



Getting Your ASSETS to Pay

If property management is not your core competency, a land management plan can boost your bottom line.

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In the normal course of business, pipeline and power companies often purchase property to support their current and prospective business needs. Over time, they may accumulate a surprising number of acres, without being fully equipped to take on the role of landlord or property manager.

While companies may be efficient at managing their core business, they are oftentimes completely unaware as to how much time and resources are needed to properly manage land holdings and company assets for long-term success. There are several reasons for not leveraging opportunities, some of which include:

- Asset management is not a core segment of the company's business
- Lack of understanding as to the potential that exists
- Managed by corporate office instead of the field staff
- Easier to maintain the status quo

Building a Land Management Plan

The bottom line is, regardless of the property size or the reason for purchasing the property, it is critical to maximize any potential financial benefits. An effective land management plan can help companies

identify the financial opportunities and work to leverage them. To begin constructing such a plan, a fundamental understanding of both the asset and the owner's needs are required.

The basic concepts that make for a successful property management plan do not significantly vary by property size. Larger sites may offer more opportunity for creativity, however the core elements remain the same.

1) Define your Purpose for Owning

Why do you own the site? It may be a simple question, but all too often, especially with larger companies, the reason may not get communicated to those who are ultimately responsible for managing it. Understanding both the short and long term goals for each property should form the basis for your plan.

2) Select your Tenants Wisely

Tenant selection, regardless of property type, is critical to the implementation of a worry-free plan. Recognize that 90% of all problems come from the least productive tenants, and replacing them is a huge drain on time and resources. Take the time to find the best tenant for that property. Look for synergies between your needs and a tenant's abilities. Advertise. Use a competitive bid strategy. Create some buzz. And don't just take the first prospect. Ask

for references. Do your research. A credit check on potential tenants is a must, and be sure to get rent up front.

3) Track Expenses against Income

This is not simply about generating income. You want to maximize the benefits and add to the bottom line. Therefore recording, monitoring and controlling expenses on each property is critical.

Do your homework. Each site will require a separate financial analysis. I have seen income leases that don't cover the taxes and maintenance. Site maintenance costs can have a significant impact on the bottom line. If the road needs rock, a new culvert or erosion control, thousands of dollars can quickly crop up in expenses. For an accurate assessment of the lease benefit to your company, these expenses, plus the fixed cost of taxes and security, should always be calculated.

Larger tracts offer more opportunity for "stacked leases" which may include a hunting lease on the same acreage as a farm lease or a cell tower structure on a multi-story building. What could you generate on a small substation site where farm ground rents for \$100 per acre? If you factor in the cost to mow the excess land a few times a year, it may actually exceed the income of \$400 for the four tillable acres. However, if the tenant needs to grade the road or cut back limbs to

move their equipment in and out of the site, they may save you more than \$400; thus increasing your income potential. Good management clearly identifies and addresses these issues and opportunities in advance.

4) Avoid Offering Anything Free

If you let a tenant farm a site for free or give them free rent on a house, then they will take care of the property for you, right? Wrong! We often mistakenly believe that by providing something for gratis, we will actually receive something in return. Your actions convey to the tenant that you don't care about the property. Free rent leads to property decay and problems every time. The best tenants expect to pay market rate rent and maintain the property. Understandably, some leases will have more competition than others. In these situations, work toward driving the best deal possible.

5) Build Up the Asset Value

I have often heard companies say, "There is no need to take care of the site since we will own it forever." Unfortunately, things change. Company management may change. The owner's needs may change. Either of these can change the value of an asset overnight.

The key is to maintain the property in the same manner (or better) as neighboring sites. For example, let's say you own a rural farm property where the tenant is not required to mow the road ditches or keep fences up. The normal expectation for care has not been met, so it takes on the persona of a poorly managed site. A potential tenant may automatically assume that fertilizer has not been added and that soil erosion will be a problem. As a result, the company asset drops from \$2,500 per acre to \$2,200 (or lower).

The same is true with a commercial lease, where the property isn't inspected to ensure that ongoing maintenance is performed. It is critical to keep apartment and residential buildings painted and in good condition. In rural farm areas,

keep fences up and free of weeds. Your attention to detail will add value and reduce your marketing expenses should you be required to sell the property.

6) Reduce Your Liability

Controlling liability is a critical component of property management. Requiring liability coverage and being named as an additional insured party on the policy is a must. If one trespasser falls down and breaks a leg, it can cost tens of thousands of dollars in legal bills, even if you weren't negligent! The key to liability control is knowing your property.

The best strategy is to be proactive. If you own an old abandoned house on a property purchased for a new pumping station, take action to demolish the house before it becomes a magnet for trouble. Abandoned properties often attract children, and if a child gets hurt, then problems are sure to follow. Under the attractive nuisance doctrine, a landowner may be held liable for injuries to trespassing children if the injury is caused by a hazardous object or condition on the land that is likely to attract children. The doctrine has been applied to hold landowners liable for injuries caused by abandoned cars, piles of lumber or sand, trampolines and swimming pools. However, it can be applied to virtually anything on the property.

In addition to signage and maintenance, one of the best liability control measures for rural sites is hunting/recreation leases. As a hunter, I know that we tend to be territorial predators and always seeking more control. You may be astonished by how much knowledge and control you can gain over a site when a hunter has money invested to enjoy his sport. Usually the only negative feedback you will get is from the locals who have been trespassing for years.

7) Communicate

As with every other aspect of business, the more relevant information that is communicated about a property or situation, the better the outcome will be.

Good tenants will want to understand your property goals. Your involvement and communication can help reinforce the importance of this property in your overall business plan. Remember the financial benefits that the property offers. Give your tenants insight into your business and establish expectations for everyone.

Summary

The best impression you can make on a property is with your own footprint. Property management cannot be done from an office. Knowing each property intimately is the key to success. I have witnessed the fear in the eyes of an employee or consultant when the boss starts asking questions that could only be answered if they had gotten their boots dirty on the property. Nothing can match the first-hand experience of really knowing the asset.

In property management, opportunity and creativity are staples. Become familiar with the entire property, look for hazards and be creative with each site to enhance its potential benefits in the future. If your company does not have the time or resources to prepare a land management plan and properly care for a site, consider hiring a professional. Leverage the financial potential of your property. Good management can really lead to big dividends.



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