REALTOR®
THE BUSINESS TOOL FOR REAL ESTATE PROFESSIONALS

Hot Management Niches

Property management may lack the glamor of megamillion-dollar closings, but the payoff is steady income, especially if you pick a growing niche.

By Mariwyn Evans | September 2010

Michael McCreary, CPM, is a third-generation property manager, but he's the first to acknowledge that property management is usually a career of necessity. "Kids don't want to grow up to be collecting rents and responding to tenant emergencies on a Saturday night," says McCreary, president of McCreary Realty Management Inc. in Marietta, Ga.

But if management isn't sexy, it does have a big upside: You can make a "decent living and you get to have a personal life," he says.

Property management also offers a natural synergy with brokerage because it helps foster long-term relationships with investors and lenders, says Bill Eshenbaugh, ALC, CCIM, of Eshenbaugh Land Co. in Tampa, Fla.

What does it take to be a successful manager? "You have to be a little bit of a psychologist, a little bit of a contractor, and a little bit of a banker," says John C. Norgord, president of Dowda Realty in Colorado Springs, Colo., and the 2009 Colorado Springs chapter president of the National Association of Residential Property Managers.

It also helps to specialize. While most property managers focus on one of the major property types— such as multifamily, retail, or office—having knowledge of an even more tightly focused niche, especially a growing one, can make getting and keeping management clients easier. Here are some niches to consider.

Single-Family

For the many home owners who can't afford to sell at current prices, renting can provide a financial lifeline. "People are getting on with their lives and moving or moving up and hiring us to manage the homes they leave behind until they can sell," says McCreary. Individuals who've experienced foreclosure and aging boomers who no longer want the headaches of ownership are also fueling single-family rentals.

Lower home prices are prompting a new wave of investors who plan to buy, hold for a couple of years, and then flip, says Matt Schall, CEO of RE/MAX Horizons Property Management in Pensacola, Fla. His company has seen a 20 percent increase in homes under management in the last year.

Single-family management is a good niche for smaller companies because it's not dominated by the large full-service management and brokerage companies, says Russell Munz, co-owner of Pyramid Real Estate Group in Stamford, Conn., and author of The Quick Start Property Manager Program.

While single-family management may seem like just an extension of multifamily property management, it does have some special challenges. Driving miles instead of minutes between properties, answering to hundreds of owners instead of a few, and juggling scattered maintenance needs all add time and paperwork to the job.

Managing for "accidental investors," who become landlords because they can't sell, is harder still, says Schall. "It's all about the money. Most of these owners don't have extra funds, so when a water heater goes out or the unit is vacant for two months, it's a big deal." His company is offering payment plays to help strapped owners cover maintenance costs.

Owners who've lived in a home also have trouble with seeing their carefully decorated and landscaped house occupied by others. "You have to remind these owners that it isn't their home anymore; it's a business," says McCreary, who teaches residential management courses for the Institute of Real Estate Management.

More so than other types of property management, people skills play an important role, says McCreary. "In apartment management, it's all about the bottom line, but in scattered-site management, the owner has to like you and your staff," he says.

Medical Office

"When I started in the real estate business in the late 1970s, the one thing that seemed stable was health care," says Hap Duncan, CPM, president of Nashville, Tenn.–based GEC Asset Management, a division of Grubb & Ellis that focuses on the management of medical facilities. Recent uncertainties growing out of health care reform have softened demand somewhat, but vacancies are still low compared with conventional office space, he says. And 78 million aging boomers is a strong demographic indicator that managing medical offices and clinics will remain an attractive niche.

But those opportunities require finesse. "There are a lot of demanding stakeholders in health care management—owners, hospital administrators, doctors, and patients—and the real estate is a platform for providing the services that each stakeholder wants," says James Lennox, CPM, Richmond, Va.–based managing director at CB Richard Ellis, who oversees services to Hospital Corp. of America. The need for intense customer service and communication skills makes health care management more intensive than managing a conventional office building, he says.

Medical management also requires a more focused attention to physical operations of a property, says Don Bynum, CPM, who manages medical condominiums for Gregory D. Bynum & Associates in Bakersfield, Calif. Added traffic to medical complexes increases upkeep and trash removal needs. Maintenance response time is also accelerated. "If you get a little water damage in a conventional office, a business can probably still operate with little impact, but physicians may have to stop seeing patients, and it could even affect their regulatory compliance," explains Claude Hooton, president of San Diego–based PMB Real Estate Services.

Leasing medical office space has its own level of complexity, thanks to federal antikickback laws, which require, among other things, that hospital-owned medical offices be leased at fair market rental rates. The goal is to prevent hospitals from offering sweetheart deals to doctors who will refer patients to their facilities. But in soft office leasing markets, the result is that the "economic rents prescribed for privately owned medical offices and master leased by hospitals don't always match up with fair market rates. "That can create potential compliance issues when the sublessee becomes the sublessor," Duncan says.

Investor-built properties constructed on hospital land under a ground lease also face leasing limitations. Hospitals usually have restrictions on the specialties and hospital affiliations of potential tenants, somewhat in the same way that retail anchor tenants dictate who can occupy smaller spaces at a mall, Hooton says. Even medical buildings that aren't associated with a hospital often find their tenant pool limited to health care companies because the location doesn't appeal to nonmedical tenants.

Distressed and REO

The levels of distressed commercial real estate may never reach the once-predicted trillions. But the U.S. volume is still quite significant—$187 billion, according to Real Capital Analytics' second-quarter data providing a ready-made niche for managers.

"In property management, someone else's problems often present an opportunity for you," says Richard Forsyth, CCIM, CPM, president of Westerra Realty & Management in Salt Lake City.

Opportunities are strongest with lenders who are able to hang onto their assets for a year or so and stabilize them prior to sale, says Ron Goss, CPM, president of RPM Management Co., AMO, in Little Rock, Ark.

To prevent further asset deterioration, banks want managers who can get control of the property quickly and take rapid steps to reduce risks and add value. That means having a team of lawyers and construction specialists in place and being on call 24/7, says Eshenbaugh. He recalls a recent "fire drill assignment" from a lender that began with a late evening phone call. The next morning, a crew set to work on a 24-hour deadline to secure a land parcel with fencing and mitigate possible code violations.

And while there's plenty of distressed properties out there, there is a problem: "Managing distressed property isn't very profitable. It's too management intensive," says Len Frenkil Jr., CPM, president of WPM Real Estate Group in Baltimore.

Frenkil is currently a receiver and his company acts as an REO manager for two multifamily properties in addition to managing a large stabilized apartment portfolio. He says that he accepts distressed property assignments mainly as a way "to cultivate relationships with the lender and the buyer with the hope of getting the management contract," he says.

You can also profit from distressed management if your contract includes an option to list and sell it when the owner is ready, Eshenbaugh says. "We charge very little for the management, since managing REO creates a good pipeline for sales."

If you do want to make a profit from managing distressed properties, build in a minimum management fee so that you'll earn money even if the property isn't occupied, Goss suggests. His company also negotiates for at least a one-year contract with a buy-back provision if the asset is sold earlier.

Success with distress also hinges on selecting properties that have solvable problems. "Some properties are just so poorly designed and located that they're never going to lease up at rents to support the loan," Forsyth says.

Getting distressed work requires personal relationships with the lenders as well as proven past experience with troubled assets, Forsyth says. "When we realized that commercial real estate was in trouble in late 2008, we started contacting lenders about future work."

"Once I can get introduced by someone and get in front of the right person, it's the experience that convinces them," agrees Eshenbaugh. He also finds that doing presentations to a bank's senior credit committee pays off. "Every time, I get one or two inquiries about a distressed asset," he says. You can also reach out to foreclosure and bankruptcy attorneys to build a network for REO business.

Student Housing

The National Center for Education Statistics predicts that college enrollments will rise by 13 percent between 2007 and 2018. Add in the trend among community colleges to offer more student housing and you have the makings of a reliable business niche. "Student housing is booming because it's based not on the marketplace but on demographics and colleges' increasing enrollment," says William J. Levy, CPM, president of BMOC Inc. in Madison, Wis. The decision by many colleges to focus their funds on classrooms and programming instead of housing has also fueled huge growth in the industry, says Mike Peter, president of Austin, Texas–based Campus Advantage, which has grown from four to 900 employees in just seven years.

"Student housing may seem like a lot like multifamily at first glace, but it serves a very different audience," says Eric Luskin, CPM, senior vice president of The Scion Group LLC, a national student housing provider based in Chicago. "Student housing isn't just about shelter. Colleges see housing as an extension of their mission," he says. Because of this outlook, programming plays a much more significant role in student housing than in conventional apartments. Programs can range from money management and nutrition to tutoring groups, Levy says.

Perhaps the biggest difference between student housing and conventional multifamily is the short, intense lease-up period. Student apartments are turned in a few weeks in July or August and almost all leasing is completed before the academic year begins. That means you need a keen focus on marketing since you can't make up vacancies next month. "I equate it to a cruise ship. Once the ship sails, you don't sell any more cabins," Peter says. There are also a lot more leases to negotiate, since student housing contracts are written on a per-person instead of per-unit basis. Units are also larger—four bedrooms per unit is typical. Furnishings and utility packages are also common. And you have to appeal to the parents as well as the students.

Student housing also requires much more intensive and supportive manager involvement than typical apartment management. "You have to have a lot of patience since the students aren't children, but they're not quite adults either," Levy says. You don't have to be young to be a success in student housing management, but you do have to retain an empathy with students and a willingness to embrace new ideas and new technologies. "Being involved in student housing will keep you young," promises Luskin.

6 Other Growing Niches

1. Senior housing and assisted living
2. Data centers
3. Military housing
4. Negotiating leases with government agencies
5. Failed resort condos or time shares
6. Smaller cities and towns where boomers are retiring.

Resources to Get Started

Single-Family
The National Association of Residential Property Managers offers courses in single-family and scattered site management in cooperation with IREM. (www.naprm.org)

Medical Office
The Building Owners and Managers Association International sponsors an annual conference on medical office operations (www.boma.org)

Distressed Assets
The Institute of Real Estate Management offers troubled properties resource center. RealShare Distressed Assets conferences keep you up to date on issues.
(www.almevents.com - click on RealShare Conference Series)

Student Housing
The National Apartment Association sponsors an annual student housing conference.
(www.naahq.org/shc/Pages/default.aspx)

Free Webinars
For a complete list of commercial real estate webinars and other free or low-cost education resources, visit REALTOR.org/righttools.

COMMNEWS ROUNDUP

In Retail, Small Is Big

From kiosks and pop-up stores that let major brands test new products to grocery formats that emphasize fresh produce and prepared meals in a smaller space, compact-sized retail is big, says Al Meyers, director of business development for Retail Forward in Columbus, Ohio. Several factors contribute to the trend, says Meyers, whose company recently merged with Kantar Retail, headquartered in Cambridge, Mass. Retailers' desire to build in urban infill locations requires a smaller footprint, both to accommodate available space and to hold down costs. A craving for convenience has also made more retailers embrace small. "People want to buy things and get on with their lives," Meyers says. Retailers also find that smaller spaces are a more affordable way to highlight or test new products, he adds.

The "small is good" concept is at the core of a New York retail venture called Limelight Marketplace. "For the past year, everyone has been very nervous about opening new stores, but the Limelight's boutique retail spaces offer lower costs and allow for a very quick entry into the markets," explains Jack Menashe, a retailing veteran and CEO of Limelight's privately funded venture.

The 25,000-square-foot development, located in a historic church in Manhattan's Flatiron district, focuses its retail uses on themed rooms, each holding four to six 10-by-10-foot retail spaces. There's an apothecary decorated in black and silver; a candy store with red patent leather décor; and an Italian market with wrought iron and tile. Tenants include national retailers as well as local specialty stores ranging from jewelry designers to a skater fashion boutique.

Each space already has wiring in place for electrical and phone and a point of sale system for credit cards. "A tenant could literally sign a lease one day and be operating the next," says Menashe.

One Data Standard Promotes Info Transparency

The merger late last year of the two leading nonprofit groups developing data exchange standards for the commercial real estate industry—the U.S.–based OSCRE and U.K–based PISCES—couldn't be more timely. In the wake of the global CMBS meltdown, investors and capital providers are demanding new levels of data availability and information transparency that only electronic data exchanges can provide.

"When times are good, a rising valuation is all the information most investors want, but when performance is down, they want to be able to break out data and understand performance all along the vertical 'stack' of information—from the property and tenant level to portfolio analysis," says Ed Lubieniecki, managing director of RealFoundations in Los Angeles and an OSCRE board member. Without the standards that allow for easy, electronic reformatting and transfer, you can't get to the information or can't get it until it's months old. With a widely used data standard, that transfer across countries and platforms is quick and inexpensive. Tighter financial regulations in the United States and abroad also necessitate a more in-depth access to property and portfolio data.

The new group, called OSCRE International (*www.oscre.org*), is responding to this demand among its members by rolling out its new international investment reporting data standard late this year, says Catherine Williams, chief executive of the group. The standard is currently used in Europe by Investment Property Databank, an organization that benchmarks and analyzes the performance of pension and institutional real estate funds.

However, the new standard is global in scope and could be used to exchange property data with comparable U.S. organizations.

Another change in the new organization is the introduction of industry domain groups, which focus on the concerns and data needs of a particular business process line, instead of on geographic boundaries, says Williams. Current groups include corporate, investment, and residential.

Ultimately, readily accessible electronic property information will make commercial real estate transactions easier to execute, predicts Lubieniecki. "Without complete data, CMBS investors have to price in a higher level of risk to cover the unknown. With more data, the risk associated with securitized debt can be priced with a higher degree of accuracy."

Mariwyn Evans is the commercial real estate editor for REALTOR® Magazine. You can reach her at mevans@realtors.org.