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Commentary  
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# Creating Value with Property Management

The property management function is now more important than ever.

By **Joseph J. Ori** | August 12, 2024 at 05:38 AM

Property management is often an overlooked and underfunded business within the commercial real estate sector. Most CRE investor groups, including private equity, institutional, sovereign wealth funds and others place a very low priority and value on the property management function. However, I believe that the property management function is now more important than ever. Since transaction volume is down 70% due to higher interest rates and the deterioration in real estate fundamentals, especially in the office sector, extracting higher cash flow and value with a focus on strategic property management is critical. During the last few years, there have been many changes to the investment and ownership of CRE due to higher interest rates, high crime rates, advancements in technology, cultural and demographic shifts, and lifestyle changes. These changes and industry disruptions will only accelerate in the future. Adapting to these changes and the ability to earn a favorable net margin from an efficient and profitable property management function, is a key strategy for CRE investors.

The property management function is typically comprised of the following primary tasks:

- Preparation of accounting and financial reports
- Property building maintenance and repair
- Financial reporting and recordkeeping
- Maintaining various bank accounts
- Preparing reports and financial data for ownership
- Calculation and billing of CAM and operating expense tenant reimbursements
- Analysis and payment of property operating expenses
- Vendor and contract management
- Site inspections
- Tenant retention and leasing
- Tenant issues, complaints, and requirements
- Lease analysis and negotiation
- Market analysis
- Property due diligence
- Capital repairs and renovation programs
- Rent collection and processing
- Preparation of property budgets

The typical property management fee varies by property type with apartments, which range from 4% to 6%, office/industrial at 2% to 4% and retail at 3%-5% of effective gross income. The property management function should be structured as a separate entity owned by the CRE sponsor that contracts to manage each property in the sponsor's portfolio. As a separate entity, it can create value as a property management company within the sponsor's CRE portfolio. A commercial real estate portfolio that is valued at \$500 million may generate gross property management revenue of \$2.5 million annually. At a 20% net margin, the net income is \$500,000 per annum for the property management company. The valuation of the property management company could be around 10 times earnings or \$5 million (\$500,000 x 10), an attractive and many times overlooked value. This quick analysis does not

include any leasing or brokerage fees or third-party management contracts, which could significantly add to the revenue and value of the property management business.

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