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Asset Managers Take Lead Role in Keeping Properties Performing

By Maria Wood

WOODBIDGE, NJ—More than ever before, asset managers are playing an increasingly prominent role in helping owners, as well as lenders that have taken back assets as REO, keep properties cash flowing and filled with tenants.

"It is probably one of the biggest growth fields in real estate at this point," declares Jonathan B. Schultz, managing principal at locally based Onyx Equities LLC, which does third-party asset management.

That's because with few sales being transacted nowadays, owners must meticulously asset manage the properties they do hold. Or they are asking their third-party asset managers to do the same.

Therefore, assets managers must review the owners' revenue stream to ensure it is not diminished, says Eileen Carey, senior portfolio manager, client solutions, at Cushman & Wakefield in East Rutherford. Her office manages close to 20 million square feet in New Jersey, Westchester County, NY and the southern portion of Connecticut.

To that end, an asset manager makes sure all rents and other fees are being collected, while at the same time providing the kind of service that will keep occupants in the building. "It's a tenants' market today, and landlords must have a very compelling reason for them to stay," Carey stresses.

Because in this economic climate, vacant space may remain empty for an extended period of time, leaving owners with non-revenue-producing footage. And if and when a new tenant is found, the owner must underwrite the expense of improving the space.

Consequently, tenant retention is paramount, even if it means a reduction in rental rates.

“We saw rents dropping almost 18 months ago,” Schultz says. “So we made deals where we thought the market was going to, but we did it before the market went there. We were able to keep our tenants. Dropping the rent may have less of an impact than losing your tenant.”

And if a space is vacated, it is up to an asset manager to make sure the area is attractive to prospective tenants. For those tenants that are struggling, asset managers also need to be flexible in working out a deal amenable for both sides.

“The asset manager has to work with the brokerage community and the landlord to be creative,” Carey says. “An owner may be able to relocate a downsizing tenant into a smaller space, rather than losing the tenant entirely.”

Other strategies asset managers can employ to preserve revenue and cut costs is to renegotiate service contracts with vendors.

“Due to lower occupancy and the economy, there are opportunities for you to go back to the service contracts,” Carey suggests, “and change the scope of services.”

For example, vacant space can be cleaned less often and garbage can be removed less frequently.

“By reviewing your occupancies and the scope of work that was

previously negotiated in better times, you can reduce your operating costs by reducing your service contract fees,” Carey explains.

Unlike the height of the market when the emphasis was all about sale prices and exit strategies, asset management today focuses on improving cash flow. “Now it’s about the bricks and mortar and less about the cap rates,” Carey says.

Yet for those asset managers asked to oversee buildings taken over by lenders, the emphasis is on upgrading the building as much as possible so it can be leased or sold. Nicholas Minoia, managing partner for Diversified Realty Advisors in Summit, relates that his firm is asset managing properties held by community banks. The properties run the gamut from office and apartment buildings to partially built condo projects.

In some cases, the properties have fallen in disrepair or the tenants have stopped paying rent. Several properties have squatters in them, Minoia reveals.

“With distressed-type real estate you can picture the more or less abandonment of the property by the owner because cash flow can’t service debt,” he explains. “You see property where the normal upkeep has been slow or eliminated.”

In such instances, the asset manager’s first duty is to simply clean up the building and reposition it in the marketplace as a viable place “to lease commercially or occupy residentially,” Minoia states. “It’s a whole different class of asset management when you are managing distressed assets for lenders of properties that are in foreclosure or part of an REO portfolio,” he says. “For them, it’s really about revenue enhancement, and the way you do that is to bring the property back up to a respectable condition.”

For cash-strapped banks, spending money for an uncertain outcome is difficult to justify, Minoia admits. “Typically, these properties are not

positively cash flowing,” he says. “There is not enough net income to service the debt. So the bank is simply putting money in on an as-needed basis to enhance the revenue and then enhance the value for future sale.

“It’s always difficult to determine when and how much money the lender needs to spend on a building when the return is difficult to quantify for the work that is being done,” Minoia concedes. “Every dollar put into these properties is throwing good money after bad, so to speak.”

In distressed situations, the ultimate goal is to sell the property as soon as possible, making the role of the asset manager short term in nature.

“Lenders don’t want to be in the real estate management or ownership business,” Minoia states. “They simply want to enhance cash flow so that cap rates and valuations are maximized. They want to recover as much of their debt as possible. The goal is to quickly turn these properties around and put them on the market.”