

# CPN

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## The Eye of the Beholder

### Property Managers Lend Value to Older Buildings

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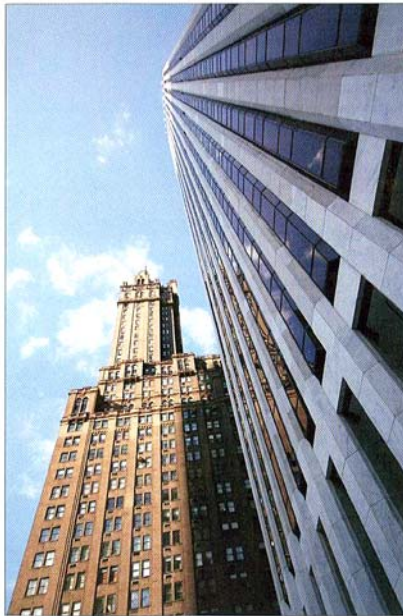
The affordability of office buildings that were developed in the 1980s and earlier appeals to many investors, despite the fact that such assets—often Class B and C products—possess quirks and present leasing challenges. And as rental rates in many cities rise, tenants, too, are gazing affectionately at vintage buildings, dollar signs reflecting in their eyes. But it falls to the property managers to maintain such weathered buildings and keep each one on tenants' shopping lists.

Property owners and the management firms that work for them should familiarize themselves early on with a building's original infrastructure and subsequent renovations, noted Sheldon Gross, president & CEO of Sheldon Gross Realty Inc. "You don't know what's inside the walls," he said. Indeed, due diligence is critical, agreed Michael Vullis, vice president of operations for Flagler Real Estate Services Inc.

"You have to understand where a building stands in its maintenance cycle." So a property manager should analyze all features from the floorplates to the facade, including elevator, HVAC and fire-safety systems, to see what needs to be serviced or replaced.

A typical fire-safety system's life spans about 25 years, meaning that parts necessary for repair may become unavailable, said Robert Frankel, management services co-chair for GVA Worldwide. Other features required by modern regulations may never have existed in an older building at all. Held Properties Inc., for example, recently renovated a West Los Angeles Class A building that had gone up in 1965. The company spent more than \$4 million to bring the property up to fire code, adding sprinkler systems in the stairwells and fire detectors, along with other upgrades. Also included in that expenditure was the addition of building access to comply with the Americans with Disabilities Act.

The floorplates themselves can stand as obstacles to meeting all these codes. Restrooms in pre-World War II buildings, for instance, tend to be smaller than



those in newer buildings, a stumbling block on the path to Americans with Disabilities Act compliance. Frankel suggested turning janitorial closets into unisex restrooms. Another "small" hindrance in older buildings is intimate lobbies with crowded security stations, which can lead to congestion.

Single-pane and non-thermal windows, inadequate insulation, asbestos, mold and plumbing and roof leaks all require abatement. Additionally, many older HVAC systems have single ducts, which consume an enormous amount of power. And manual elevators—those "without brains"—that do not adjust to usage patterns are inefficient, noted Robert Held, president & CEO of Held Properties.

To determine where the obligation to maintain or update all these building blocks lies, managers should keep an eye on the paperwork. "Owners often forget leases," Gross said. He explained that one never knows when a tenant could be the party responsible for maintaining the HVAC system or roof. If either the tenant or the landlord is unaware of or not obeying its obligation, the building could fall into disrepair. Gerald Oliver, senior

vice president of the North Central region for Grubb & Ellis Co.'s management services group, also suggested speaking with the tenants and the previous property manager to round out one's knowledge of the building.

#### Buyer Beware

Once the owner and manager have decided what should go into a building's makeover, the contractors and consultants have to be paid. Many investors, though, do not factor in the need for extra capital when purchasing an older office building. That ultimately puts property managers in a tight spot, leaving them with unhappy tenants or no tenants at all. "(An increasing number of buyers) are not commercial office building savvy," said Gregg Popkin, senior managing director of asset services for CB Richard Ellis Inc. "They own something they were not prepared for."

According to Tim Gregoire, senior account executive for Charles Dunn Real Estate Services Inc., "You have to allocate funds to make sure the building is as up-to-date as possible." He recommended hiring consultants that can suggest streamlining and money-saving

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upgrades customized for each project. The elevators in a Charles Dunn Real Estate-managed building that went up in 1927 in Pasadena, Calif., for instance, began to require increasing service calls, and the necessary parts became difficult to obtain. A consultant provided bid specifications for new equipment and determined city and state requirements and which equipment was salvageable, saving the owner \$700,000.

Ideally, a buyer would consult a property manager before purchasing an older building, said Paul Mendel, vice president for RB Management Services Inc. A property manager can then work with the buyer to develop the bid and identify key issues. "As a consultant, we

look (at a potential acquisition) from head to toe," he said. The company then develops a plan for upgrades, repairs, costs and leasing efforts, he explained.

#### Stuck in the Middle

In the short term, a property manager often gets stuck between a rock—the investor—and a hard place—the tenant. The management company is charged with both helping the investor earn a return on its investment and keeping tenants content. Certainly, "lived-in" buildings offer tenants the low rents that dreams are made of: According to Cushman & Wakefield Inc., Class B office buildings in Downtown Manhattan command rental rates of about \$40 per square foot, discounted from \$50 per square foot for Class A product. And Downtown Los Angeles rental rates average \$25.50 per square foot for Class B space and \$36 per square foot for Class A space, according to Transwestern.

Older buildings may offer other savings, as well. Newer buildings have centralized air conditioning systems that prevent tenants from cranking the air up, but an older building's decentralized control enables each tenant to pay for and manage its own air conditioning and heating, Popkin noted.

Despite the savings tenants enjoy, though, property managers have to keep the facilities running smoothly to motivate tenants to stick around. Keeping in touch with tenants goes a long way toward tenant retention. Mendel emphasized the need for property managers, particularly those of older buildings, to be active, not passive, in the building's upkeep. "It involves a lot of personal visits," Gross said. "We make sure they know who to call." Surveys and newsletters also facilitate healthy relationships. Joseph Lagano, senior managing director of client solutions for Cushman & Wakefield, said his firm sometimes offers free ice cream or a string quartet in building lobbies or sends tenants fruit baskets during the holidays.

Such measures help balance the scales when the amount of capital that is available from the owner prohibits every amenity a tenant seeks. "It's all about the way (a property manager) makes the tenant feel," he said. "You treat them like they're in a new building." ■