeds that. For managers, they lean on make ready income. So if turnover is like 20 units a year at say \$1500 a month, a unit. That's around \$30,000 in fees, 10 times the monthly management fee. That means managers benefit financially from churn, even though owners want stability. So it's the same cycle. The fee cap looks neat for lenders because that's what they want. They want things kind of penciled out, but it creates and distorts massive inefficiencies that hurt owners and frustrate managers.

Erin:

Makes sense. And how does this tie into the broader corporate finance concept of the principal-agent problem?

Ash:

The principal-agent problem happens when the owner—the principal—delegates operations to the manager—the agent—but their incentives aren't aligned. In corporate finance, this shows up when managers optimize for bonuses instead of shareholder value. In real estate, it shows up when managers optimize for fee income instead of long-term asset performance. That's why you often see management churn across assets. So for example, we'll take the same, if the owner has 100-unit property, we'll take that same 100-unit property. They might want to wait three months for a strong credit corporate tenant. The manager, however, wants to lease today to a marginal tenant or just a tenant in general because it improves occupancy and triggers a lease commission. The owner's equity is at risk, but the manager's paycheck is secure. That's the typical quintessential principal-agent problem in action.

Erin:

That makes sense. And where can technology help realign stakeholders and improve transparency?

Ash:

So tech is the greatest equalizer we have here. Technology can serve as a bridge by putting everyone really on the same page. Let's take, for example, like the hottest topic everyone wants to talk about these days is AI. If we have an AI lease audit system at a 32-unit property that uncovered, you know that that 2 tenants weren't being charged pet fees or late fees or you know any fee for that matter, that's approximately 3000 to \$4000 a year in missed revenue. So once corrected, the owner saw NOI improve, the manager got credit for uncovering value, and the lender saw stronger cash flow consistency. The same thing applies at the 100-unit, 200-300 unit property as well. You integrate dashboards now and consolidate rent rolls, delinquencies and work orders. Everyone, the owner, the manager, the lender, they see the same data in real time. So instead of debating whose report is "right" or "correct", the conversation really shifts to how to improve performance. In that scenario, everybody wins.

Erin:

Okay great. And where can technology actually make misalignment worse?

Ash:

So technology can create new silos if it's not shared across stakeholders. A great example is the data silos that we have currently rampant in our industry. You also have data lakes. Basically a great example of a data lake is if raw data, whatever we want like rent collection fees, whatever just lives independent on our own personal device. So for example 100-unit property where the manager adopted an AI lease spot saw a surge in like signed leases. That's great for occupancy. We're not arguing that. But when owners ask about renewal rates, the system didn't track tenant longevity. That's a huge deal. The manager got rewarded, but the owner felt turnover costs rising. At a 32-unit boutique property, a lender maybe demanded direct access to expense dashboards. When they saw a \$25,000 roof replacement, they flagged that as a spike in operating expenses. Now without context, it looked like mismanagement. The manager then had to spend weeks explaining it as a capital preservation strategy, so the tech created more scrutiny without the alignment. Now the reality is the misalignment can be absolutely avoided with direct communication. But when technology is independent of stakeholder engagement, that's where the

real misalignment happens. So it's not really the technology that's creating the misalignment is that it's living in a complete, isolated, siloed environment that's voided of any communication whatsoever.

Erin:

That makes sense. And what's the big takeaway for property managers on addressing these challenges and becoming strategic partners to owners and lenders?

Ash:

So the big take away for me is that property managers need to position themselves as more than just operators. I mean the industry is changing. They need to be strategic partners and really aligned with the equity holders of the asset. That means anticipating misalignments, recognizing when fee structures or lender covenants create misalignment or incentives that don't align with long term performance of the asset. Leveraging innovation in tech to prove value. And I'm not just talking about prop tech or real estate tech that requires a lot of discovery that has to take place. I mean this could be process innovation as well as technological innovation. So we can use AI like ChatGPT. We can use AI like Claude and all the other tools that are popular today that are widely talked about in the media. And we've also talked about dashboards and audits, not just for efficiency, but really for transparency. And then speaking the owners and lenders language, tying operational discussions to NOI risk long term equity value. So whether you're managing like a 32-unit property or 100-unit community, the managers who succeed will be those honestly that move beyond just collecting rent and fixing toilets. Or addressing HVAC requests that come in through Buildium or whatever platform people, whatever PMS system people are using. They'll be the ones who demonstrate with data that their work protects owner equity and reduces lender risk. That's how you move from being seen as a cost center to being viewed as literally indispensable.

Erin:

All right, absolutely. That makes a lot of sense. Thanks so much for joining us, Ash.

Ash:

Thank you so much for having me. It's a pleasure being here.

Erin:

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