

Cravey

Real Estate Services, Inc.



A Full Service Commercial Real Estate Company

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Commercial Real Estate Investment Newsletter

Importance of the Asset Manager

After the problems in the real estate industry in the past few years, the institutional investor has found that income property must be placed under the supervision of professional, experienced and innovative managers. With more property moving into the ownership of institutions and real estate investment trusts, the need for asset managers increases.

Asset managers have become more important during the past decade for three major reasons:

- New classes of real estate owners (notably, pension funds and foreign investors) lack the “hands on” expertise of the individual owners and small ownership groups of former years.
- Corporations now have approximately 25% of their total assets in real estate, and are now emphasizing its importance for profits.
- Investing in real estate has become much more difficult than in previous years because of increased competition for tenants, difficulties in getting financing, and increased government regulation.

Most real estate professionals are unfamiliar with the functions of an asset manager (apart from realizing that the

asset manager has a different job from the property manager).

The Asset Manager

The asset manager fills the leading role in the profitable management and performance of a real estate asset. This manager assumes a fiduciary relationship with the real estate owner and accepts the responsibility for managing the real estate asset so that it achieves the highest performance within the owner’s guidelines.

Example: An investor acquires a commercial property for \$15 million, of which \$6 million is paid in cash and the balance with an institutional loan. The investor’s goal is a 10% annual cash flow return (\$600,000 per year) and a sale in the tenth year, at which point cash will be needed to pay off the balloon loan. The investor hires an asset manager to oversee these objectives. The asset manager’s focus will be on maximizing the economic return through the use of profit-enhancing techniques. These include:

1. Balancing the loan/equity ratio in order to maximize leverage.



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This publication is not a solicitation but is an information service from this office.

In This Issue

- Importance of the Asset Manager
- Office Space Changes & Upgrades
- Watch Rent Collections In Apartments
- Help With Investment Real Estate

When ideas in tax and other legal areas in this publication seem to fit your situation, it is recommended that you discuss them with your professional advisor before taking action.

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2. Employing and coordinating professionals with expertise in particular aspects of operating this property.
3. Minimizing liability exposure through appropriate lease provisions and insurance coverages.
4. Gathering and applying information concerning the market.
5. Constantly reviewing prospective buyers, since the maximum property value may be achieved some time before the tenth year.

Planning The Project

The roles of the asset manager's are as follows:

- **Supervise property management.** The asset manager should supervise the overall operations of the property management company, i.e., define general management policies, monitor nonroutine decisions and transactions, and serve as a liaison between the property manager and the owner.
- **Supervise leasing and marketing.** The asset manager should review long-term leasing policies, monitor large or unusual transactions, and act as a liaison between the leasing firm and the owner.
- **Manage cash flow.** An essential and time-consuming role is to handle cash flow, the true measure of the economic success of the asset. Cash controls should be instituted and monitored.
- **Report requirements and timing.** Frequent reporting of pertinent information to the owner keeps him/her informed about the status of the property and makes necessary decisions easier.
- **If the owner is a foreign investor,** the asset

manager may have the responsibility of preparing U.S. tax returns. For domestic investors, the asset manager's role would be limited to providing the essential tax information to the owner's accountant.

- **The proper maintenance of the property** is a major responsibility of the asset manager. This includes overseeing a maintenance program and managing a capital improvements program. In making voluntary capital improvements, the manager must be sure that the prospective return exceeds the cost of the capital needed for the improvement.
- **Retain other professionals.** Attorneys, accountants, appraisers, and mortgage brokers are just some of the professionals who frequently must be retained in the course of managing improved real estate. The asset manager often has the responsibility of choosing a professional, although the choice may need to be ratified by the owner.
- **Contract adherence.** Contractual relationships often exist in connection with income real estate. These include the asset management agreement itself, the property management agreement, service contracts relating to the real property, tenant leases, mortgages and deeds of trust, and possibly a partnership agreement among the property owners. With the exception of the partnership agreement, the asset manager will be involved with these agreements in some manner. The manager should be aware of critical terms and provisions that give the owner valuable rights (e.g., a renewal right) or that can result in default if not complied with. □

Office Space Changes & Upgrades

The traditional standard for measuring the demand for office space has always been based on a multiple of the area required to house a single office worker. Generally, that figure averaged around 250 square feet for many years. Thus, if office employment were expected to increase by 10,000 persons in a given year, 2.5 million square feet of space would be absorbed.

This type of arithmetic, accompanied by optimistic employment projections, helped fuel the growth in office space during the past decade. While the square foot standard remains in use,

the figure of 250 square feet has been virtually cut in half by many companies, with some reportedly having reached a low of 100 square feet per employee. This has meant a major savings in rent costs for tenants and a new challenge for landlords to fill available space.

Not for Everyone

Both office tenants and landlords should realize at the outset that the alternative office is not suitable for all office employees. Primary candidates for the new technologies are companies with large



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sales staffs who spend much time in the field, or professional service firms that provide many on-site services (e.g., accountants, auditors, and consultants). Thus, office landlords able to tailor space for smaller, entrepreneurial firms may be able to reduce the risk that at renewal time less, rather than more, space will be sought. (On the other hand, such tenants are more costly to obtain, because more of them are needed to fill a building, and are more likely to move elsewhere as their space demands grow.)

In most companies, the “workplace” implies face-to-face contacts and observation. In a “virtual office,” employees must focus more on working alone without the interaction with co-workers. Employers also must become used to the idea that they cannot keep track of how hard and how long employees are working.

New Concepts

A factor that will have an increasingly important impact on office demand is the spread of new concepts on how people work. New techniques have created a whole vocabulary of terms. Some of the most widely used are:

- **Hoteling.** An arrangement whereby employees call in ahead of time to reserve workstations for a requested period of time. When the employee arrives, he or she is assigned to a temporary office equipped with all of the necessary equipment.
- **Virtual Officing or Telecommuting.** A work structure that allows employees to conduct business from virtually any location. Field personnel and home office employees are equipped with laptop computers, the internet, a portable fax machine, and cellular phone. They communicate with the central office through conference calls, video conferencing, web conferencing, email or internet or are linked with headquarters via voice mail. Many companies use webinars to inform and bring employees up to date on procedures this arrangement of telecommuting allows the flexibility of working at one or several locations.

Maintenance Of Your Rental Property

Owners and managers must constantly make changes to keep their properties upgraded and so compete and appeal to tenants and the tenant’s visitors. By working on this every month, they

avoid the huge expense of a total refurbishing at one time.

Tenants are increasing their budgets by larger amounts to make the work environment more comfortable for employees. The more pleasant working area helps boost morale and productivity. The average spent per worker has increased from about \$500 to about \$1,000. Some companies are spending several times that amount to make the office pleasant and efficient.

Here are some of the changes that are happening in offices today:

- Carpeting is needed in many offices. Offices today now have noisier high-speed equipment and the sounds must be muffled. When the new carpeting is added, it becomes more decorative and may lead to the employment of an interior consultant.
- Lighting is always going through a transition. With utilities increasing rates, economy and saving energy is most important. “Warmer” fluorescent lights are replacing the harsh lighting of the older styles of lighting. These give truer colors, and with the natural light from today’s larger windows gives a much more soothing, pleasant (and less expensive) look to the office.
- Painted or paneled walls are being replaced with wall fabrics. These neutral, subdued colors, when combined with carpeting and better lighting create a new upscale image for the firm.
- Office furniture is changing in comfort and utility. Chairs are designed to conform to body shapes and can be easily adjusted. Desks are larger, often with a U shape with space for computers, printers and other necessities.

With many tenants making these changes, owners of the buildings must upgrade the common areas in the lobbies, hallways, elevators, etc. When tenants and visitors enter the building, they will find a smooth transition from the public areas to the improved office decor.

Solutions

The landlords might consider new methods of attracting tenants. Part of a building might be designated as the satellite telework center. It could offer facilities for telecommuters and would offer advantages not available to work-at-home workers, such as childcare, and state-of-the-art equipment. □

Watch Rent Collections In Apartments

A good management system efficiently records, reports, and manages income from tenants. A poor system, on the other hand, is likely to increase the amount of work, create tenant conflicts, and reduce the amount of total collections.

The income from managed apartments is determined by the actual collection of rents, not by the number of occupied units. A fundamental aspect of effective property management is the rent management system, which enables rents and other income to be billed, recorded, collected and deposited.

In cases where the rent management system is controlled from an on-site office, the on-site manager may be responsible for the system under the supervision of the property manager. In companies with no on-site office or staff, rents and other monies are mailed to manager's central office or to the bank. Regardless of the location of the collection records or the delegation of duties, a good rent management system is essential.

A consistent rent collection system is crucial to good property management operations. Operating expenses are funded by rental income, so any delay or decreases in this income affects all other aspects of the management process. Developing and maintaining effective rent collection policies requires a good tenant screening program, orga-

nized and accurate record keeping, and adherence to collection policies and procedures.

Each day, rent receipts should be recorded in the tenant ledgers and the rent roll and totaled to ensure that the proper amounts have been posted. Charges and receipts for income other than rent should be coded for identification on the rent roll and tenant ledgers. Policy statements should be established for the following:

- Rental due date.
- Date rent is considered delinquent.
- Schedule of late penalties/charges conforming to state and local laws.
- Form of payment (check, cash, and so forth), and place to submit payment (on-site or central office, lockbox).
- Type, content, number and schedule of delinquent notices (first notice, demand notice, writ of eviction), conforming to all pertinent laws.
- Handling partial payments.
- Eviction procedures.

Tenants should be advised of rent collection policies when initially applying for tenancy again at occupancy. An unenforced collection policy demonstrates poor management of the owner's investment. □

Help With Investment Real Estate

When you have searched for new real estate investment opportunities, with values that have been changing, you know that finding and evaluating them is becoming more sophisticated and complex. More investors are turning to real estate consultants as a means of providing a sounding board for their ideas as well as expertise in the planning and construction stages for their projects.

Today's investor in real estate must have a grasp of market conditions and potential that is usually beyond their own available time to attain. Investors need assurance about the true condition of the market. With increased competition, the market place is becoming more complicated.

Feasibility studies are essential for commercial office, industrial, resort and hotel investors. With this kind of

information, planning is better and there is less chance for error.

Real estate investing is not just looking for the structure and the land. It is investing in the type of property that you want at the price and terms that suit you at the time you want to make the purchase.

Our office is open and ready to assist you. We have been experts in property values in this area for a long time. We can help you with enough information so that you can make your own decisions on the value of property either in listing your present property for sale or in purchase of another. If you wish to consider structuring a tax deferred exchange into that next property, we can guide and aid you with that transaction.

Let us guide you in your investments. □

As commercial brokers, we are part of your professional team. It is our job to create the real estate transactions that will be needed to enhance your estate.