

## **Top, Cost-Control Best Practices Offered by Five-Star Management for Building Investors**

Offering five-star service encompasses oversight of several different business lines for building investors, not simply to fulfill a maintenance role for the investment, but to proactively manage rising costs, install efficiency technology, reduce risk, and apply procedures for the safety and convenience of building Guests. All of this speaks to commercial real estate management and development acting as the vanguard for its building owners.

Often, real estate investors or self-managed building owners approach commercial real estate management as a necessary evil because it's not glamorous and/or they simply do not realize the value of the process. Other investors are interested in purchasing a viable piece of commercial real estate, and engage Stetson as an experienced management company to devise, execute, and maintain their investment.

Building investors ultimately want to capitalize on their investment, some to expand their portfolio and others to flip real estate quickly. In either case, it's important to have specific practices and tools in place, which are not always intuitive or obvious.

So, what are the hallmarks of a superior management company?

One indication of a superior management company is delivering a monthly financial statement that provides accurate year-to-year information and conveys the story of what took place at the building in the current month, as well as how it compares to the same period last year.

To begin, recording the details of each accounting line item is crucial. For example, a generalized entry for 'HVAC' and not differentiating between roof-top units' regular maintenance and repair work leads to misinterpreting the reason for increased expenses year over year. "The big key to controlling costs is to note the minute detail. With the details properly and consistently recorded, a manager is able to analyze expenses accounts year to year. That is how a manager can control those costs," asserts Mr. Barry Familetto, President of Stetson Management & Development, LLC, in Cambridge, Massachusetts. "Catchall accounts are meaningless. You cannot list all-inclusive accounts such as 'interior costs' or 'exterior costs' and expect to understand the reason why these increase every year. Management companies often use catchall accounts to save accounting time, or they simply do not understand the value of accurate accounting. Precise, detailed accounting provides a level of service investors deserve. When these measures aren't carefully detailed and monitored, investors lose money."

Barry also points out that accepting the conventional thinking that costs must increase every year by 3%, is misleading. "We can reverse that trend. We've been keeping things level for years with many of our buildings," he states. How is that possible? One factor to accomplish cost control is sensor technology, which has improved dramatically and provides real-time information. "You can read your building on a daily basis with well-positioned sensor technology. For instance, water leaks cost big money. A water leak, or a burst pipe over a

weekend, on an upper floor that flows to the floors below can cause multiple tens of thousands of dollars in damage before it's noticed. We've seen this happen before, costing a half a million dollars," he illustrates. "The damage happens between the time that the break occurs and the time somebody notices it. But, if you automate notifications, the problem—and cost—can be quickly minimized. Just because insurance covers some of the costs of the leak does not mean an owner will not need to fund any repairs. An insurance claim always costs lots of unbudgeted money. Not only will insurance premiums rise in subsequent years, but a water leak disrupts stable operations of the building, as well as disrupting Guest businesses."

Additionally, the benefits of having a professional management company to look after the needs of a building surpass those of what a self-managing building owner can do. Often, the building owner also has a business on the real estate, such as a veterinary clinic. It's possible and not unheard of that the building owner could have a myopic view of this particular business and, without malice, neglect the real estate. Perhaps the parking lot has potholes, creating potential liability with a 'slip and fall' situation during the winter, affecting the other businesses and their clientele. Without a third party professional management company to maintain the interior and exterior of the real estate, and other life safety measures, banks do not favorably view a situation like this and are reluctant to extend business loans.

Managing expenses with disciplined accounting and the installation of preventative technology, are two of the many best practices offered by five-star management, which factors into improving the building's value. The devil is in the details and without keeping a watchful eye on these, key indicators that something is wrong will be overlooked, and cost the building owner big money. "When we improve the bottom line on a daily and detailed basis for building Guests by establishing efficient cost controls and open communication, building investors can sell at a higher price point, because the building has been well-maintained. A new investor coming in knows that it's been well-maintained by a reputable management company. And, of course, that increases the value of the building and the value that they know," Barry contends.

It doesn't stop there. Careful management of expenses can evolve into revenue and profit. This concept will be developed in the upcoming May 2021 blog, as the second part in a three-part series exploring successful building management and development.

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