

# Best Practice Property Management for clients from the Real Estate Investment Business

The Real Estate Investment market currently goes through a major change period. New legal regulations, an increasing competition for core real estate, decreasing yields as well as winding-up of single funds are only some examples for topics in the focus of Real Estate Managers at the moment. The Property Manager as manager of the Real Estate Investment | Asset Manager has to face these new requirements of his clients. We recommend a new positioning of Property Management structures according to Best Practice.

## Starting position

The Real Estate crisis in the USA and in Spain have proved that property investments often bear hidden risks and can be a significant cost factor. Risk and cost minimisation are consequently mostly in the focus of the activities of Property Managers. Thus there is a certain risk that the own organisation structures are lacking importance for Property Managers. Current challenges as well as increasing client requirements, however, demand besides professional services also optimal organisation structures of Property Managers. Especially, in the field of Real Estate Investment the introduction of a reliable Best Practice for Property Management (PM) may be gainful.

## Consumers | clients

Consumers of PM are national as well as international investment companies, insurers, banks, funds as well as private investors. They are all aware that Real Estate is a good source of income and an important yield generator in times of low interest rates and increased investment pressure.

Various clients require answers to questions like: How can I achieve an individual yield with a Real Estate investment with correspondingly adequate risk? How is my management and exploitation strategy regarding existing Real Estate (stock or exit)? How is the optimal space usage and letting strategy? Which PM supplier can fulfil my specific requirements? Or does it make more sense to organise PM in-house?

## Suppliers | Property Manager

It is the task of suppliers of PM services to answer these questions professionally. In this context it is necessary to consider besides specific client requests also currently prevailing

challenges and developments on the PM market.

In the last years mainly major PM suppliers have taken over smaller suppliers | mandates and moreover expanded their range of services. The consequence is an intensification of the range of services horizontally as well as vertically. At the same time German PM servicers are continuously striving for expansion within Europe. Prime goals are the eastern neighbour countries (particularly Austria) and west Europe. Supra-regional and local competencies of PM suppliers are growing.

Generally, it can be noted that Property Managers tend to expand their range of services, enlarge their clientele and diversify their strategy.

## Current & future challenges

Additionally to the developments on the PM market described there are some essential current and future challenges for Property Managers to be considered.

There is a multitude of suppliers on the PM market and the number is continuously increasing. They offer their services in various degrees of specialisation with a wide range of quality standards and catalogues. Difficulties in differentiation between the single Property Managers are the consequence.

The increasing competitiveness especially shows in the competition for „major“ mandates of Real Estate Investment Management clients (REIM). Comprehensive tasks assigned by key clients contribute significantly to turnover, gain and growth of Property Managers. In the past years especially these PM clients focussed on their core business. Many activities along the whole Real Estate value creation chain have been outsourced to professional M servicers. Key clients from the field of REIM are consequently a primary client base for many Property Managers.

Besides the developments lined out new REIM clients are facing some new challenges having an impact on their Asset Management and hence on the Property Manager. Requirements of the clients are currently e.g. regulatory issues, compliance and risk management. Increasingly also sustainability topics (energetic building refurbishment, certification of stock properties etc.) will gain importance.

Objekte   Portfolio	Markt
<ul style="list-style-type: none"> <li>„Gesechertes Portfolio“ mit auslaufenden Mietverträgen und z.T. Überalterung</li> <li>Weniger Core-   Core-Plus-Objekte (unflexibel / eher ad-hoc oder opportunistic)</li> <li>Geänderte strategische Ausrichtung des Portfolios (Umrichtung)</li> <li>Veränderungen von Standortfaktoren und -qualitäten im Zeitablauf</li> <li>Zunehmende Wettbewerbsintensität</li> </ul>	<ul style="list-style-type: none"> <li>Veränderte nutzungsbezogene Lebenszyklen</li> <li>Veränderungen im Nachfrageverhalten</li> <li>Neue technologische Entwicklungen</li> <li>Höhere Nachhaltigkeitsanforderungen</li> <li>Nachhaltiger Wandel vom Vermietet- zum Mietmarkt in europäischen Teilmärkten</li> <li>Veränderte lokale Rechtsrahmen</li> <li>Stiegende Baukosten</li> </ul>
Compliance   Risk   Betreiberverantwortung	Revision und Standards
<ul style="list-style-type: none"> <li>Stringente Auswertverfahren der Dienstleister (mVg)</li> <li>Leistungsabhängigkeit der Dienstleister</li> <li>Outsourcingcontrolling, Informations- und Prüfungsrechte des Auftraggebers, Verpflichtung, über Informationen zur Entwicklung, Steuerung und Überwachung</li> <li>Risikomanagement auf Objektebene</li> <li>Hohe Standards zur Risikoreduzierung aufgrund Betreiberverantwortung</li> <li>„Saubere“ Delegation von Betreiberverantwortungspflichten an Dienstleister möglich</li> </ul>	<ul style="list-style-type: none"> <li>Revisionsgerechte Strukturen bei den Auslagerungsumfängen</li> <li>Hohe Standards bei Vergabe von Leistungen (PM vergibt Leistungen an Dritte und Sub-Dienstleister)</li> <li>Interne Audits beim Dienstleister</li> <li>Revisionsgerechte Prozesse</li> <li>Dokumentation</li> </ul>

Generally REIM clients are currently facing

### Best Practice

The term „Best Practice“ describes a methodology successfully introduced in the company practice for the solution of an entrepreneurial problem. Best Practice can refer to technical procedures and systems as well as general business processes.

A company is acting according to „Best Practice“ if it actively applies an exemplary Method | Practice | Approach.

If a company develops a Best-Practice-Model itself, there is a chance to become a „Blueprint“ for third parties.

challenges in the four fields Property | Portfolio, Market, Compliance | Risk | Owner responsibility as well as Revision | Standards. Each REIM client has individual requirements deducted from these challenges and developments. Awareness of these requirements support the generation and expansion of PM mandates.

Particularly the large-scale business is labelled by stable relations between principal and client. The mandates assigned in the course of the outsourcing trend of the last years, however, are successively running out soon. In case of re-awarding of major assignments the existing PM suppliers have to benefit from their established customer liaisons and on the other hand compete with the offensive pricing policy of their competitors. This may entail the consequence that the PM business turns into a business with very small margins. In this context it may be appropriate to consider the topic of integration and consolidation with other PM suppliers.

On the one hand the Property Manager needs to identify the special requirements of REIM clients as well as to adjust respectively to extend its services and qualifications accordingly. On the other hand the market conditions require an efficient organisation as well as professional structures from the PM supplier. We recommend a new positioning of Property Management structures according to Best Practice.

### Best Practice Property Management

On the market there is a multitude of possible structures of PM organisation. Generally, there is only little information for the exact design of PM publicly accessible. Is a new positioning intended respectively necessary due to an integration of a company the development of an own new model. The application of the Best-Practice-Model can be very positive and effective as elementary principle of a trend-setting PM are merged in this model.

The Best-Practice-Modell PM can serve as starting point and "Handbook" for the new positioning of PM. Individual adjustment to the circumstances of the specific Property Manager can be carried out timely and cost saving in the course of the project.

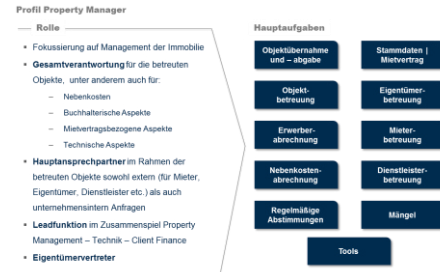
### Objectives of PM

As a first step of repositioning of a PM organisation it is vital to develop a clearly defined target strategy. The Property Management Best-Practice-House visualises the 10 essential core modules of a target strategy. Based on this every Property Manager needs to compile its specific service catalogue considering its resources and qualifications.



The definition of role, functions and main tasks of PM is another essential column for implementation of a Best Practice PM and part of a target strategy. Especially, the clarification of the PM's profile (roles and tasks) has a key importance.

The general focus of the Property Manager is the management of the respective properties.



As the key representative of the owner the Property Manager takes on the overall responsibility for the properties to be managed and is the central point of contact for external (tenants, suppliers etc.) as well as for internal requests.

He takes over the lead function in the interplay between portfolio and property level. For example as leading communication interface between Asset Management, technical Property Management and Client Finance.

The technical Property Management as well as administrative tasks like management of lease contracts or the invoicing of operating costs should not be carried out by the Property Manager itself. The realisation of technical support shall be taken over in the regions by separate specialists on site. On the other hand the administration should be centralised and labelled by standardised processes.

In the course of the target strategy we recommend to depict the development potentials of employees in order to ensure the internal know-how and moreover to design the job descriptions attractively. Possible transfer of tasks for the compensation of over or under capacities have to be depicted comprehensively as well. Transfer of tasks serves particularly for the purpose of maintaining flexibility.

### Framework parameter structure options

Besides the target strategy there are further essential parameters for the development and introduction of trend-setting PM organisation structures.

On the one hand effectiveness and efficiency of the organisation have the highest priority. This can be achieved particularly via efficient control instruments. Clear service definitions and task allocations moreover increase the transparency regarding responsibilities and

interfaces. Current capacities and potential staff development are further framework parameters to be involved into the "Personal | Emotion".

From these four framework parameters (Strategy, effectiveness, efficiency and Personnel | Emotion) generally two to five possible options for PM structures for the specific company can be deducted for the specific company (Range of options). The decision which option is the best possible depends

### Latest developments on the German Property Management market

In March 2012 EPM Assetis GmbH, a company of the international engineering and service group Bilfinger rebranded to "Bilfinger Real Estate GmbH". With its ca. 1,500 employees the company manages spaces amounting to more than 21 m square metres in the fields of Asset, Property as well as Facility Management.

BNP Paribas Real Estate Property Management Deutschland GmbH (BNPPRE) acquired the German Real Estate Manager Imoplan in the 1. Q 2013. Consequently, BNPPRE extended its Germany Portfolio of ca. 5 m square metres office and retail spaces by more than 2 m square metres managed by ca. 250 employees in the course of Property Management mandates.

In September 2013 the international law firm DLA Piper, the Real Estate advisory group Cushman & Wakefield and Deutsches Privates Institut für Nachhaltige Immobilienwirtschaft (DIFNI) published the report „Sustainable Property Management Services“ and thus introduced the first standard for sustainable Property Management in Germany. In this report they established methodical and factual recommendations for „Green Property Management contracts“ (including Service Level Specifications) which can be applied independent from type | state of the building and the user behaviour.

### Renowned market players | Property Management suppliers

- Bilfinger Real Estate GmbH
- STRABAG Property and Facility Services GmbH
- HOCHTIEF Property Management GmbH
- Jones Lang LaSalle GmbH
- TREUREAL Property Management GmbH
- BNP Paribas Real Estate Property Management Deutschland GmbH

from the specific circumstances of the company, however, it is subject to the general principles which need to be taken into account.

### General principles

Three general principles support a professional PM according to Best Practice. Firstly it is important to create clear responsibilities to avoid a fragmentation of competencies. Otherwise an ineffective communication („Ping-

pong“) between performance and employee level, between economic and technical Property Management (EPM and TPM) or between PM and the central units. Secondly roles, responsibilities and competencies are to be coordinated with each other. Thirdly the expenses and efforts for the creation of central units need to be minimised. Few but clear interfaces increase the efficiency of PM processes.

### Implementation process

In the course of the implementation of the Best-Practice-Model into existing PM it is necessary to tap synergy as well as efficiency potentials and to harmonise the process environment. This approach is particularly essential if the introduction of the model is carried out concurrently with the integration of a company into the own structure or is carried out in the course of internal consolidation measures. The steering of corporate requirements as well as the consideration of challenges in the market, the properties managed and the clients attended may initiate the implementation | transition path.

### Communication during implementation phase

During the implementation of the new-positioning of PM according to the Best-Practice-Model a permanent exchange with the operative units as well as co-ordination with the management is vital for the implementation. In this respect it is recommendable to prepare decision papers in the most important process steps and to submit them to the management for decision. By means of this approach it is to be particularly clarified if target strategy, definition of roles and tasks (profiles) as well as transfer of tasks are generally approved. Indirectly this is the way to remove transformation obstacles and to generate trust in the “New positioning of PM structures according to Best Practice“.

### Realisation plan

Additionally to the comprehensive communication a realisation plan supports the procedural work of implementation of the Best-Practice-PM-Model. The Realisation Plan is to be developed primarily in collaboration with the management. The current PM mandates of the company, the regional distribution and other company-related situations have to be considered explicitly. Core elements of the realisation plan are on the one hand the detailed time planning as well as the determination of key competencies for the project “New positioning of PM-structures“. It is particularly important to consider the status quo analysis regarding time and resources in the Realisation Plan sufficiently. It can for example be very

complex to determine and collect standardised figures for the analysis.

### Conclusion

Property Managers are currently at the crossroads. The prevailing challenges as well as increasing requirements of REIM clients mainly come from the fields of Property Portfolio, Market, Compliance | Risk | Operator responsibility as well as Revision | Standards. Besides the awareness of changes in client requirements the proper organisation structures need to be analysed. Via timely analysis of PM organisation structures it is possible to identify chances and risks in the existing business model at an early stage.

Changes in corporate structures have a high potential to maintain respectively to increase the competitiveness of the Property Manager. We therefore suggest the repositioning of PM structures according to the Best-Practice-Model introduced above.

### TME-Project approach: Customised solutions for our clients

The current and future challenges in PM can be mastered via a professional analysis of status quo, a customised implementation planning as well as a co-ordinated communication by means of the Best-Practice-Model developed and already introduced successfully by TME in the course of several projects. Depending from objective and starting situation we attend our clients in developing and implementing PM according to our Best-Practice-Modell.

Our experienced consultant team knows the existing obstacles in transforming Property Management. Hence we can ensure that the obstacles are mastered and overcome by us actively. This ensures the implementation up to complete tapping of expected potentials saving resources and time effort.

Moreover we can ensure that the vital framework parameters and principles of the Best-Practice-PM-Model also in the operative phase. Hence we combine the repositioning of PM structures in comparable projects with workshops, audits and by means of our management expertise.

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