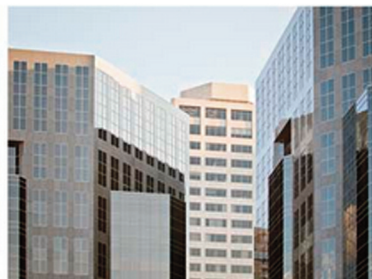
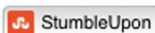


Budgeting Is Key Skill For Real Property Asset Manager



Part 1 of a 2-part article on overcoming property management headaches



By Rory S. Coakley June 2015 - [Commercial Office Facilities](#)

By acting as the eyes and ears of the property owner, the real property asset manager has a special role to play in the real property business. While the property manager is “on the ground” handling day-to-day operations, the real property asset manager is looking at a bigger picture.

This “big picture” is framed by the need to relieve the owner of all the potential headaches related to property ownership. Here's a look at budget and staff headaches and tips on how to overcome them.

Rx for Real Property Headache Relief

Those ownership headaches can be related to any or all of the following duties and responsibilities of the real property asset manager:

- Maintaining proper insurance coverage;
- Managing and critiquing operating expenses;
- Monitoring tenant relations;
- Reviewing monthly property management reports;
- Preparing annual business plans; and
- Acting as the owner's liaison on all property issues.

No doubt, it takes a multi-faceted skillset to be an effective real property asset manager. Take capital improvements, for example. Let's say one of the assets we manage for our owner needs a new roof. Our mortgage lender has been escrowing money for capital improvements. But the

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loan was recently pooled into a mortgage backed security, a common practice in today's investment economy. This means a master servicer representing the lender is now the primary contact for all questions and issues related to the mortgage on our apartment building. When we go to replace the roof, we front the money and then invoice the lender. To do an effective job of managing this particular real property asset, we need to know how to deal with the master servicer.

Pass the pain reliever!

Budgeting Fundamentals

Planning the annual budget for a real property asset is a primary skill for the real property asset manager, requiring a disciplined process.

First, the asset manager has to review what happened in the previous year related to occupancy and condition of the physical plant. Is the vacancy rate up or down, and how is it trending? How is the roof holding up? What about the HVAC system? Getting solid answers to these and other questions about what is happening with a particular asset will no doubt require inspections of the property.

The next step is to prepare capital expenditure (CAPEX) estimates. In order to do this estimating effectively, the asset manager must be adept at constantly forecasting what will need to be replaced next year with money that will be available. At a hotel, for example, there are constant capital improvement expenditures for furniture, fixtures and equipment. Finally, the asset manager has to balance funds escrowed with the lender with money that may have to come out of cash flow – and, possibly, from the owner's pocket.

Think herding cats is hard to do? Just try supervising the activities of multiple property managers who work for the different owners. For a real property asset manager, that is one of the key responsibilities. To do this successfully, it takes well-structured communication and effective delegation.

Communication starts with monthly reports. These reports should include a rundown of the monthly profit/loss statement showing income and expenses and a brief summary of operations (e.g., "We leased XYZ space to ABC Company at \$x.xx per square foot" or "We booked a 500 person conference").

Here is a major caveat related to frequency of property management performance reports: The shorter the asset's tenant turnaround, the more frequent the performance reporting. With some assets, such as hotels or self-storage facilities, weekly reports may be required to keep tabs on fluctuations in vacancy and income rates.

In addition to receiving monthly (or weekly) reports, the real property asset manager should be prepared to interface frequently with property managers by phone and e-mail. There should

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also be regular (e.g., at least quarterly) face-to-face meetings with the property management team. In addition, the asset manager should conduct semi-annual or annual property inspections.

Another management issue related to overseeing property managers is delegation of authority.

The real property asset manager should establish thresholds for the bidding process on contracts for capital improvements and maintenance. Usually, property managers are granted authority to direct-hire vendors under a certain allowable contract limits. Over that amount, the property manager is required to seek three competitive bids. There could be some sole-source bidding in the case of unique or unusual items. For example, consider a building that has a 65-year-old elevator for which only one local vendor carries parts. With sole source contracts, the real property asset manager must be able to balance price with the desired level of quality.

There's an App for This, Too

Several software programs are available to real property asset managers who want to automate the monitoring function. Since there may be multiple intended users for a property management software tool, simplicity of operation is a key selection criterion. Reports intended for the owner should be straightforward and not overly detailed.

In the final analysis, the best advice for a real property asset manager is: Out of sight, out of mind for the owner. The property owner needs to know that his or her assets are being professionally monitored by someone who is looking through the owner's eyes and has the ability to handle a variety of property issues. A strong background in real estate finance is also essential, because at some point down the road – where the real property asset manager always needs to be looking – there may be the opportunity for a capital event (e.g., sale or refinance) that returns some of the owner's equity in the property.

For a real property asset manager, it doesn't get any better than that.

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