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COMMERCIAL REAL ESTATE

Management Stars

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The property management business has held up better than sales and leasing for many commercial real estate brokerage firms over the past year. Kimberly Lamb, senior executive vice president with Colliers Arnold, says lenders taking back distressed properties will be a source of new business for the firm's property management division.

REVIEW SUMMARY

Industry. Commercial real estate

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Trend. Growth in property management

Key. Managing distressed properties for lenders may turn out to be longer-term work than some expect.

Commercial real estate brokers used to get all the glory.

Now that leasing and sales have slowed, property management cousins who toiled in their shadow are the new stars of the business.

That's because the relatively steady income from managing office buildings, warehouses and shopping centers has sustained many commercial real estate firms as leasing and sales commissions plummeted after the boom.

"In the great times, brokerage gets a lot of attention because they post the big numbers," says Kimberly Lamb, senior executive vice president with Colliers Arnold in Tampa, a firm that manages 11 million square feet of commercial space. "In a downturn they also post the big numbers," she quips.

On the other hand, property management doesn't rise and fall like sales and leasing. "Property management is a nice annuity stream," says Lamb. It's the "steady eddy" of the commercial real estate business, Lamb says.

Of course, property management isn't without its challenges today. Because revenues are often based on a percentage of rents, declining rental rates and rising vacancies on the Gulf Coast and elsewhere have cut into management fees.

And commercial real estate brokers who used to shun property management are jumping into the business because they're not making enough money selling and leasing commercial space. That's spurred increased competition.

Despite these challenges, there are opportunities as property owners seek ways to manage their buildings more efficiently and retain tenants during the downturn. "They're all looking at their assets and their management teams," says Hunter Swearingen, a principal with Tampa-based Ciminelli Real Estate Services of Florida, a firm that manages about 3 million square feet of space in the region.

Conferences that bring together commercial real estate executives today are focusing almost exclusively on one thing: How to manage distressed commercial real estate assets for banks and other lenders.

Banks don't have the staff to manage commercial real estate that is likely to default. "That's where the majority of our business is coming from now," says Pamela Van Vleck, principal with Commercial Property Management Services in Fort Myers, which manages 3.8 million square feet of space for 97 owners.

Managing for the banks

So far, however, the flood of bank work hasn't occurred in the massive way it was expected. That's because many banks have worked with borrowers to keep them afloat. "Banks want these properties to succeed," says Zac Gruber, a Miami-based regional vice president with Easton Lynd Management.

But Gruber and others believe lenders will become more aggressive about taking over struggling commercial real estate operators as recovery prospects dim. "If they don't have confidence in the guys who manage them, they take them back," he says.

For example, Easton Lynd recently was hired by Berkadia Commercial Mortgage to manage a portion of its distressed property portfolio. Its first assignment is a 44,000-square-foot retail building in Clearwater that was once home to a Circuit City store, the home-entertainment chain that filed for bankruptcy.

Berkadia, partially owned by Berkshire Hathaway, is the kind of "special servicer" of commercial real estate loans that were sold to investors all over the world during the boom. Servicers such as Berkadia oversee the real estate holdings of these loan pools and hire firms such as Easton Lynd to manage individual properties.

Lenders don't have the manpower to manage commercial properties effectively, from replacing light bulbs to fighting tax assessments. "We're already seeing the impacts on the regional banks," says Teresa Clark, regional portfolio manager for Adler Group, who oversees nearly 2 million square feet in Orlando, Tampa and Naples.

"It's going to be a constant, ongoing wave over one to two years," Van Vleck says. "It's not just lenders, it's insurance companies and servicers."

Short or long term?

The challenge property managers have working with banks is that lenders generally prefer to dispose of the real estate quickly because they're not in that business.

A lender may foreclose on a property, take title and sell it a few months later. "The special servicing business is short-lived," says Gruber.

Working with lenders who have short-term outlooks for their real estate isn't very efficient for property managers. "You have to keep plugging that channel with new stuff," says Van Vleck.

But Swearingen says lenders may end up holding onto properties for longer than many anticipate because of recent changes in tax laws. "Everybody thought it was going to be a real dump, but it's the opposite," he says. Indeed, publicly traded real estate investment trusts and private investors have raised billions of dollars to buy distressed properties but have yet to make significant acquisitions because prices haven't fallen to the low levels they expected.

Managing properties for lenders may turn out to be multi-year assignments as they wait for the eventual recovery. "For what we're geared up for, it bodes well," says Swearingen.

But even if managing properties for lenders lasts for a few months, the work can lead to other opportunities. For example, a bank may hold onto a building for just six months, but perhaps the property management company's brokerage arm might earn commissions from the subsequent sale of the building.

"I look at the overall strategic relationship," says Lamb. "Our brokerage team works really well with the property management division."

Tenant retention is key

In the end, property management firms must help landlords retain tenants. "That fee is based on the success of the property," says Gruber. "Tenant retention is absolutely the key."

That's especially the case today because there are so few new tenants looking to expand. Vacancies have surged more than 20% in many areas of the Gulf Coast, from Tampa to Naples.

"You're challenged with maintaining the asset in first-class condition," says Swearingen. A good property manager reviews building-service contracts, insurance costs and tax assessments. "All those little things that are somewhat blinded during the good times, now we need to pay attention to those," he says.

While there is competition from brokers muscling into the industry, established firms say property management is a labor-intensive business. "It's very hard for a one- or two-person shop to do that on a large-scale basis," says Van Vleck. "The properties they're taking are really not competitive."

Still, the property management business is one of the few bright spots in commercial real estate. "There's plenty of business out there for everyone who works hard," Van Vleck says.