

What Is Asset Management Exactly?

Mr. Barry Familetto, President of Stetson Asset Management & Development LLC, located in Cambridge, Massachusetts, is a subject matter expert in this topic. As a member of Building Owners & Managers Association (BOMA), he will be leading a course in asset management tentatively scheduled for the fall of 2022, among other real estate and finance topics. In this article, Barry comments on several main points highlighted in the first chapter entitled, "Introducing Asset Management." Strain, C., et al (2010). Drawing on his vast experience, he discusses the practical application of these points.

Frequently, the question is asked: What is the difference between property or operations management, asset management, and portfolio management? These are three distinct roles, each with definitive responsibilities and commensurate capacities. However, many of the duties of these three real estate managers blend or overlap according to the unique structure of the management company and/or the services required by the investment owner.

At a basic level, property managers (PM) typically work onsite. The PM manages the day-to-day operation of the building, attends to building customer needs, and creates the yearly operating budget. The PM focuses on efficient building operations and, because of the intimate knowledge of the building, may recommend ideas to reduce operating costs. The PM also maintains the detailed financial records of the building which includes issuing monthly lease invoices, collecting lease payments, paying building expense invoices, and monitoring building cash flow. The PM also oversees the facility manager who manages a team of systems engineers, such as HVAC technicians, and various, other trade technicians such as electricians, plumbers, who maintain, repair, and replace the building mechanical systems.

At a higher level, the Asset Manager (AM) oversees the PM. The AM approves the operating budget and works with the PM to establish a capital improvement budget. The AM functions on a strategic level using financial tools such as investment analysis, market analysis, operations analysis to establish benchmarks to maximize the value of the investment.

To be discussed in greater depth in a future article, the Portfolio Manager (PortM) serves as the owner's fiduciary representative with a clearly defined set of responsibilities. PortM's are concerned with the broadest range of ownership issues, including maintaining the best market position possible. The PortM duties are diversification, discretionary control, and research of a variety of metrics, which are outside this discussion of asset management.

Commenting on the importance of asset management and its vital role in commercial real estate, Barry says, "The real estate industry has matured over the years and encompasses much more than just minding the day-to-day operations of a building and hoping that when it comes time to sell, the building owner will get top dollar for his investment. It's just not a simple microcosm anymore."

Instead, he explains, asset management supports several key concepts. To start, as alluded to already, it's more than building management, which can be an isolated endeavor, in every detail, micro and macro.

As Barry sees it, asset management includes a dozen core responsibilities, in addition to maintaining certain professional relationships. The overarching duty of a real estate asset manager is to maximize the value of an investment or portfolio of investments, per the objectives of the owner.

Generally speaking, the duties entail investment oversight, as though the property were their own. Specifically, though, responsibilities include the following:

- fulfilling ownership objectives;
- developing a responsible and profitable asset plan, which covers a broad view of the investment and its position in the marketplace;
- establishing financial benchmarks and monitoring these objectives;
- quarterbacking the financial audit process;
- identifying financing sources;
- supervising the leasing team, as well as instituting and monitoring an effective customer retention program;
- enhancing the value of the investment prior to disposition of the investment;
- overseeing building disposition;
- managing additional acquisitions and the due diligence of the acquisition to uncover hidden problems such as identifying underground storage tanks or operating restrictions on the property; and, finally,
- confronting compromised assets.

Barry's approach to providing asset management as a service to his clients means he adheres to these tenets. At its foundation, asset management is about creating and preserving value for the owner's real estate, and this inherently means a careful watch of the asset metrics.

One of the primary duties of the asset manager is to create an asset management plan (AMP). The AMP is written after much research into the market area, the building use, lease rates, finance options, capital improvement program, operating details, and a host of other considerations. The purpose of the AMP is to take the owner's objectives and implement them in the operation of the building and this should be reviewed annually. A timely reappraisal is important, in case there are changes internally or externally, such as tenancy issues or market changes, respectively.

Another major responsibility of an asset manager is to manage the financial audit, which validates the integrity of the financial statements. An outside CPA firm usually performs audits. There are many types of audits including financial audits, internal control audits, lease audits, common area maintenance (CAM), and real estate tax (RETax) audits. All audits provide

for independent review by a third party. Audits can attest to the integrity of the management company, its processes, and procedures.

The foregoing all serve to enhance the value of the property. "Looking at the numbers is good, because these tell a story and give an asset manager a clear picture of the condition of a property," Barry shares. "But, it's not enough. Keeping the lines of communication open between everyone involved in sustaining the integrity of someone else's building requires trust," he says. Examples of enhancing value might include working with a customer to change their lease structure, if the situation demands it, making capital improvements, or, in some cases, if the market requires it, using the property for another purpose.

Should the owner need to, or simply want to, sell the property, the asset manager has the responsibility to quarterback property disposition, and full collaboration with the property manager and leasing team is the de facto. But, managing acquisitions and being the first to address solutions regarding troubled assets, also fall on the shoulders of an asset manager. In all of these instances, a thorough understanding of the physical property, as well as market due diligence is necessary, in case there are challenges that need to be addressed and rectified prior to a sales transaction.

Ancillary professional relationships are critical to the success of an asset manager's role. "Value creation is the ultimate objective of an asset manager. At Stetson, we manage the assets of many of our client owners, some of whom live overseas, so they appreciate the personal, vested interest we have in looking to create value for their property in their absence. [It's what we are known for](#)," Barry states. Because of this, working with portfolio managers who look to diversify an owner's overall wealth, and each working within the confines of their assigned discretionary control, might take some negotiating from time to time. For example, an asset manager, after conducting research and looking at a series of monthly financial statements, might recommend a more energy-efficient means to cool and heat a building. The portfolio manager might veto that suggestion, in favor of directing funds toward additional portfolio diversification. Open dialogue among these two parties, as well as keeping the property manager and the leasing agent apprised of these types of discussions is paramount. "Decisions need to be made, and everyone's input is considered," Barry says.

Who is 'everyone'? Outside professionals, whose subject matter expertise and skills add greater value to the property. Within their areas, their input is essential to highlighting the finer, yet still critical, points which serve to enhance the viability of the property. A deeper exploration of who this list of professionals includes will be itemized in a future blog.

#assetmanagement #boma #commericalrealestate #realestate #investment #coreresponsibilities
#ownershipobjectives #assetplan #value #performance #audit #lease structure
#propertydisposition

Reference list:

Strain, C., Burgess, N. R., Jr., & Irvine, G. (2010). "Introducing Asset Management" *in Asset Management* (pp. 1 – 18) BOMI International.