

Low-brow property management gains in popularity

Brokerages seize on a stable cash source to compensate for a drop in sales and leases

BY BRAD BERTON
CONTRIBUTING WRITER

Brokering high-profile sales and leases of commercial buildings and apartment complexes is sexy and lucrative — when the real estate market's hopping.

But when a recession arrives and the deals stop flowing, brokerages may find it difficult to merely break even on commission income. That's when the less sexy, but more reliable service of property management becomes important. Some Portland brokerages are now seeking to expand their property management portfolios, and the ones with sizeable portfolios are fiercely defending their territory.

"It's a nice, dependable source of income," said commercial property appraiser Mark Barry of Portland's Mark D. Barry & Associates.

FAST FACTS

While operating commercial and apartment buildings isn't nearly as rewarding as buying and selling them, brokerage firms are logically looking to the steady cash flow that a sizable management portfolio can still generate in this transaction-challenged environment, he said.

AN AVERAGE apartment community receives 160-214 telephone calls from future residents per month, according to website The Landlord Times.

THE AVERAGE community also invests \$2,408-\$2,584 per month marketing to future residents.

"It's no secret transaction volume is down," said David Squire, the executive vice president heading Portland-area operations for nationwide player Grubb & Ellis Co.

So it's also no surprise that Grubb and other brokerages, though tight lipped about revenue from property management, want to expand those operations, or that brokerages with substantial portfolios in place are surviving the transaction vacuum in relatively good shape.

For example, Portland's Norris & Stevens Inc., one of the largest local property managers, is currently generating nearly half its revenue through property management, including commercial buildings and more than 8,000 apartments.

"It's nice to have that income coming in under these conditions," said Tom Davies, a Norris & Stevens vice president.

Davies said that transactions typically account for a very large majority of his company's revenue during normal business times.

Some real estate brokerage offices are trying to boost property-management revenue by recruiting key personnel who will theoretically bring in new clients.

Grubb & Ellis, for example, managed to boost its local management portfolio by more than 22 percent in the past year, to 2.96 million square feet.

It helped that the company recently recruited a veteran property manager who brought some assignments with her. But Squire stressed that they were all with clients the company already served.

Meanwhile Portland-based NAI Norris Beggs & Simpson is trying to boost its considerable management portfolio of nearly 12.75 million square feet locally by diversifying from commercial buildings into apartment management — a combination rarely seen among large brokerages (Norris & Stevens is another notable exception).

Norris Beggs is partnering in this venture with veteran apartment manager

Susan Stratton, who serves as president of the new NBS Multifamily Management. More clients of Norris Beggs' transaction divisions have become active apartment investors, and the trend toward mixed-use residential development likewise means commercial-oriented clients also need apartment management expertise, Stratton said.



Stratton

NBS Multifamily is initially seeking to expand in the Portland and Seattle areas, where Norris Beggs already offers its other services. Its fledgling portfolio will hit the 500-apartment mark in July, Stratton said.

While these companies have made some early headway, expanding management operations is a lot easier said

than done amid today's competitive, low-growth environment. With so little development activity expanding the area's building base, any new business one manager secures is necessarily at the expense of a competitor.

"There are only so many properties in the marketplace, and we all talk to the same owners," Davies said.



Davies

Another challenge is that poaching business through price competition isn't really viable: There's just no room to further reduce fees, as property management has long been labeled a low-profit service.

"So it's tough to build up a portfolio overnight," Davies said.

Management fees never seem to move beyond the traditional range of 3 percent

to 5 percent of rent collections. And that doesn't make for much profit, given that costs such as training and technology infrastructure have continued rising even amid the slow economy, he said.

About the only price-based differential among competing property managers is the amount of administrative expenses they aim to pass along to clients, said appraiser Barry.

And trying to compete by lowering fees may in fact prove counter-productive, said Stratton.

"Owners can see that the manager (charging) the lowest rates probably isn't focused on creating value through long-term appreciation."

Or as Grubb's Squire put it: "You get what you pay for."

portland@bizjournals.com | 503-274-8733

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