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Puget Sound BUSINESS JOURNAL Business Leaders Get It.

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Property managers star in time of slower sales

It may lack glamour, but property management gains in importance

Puget Sound Business Journal (Seattle) - by Brad Berton

Penn
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With commercial real estate leasing and sales still sluggish, many companies that rely on commissions from these transactions are pushing a stable but less profitable and sexy service: property management.

Yes, coordinating janitorial and maintenance activities at business parks and office high rises does indeed help pay the bills during recessions – when businesses aren't gobbling up vacant space and investors aren't acquiring much real estate.

"If you're in a commission-based industry when transactions are down, property management no doubt brings you a nice base of stable, fee income," said Steve Penn, a managing director with the Puget Sound region's biggest property manager, CB Richard Ellis.

In stark contrast to leasing, investment sales and financing transactions, "you don't have the big swings in income" in the property-management discipline when markets heat and cool, Penn said.

"It's a very consistent income stream," he said.

Consistent yes, but not particularly profitable. Management fees tend to stick within the range of 3 percent to 5 percent of rent collections, experts note. And some of the costs associated with delivering those services – personnel training, for instance – have continued upward despite the slow economy.

Nevertheless, property management services can help keep the lights on, and they can help form client relationships that expand to other, more lucrative service lines, Penn and others said.

Property owners are interested in forging strategic partnerships with firms that offer property management as well as other services, such as mortgage banking, said Susan Stratton, a partner in the new NBS Multifamily Management, an apartment specialist affiliated with Portland powerhouse commercial brokerage **Norris Beggs & Simpson**.

The commercial division is looking to grow its local property management portfolio along with financial services, while NBS Multifamily has hired veteran Cassandra Haavista to pursue business from owners of larger Seattle-area apartment properties.

It's quite unusual for large commercial property management companies to work the residential side as well. But both Stratton and Haavista have managed apartments for 20-some years, and they see the service line as yet another key capability to offer clients.

But Stratton, like Penn, is quick to acknowledge that multiple-service firms such as CBRE and NBS today are looking to fill the commission void in part by building up their property management portfolios. Indeed. as Penn pointed out, his team has to go head-to-head with strong local brokerages, such as GVA Kidder Mathews and JSH Properties, just about any time a management contract is up for grabs.

Developers also tend to jump on the management bandwagon when building activity tumbles.

"They want to keep their project managers employed" until development becomes viable again, Penn said.

While hardly a half-dozen firms manage as much as 5.5 million square feet locally, global giant CBRE boosted its area portfolio by that much over the last year alone and now manages more than 37 million square feet of mostly industrial and office properties. But as Penn explained, much of that growth came late last year, when major institutional owner RREEF opted to outsource property management nationwide.

GVA Kidder Mathews has grown its portfolio by about 580,000 square feet over the past year, and remains the area's second largest manager, at just under 18 million feet, also mostly industrial and office properties. National player Grubb & Ellis added nearly 1.5 million feet, surpassing 16 million feet of primarily office buildings to keep the No. 3 slot.

The fourth-largest, JSH Properties, has also become a sizable company, focused mostly on managing and leasing properties, including many shopping centers, in addition to office and industrial.

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