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MANAGEMENT
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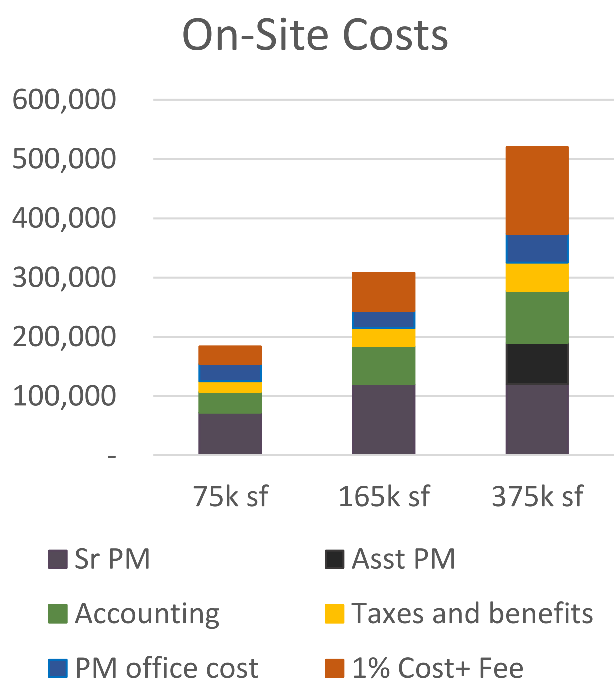
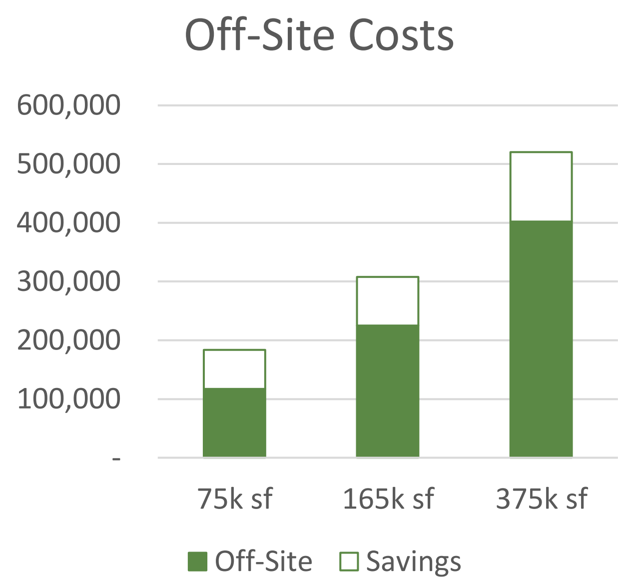
Industry Insights

ON-SITE VS OFF-SITE MANAGEMENT

What do commercial property owners want from their property management? Quality service at a fair price that maximizes the value of their assets. This is done through skill specialization amongst a team, vendor networks, and limited fixed costs. We believe off-site management is superior to on-site management and delivers the best outcome for building owners.

A Look at the Numbers





It may be tempting to exclude the 1% cost-plus fee for owner-managed properties. But that means hiring, training, and supervision time which can easily exceed the 1% fee paid to an outside firm in opportunity costs if not actual dollar.

In all circumstances, on-site management will cost more than off-site management. That should not come as a surprise. Payroll, taxes and benefits, accounting costs, the on-site office space, and the typical 1% paid to the PM company all add up quickly.

What allows off-site to be more effective and save costs while delivering better than service? We believe there are four main factors. Specialization of skills, buying power, scalability, and the nature of the business model.

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The Differentiating Factors

Specialization of talent. When using on-site management, the one or two managers need to do everything. Specialization is less important than familiarity with all aspects of managing the property. Off-site managers also must prioritize knowledge and professional development – as anyone who desires to be the best should! – but off-site management allows an asset manager, leasing specialist, accountant, and an operations team to all be involved. There are more people with a broader set of backgrounds and skills involved in management which produces a better outcome for the owner. Additionally, because the accounting is done in-house instead of outsourced, the coordination between management in accounting is much smoother leading to better budgets and cash flow monitoring and forecasting.

Buying Power. On-site managers of one or several buildings coordinate maintenance with vendors themselves. They maintain the relationship and supervise the project. With off-site management, the property managers supervise the project, but the operations team is the primary relationship with vendors across 150+ buildings. Having taken over so many buildings, an off-site management company will have seen the work of a much larger set of vendors and know who provides the best quality and value. Additionally, the operations team with 5M+ square feet vs the on-site manager responsible for 300k square feet will be able to command faster service and better prices.

Scalability. Off-site management gives you the service you need; no more and no less. When using on-site management, fitting personnel to actual needs is a fixed cost as is the office space, software, etc. Often the building is too small to support one full-time manager causing owners to overpay. Alternatively, a small portfolio is too much for one person but too small for two. Off-site scales to the portfolio size perfectly, even costing less if there is any vacancy. This is also suitable for owners looking to grow their portfolio. Off-site management can scale as soon as you are ready, avoiding the hassle of timing hiring new managers with the closing of your building, especially considering it is best to have managers involved before close but it would be risky to hire a full-time on-site manager if the building sale falls through.

Business Model. As Charlie Munger has said, “show me the incentives and I will show you the outcome”. On-site management often

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The Differentiating Factors, cont.

uses a cost-plus pricing model, with the building compensating the management company for all personnel-related costs in addition to a 1% management fee. This arrangement has no incentives for high quality management! It produces the desire to do enough to not get fired, and no more. Off-site management that is responsible for hiring employees and doesn't directly pass their costs on to the building with a guaranteed 1% fee on top *must* deliver great service and execute well or those companies will lose money. They are incented to hire the best staff and deliver a superior product in order to capture any margin. Further, on-site companies often have much higher staffing turnover leading to loss of accumulated knowledge of the property. In contrast, off-site companies must consider attracting, hiring, and training talent a core competency and develop sustainable and effective human resources practices. Both on-site and off-site companies are nothing without the people, but one model has minimal incentive for performance while the other serves to gain through effective execution across the team.

But what about seeing the manager in person? For many owners who leverage one property manager across multiple properties, that is not applicable one half or third of the time anyway; the manager is at the other buildings! Even so, a smiling face greeting you upon entrance is nice to have but we believe is not what drives tenant satisfaction and certainly not worth the additional tens of thousands of dollars per year. Tenants will most remember the quality of their property management in *their times of need*. When an on-site manager is busy with one tenant, they cannot help another! But an off-site company has redundancy between the property manager and the operations team. The depth of the property management team and vendor network allows for faster service when it matters most! Lastly, off-site does not mean absent! Off-site management should absolutely be visiting the property regularly for many reasons and the tenants should come to know their manager well.

Off-site management is cheaper without sacrificing quality! To the contrary, the business model better suites all but the very largest of buildings and provides better service, maximizing the owner's investment.

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