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## Property Management's New Sheen

By BILL WHITLOW

As we settle into the new, constrained realities of declining rents, escalating defaults, maturing debt and lack of financing, the mantra seems to be that, in this part of the cycle, property operations, not transactions, matter. As recruiters, we are certainly seeing that in the hiring market as well. In these times of low transaction volume attention naturally turns to property management as the only way to stabilize property value and improve operating margins. Is this a provisional shift to greater importance or will property management's new, glossier image be enduring? We spoke to a number of industry leaders, from different sectors as well as both owner-operators and third-party managers, to get their perspective on this topic.

### **A Shift in Role and Focus**

Large real estate companies have been building their property operating capabilities for years, indeed preparing for the time when, without the benefits of cap rate compression, they can differentiate their firms through a superior operating platform. This is especially true in the apartment sector, clearly the most operationally intensive of the four major property types. Ed Lange, executive vice president, chief operating officer of BRE Properties, recently revealed to us that "the last five years have been an inflection point" in the multifamily industry, and especially for BRE, where major operating efficiencies have been created by redesigning the core processes of property operations. This has been largely driven by information and automation technology. Ed is convinced that "going forward, the superior operating platforms, particularly in supply constrained markets like California, will be the long-term winners."

These comments were echoed in our conversation with Ric Campo, Camden Property Trust's co-founder and CEO. Ric drew a clear distinction between merchant builders and investors who make money on the flip versus long-term holders like Camden. He states that "property management has always been the core element of our business" and that, coming out of the last downturn, Camden was able to achieve the highest increase in rent growth among its competitors based upon its early and deep adoption of yield management technology. And Camden seems to walk the walk; it is the only REIT to make the Fortune magazine "100 Best Companies to Work for in the Country" list. This award is achieved largely through feedback from employee surveys, so his team must be feeling a genuine commitment from senior management. However, Campo adds that the stock market today is so focused on leverage and geographic markets that it is not taking the value of superior operating platforms into account.

Other experts assert that the ascent of property management is more recent and question the longevity of its celebrity status. Third-party management service providers might offer the best barometer to gauge whether investors will prize property management over the long term, or if the timing of this heightened appreciation merely coincides with the current recession and investors' fixation on capital preservation. Tony Long, president of CB Richard Ellis' Asset Services division, states, "When commercial building sales markets are moving up, property management does not typically get the detailed focus from the majority of the commercial clients that it does in a downturn. Now, the focus is on the basics of blocking and tackling."

Cushman & Wakefield's Jim Arce, the firm's Global Practice lead for Investor Services, also weighs in and says that recently he has seen significant change in the importance of property management. He observes, "After years of enjoying value creation through cap rate compression and the capital markets, the game has gotten back to servicing and retaining tenants and preserving capital. There has been a return to the essence of property management - creating value through real estate operations." Further, he says that due to internal realignment and organizational streamlining, investors now expect property management to expertly handle more complex lease negotiations and know about debt and financial performance as investors focus on investment management and downstream some of the asset management functions to property managers.

### **Impact to Human Capital**

What does all this mean for the human capital side of property management? In today's economy, the one truism it is that the assets will not go away and people will be needed to lease, manage and account for them and to lead the companies that execute these jobs. However, this truism also makes some roles more relevant than others. As you can imagine, development and acquisition roles and anything in homebuilding aren't in demand today, while property and asset management, accounting and workouts are highly relevant. From our perspective, although lots of jobless deal and financial people are now marketing themselves as property specialists, generally firms seeking to fill property operations jobs view these professionals as inappropriately matched for the role. Yet some firms actively engage in recruiting professionals with varied skill sets. Tony Long with CBRE states, "Property management tends to attract professionals that are client-facing, creative and process-minded. We love to attract people from outside of the industry (as well as inside) as they bring fresh ideas and new perspectives to old problems." As recruiters, however, we also understand the post-recovery challenges of retaining transactional and financial people in property operations roles.

### **An Investment Made, a Dollar Saved and a Dollar Earned**

Whether the role of property management has been freshly elevated to a level of increased importance or it has always been and will continue to be viewed as an essential part of the value-creation process, owners and investors across all property sectors are facing the same challenges of declining revenue, maturing debt and virtually nonexistent exit strategies. The shift from maximizing value to preserving capital places a high premium on best-of-breed management organizations. And those organizations which have continually invested in human capital, improving core processes and applying new productivity technologies will be more important than ever in the battle to keep properties leased, operations efficient and the effort to deliver more dollars to the bottom line.

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