

# The Benefits of Professional Property Management

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The reality is that commercial real estate properties and portfolios that are actively managed not only perform better on an operating basis, but in most cases, they yield more on disposition as well. That said, my question is this: Why is it that so many commercial real estate principals still attempt to manage their own portfolio? While the answers clearly vary on a case-by-case basis, the most common reason usually boils down to the perception that money can be saved by not paying third party management fees. Indeed, the age old dispute between “do it yourself” and “do it for you” business models is alive and well in the commercial real estate industry. In the text that follows I’ll make the case for professional management as a value added service that is accretive to overall property returns.

Let’s begin our discussion with discussing the difference between property management and asset management. It was not too long ago that there were very distinct differences between these two disciplines. Property managers were deemed to be tactical in nature, focusing on day-to-day operating issues such as routine maintenance, minimizing vacancy, collection of rent/lease payments, and first tier communication with tenants. Asset Managers on the other hand were strategic in nature focusing on adding value to the property by making positioning decisions that would increase net operating income (NOI) and valuation. While these distinctions still exist among some firms, the increased sophistication of professional management firms over the past few years have caused the lines to be blurred to the extent that many firms now provide both disciplines in an integrated service offering.

As an owner of commercial real estate, unless you’re a very large and sophisticated commercial enterprise, attempting to do it yourself, or to hire internal staff is not only inefficient and very expensive, but in this author’s humble opinion it’s very short sighted. You see, the right question to ask is not *can* you manage your own portfolio, but *should* you? Let me provide an analogy for illustrative purposes...I *could* do my own taxes, I have the financial acumen to do so, and who knows my financial position better than I do? Why should I pay a CPA to do something that I *could* clearly do myself? Following is how I viewed the decision to outsource my tax work:

1. **Time:** It is not the highest and best use of my time. I simply have better things to do, and it would take me much longer to organically prepare the return than it would my CPA. I would also likely incur greater amounts of frustration than I care to subject myself to.
2. **Competency:** While I’m generally capable of synthesizing my financial information and preparing the returns, I’m not immersed in tax law on a daily basis. I think I know what I could do, but am also certain I’d miss opportunities and end-up leaving money on the table.
3. **Risk:** If the accounting firm makes a mistake it is their error, and ultimately it will be their problem to resolve. If I’m audited I’ll have them to represent my interests in dealing with the IRS.
4. **Cost:** I’m certain my accounting firm saves me more in taxes than I pay them in preparation fees. It simply makes financial sense to use a professional.

Do you prepare your own taxes? Do you perform your own legal work? Think about all the areas in your business where you choose to seek professional advice and counsel. Why would you deviate from a proven model when it comes to managing your commercial real estate assets? The fact of the matter is that the professionals you select to represent your interests work for you. You are still in control, you call the shots, you are simply leveraging down through delegation to a service provider who is a better resourced subject matter expert. Why would you choose any other path?

It is important to expand on the roles and relationships touched on in the last paragraph to point out that as an owner you want to collaborate with the best professionals in any given field to produce the best possible outcome, managing risk along the way, at a reasonable price point. You utilize and collaborate with your contractors, architects, engineers, etc., why not professional management firms?

The following points are just a few representative examples of how you can benefit from the use of professional management firms:

1. **Strategic Planning** – Professional management firms will collaborate with you to determine how your properties should be positioned or repositioned relative to current market trends and competitive properties. They will advise on issues that may lower operating expenses, increase NOI or add new sources of NOI.
2. **Cost Savings** – Professional management firms typically offer leverage and economies of scale that individual principals cannot bring to bear. Management firms use the aggregate size of their portfolios to negotiate prices, to assure high quality, and rapid response time. They simply have greater scale than the typical property owner and can deliver bottom line savings as a result thereof.
3. **Domain Expertise** - Professional management firms have the depth and breadth of knowledge, skill sets and competencies to deliver the right turnkey solution as needed. Having someone apply state of the art technology and tools toward improved property performance is a far better solution than a cobbled together in house attempt.
4. **Regulatory & Compliance** – Professional management firms are familiar with state and local municipal codes and regulations as well as with federal laws (ADA, EPA, DEQ, etc.) which may impact your property.
5. **Responsiveness** – Do you really want to deal with the phone call that comes when you're in a meeting, out with your family, on the golf course, etc.? Professional management firms are on call 24 hours a day - 7 days a week.
6. **Vendor Management** – Using your management firm as a single point of contact to manage vendors is tantamount to found time. Not having to deal with the brain damage of managing multiple vendor relationships is worth its weight in gold.

Bottom line...you can go it alone and convince yourself that you're saving money and spending your time wisely and efficiently, but it is precisely this type of thinking that your competition is hoping you employ. Any reasonable litmus test will reveal that professional management exists for a reason. It improves the lives of property owners, and puts money in their pocket at the same time.

Read about the author on the next page.

## About the Author

J. Todd Clark, CCIM, serves as a Senior Advisor for Sperry Van Ness specializing in the brokerage, leasing, property management, development, syndication and exchange of medical and general office, retail, and hospitality properties in Lexington, Kentucky.

With over 18 years of experience, Clark has brokered and managed numerous transactions and assets in excess of \$100 million. Clark obtained his CCIM designation in October of 2008.

Prior to affiliating with Sperry Van Ness, Clark owned Clark Southern Investment Properties, a full service commercial real estate firm.

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Previously, Clark served as National Director of Sales and Operations for StudioPLUS Hotels where he managed a \$100 Million, 30 hotel portfolio throughout the Midwest and Southeast regions of the U.S.

Active in the industry, Clark is a member of the Lexington-Bluegrass Association of Realtors (LBAR), Kentucky Association of Realtors (KAR), the National Association of Realtors (NAR), the Commercial Property Association of Lexington (CPAL) and the Kentucky CCIM Chapter.

Clark earned a bachelor's degree in Psychology with a minor in Business Administration from Transylvania University in Lexington, Kentucky where he currently resides.

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