

# Property Management - A Proposal

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**P**roperty Management, as we in the International Right-of-Way Association know it, is fast becoming an art. As we learn more and more of its uses and as we continue to teach others how to apply its principles, we realize that its theories and principles require constant considerations. This article will attempt to look back into classical management theory in an effort to propose three groups for consideration as proponents of practical applications to property management.

## INTRODUCTION

In the typical community, pressures to strengthen the tax base are often at odds with the desire for open space and clean air. At the heart of this conflict is the question of how to manage the real property owned by the local government. Does the public trust, as determined by the governing group demand that lands owned by the city or county be held indefinitely, as a passive asset, or does the local government's obligation to manage local resources wisely and efficiently dictate that it use real estate holdings to improve its financial position?

My first choice will describe a kind of system a local government can put into place to help it make rational decisions about the real estate assets it holds. The local government's dual role as user and investor will be explored, and the sometimes conflicting needs of operating departments, neighborhood residents and the business community will be examined.

The local government will frequently find that there is already within their employees a talent for the managing of their real properties. These may be former real estate sales personnel, current owners of income properties, trained right-of-way agents, or present property managers. A selection from one or more of these personnel can form the nucleus for a team which, when combined with other disciplines can provide in-

dependent observations, evaluations and recommendations to the governing body.

## THE PROPERTY MANAGEMENT TEAM

It is proposed this team be designated as a "Property Management Team." This Property Management Team will become useful when observations of current real property management procedures for the organization yield some of the following:

"Our only interest in real estate is to support the needs of our operating departments. Real estate decision making is driven by the program needs of our departments and by problems requiring immediate attention."

"We have no single source to go to for our real estate information, analysis, planning or recommendations. In fact, the precise size and value of our real estate is not known."

"We have little time to plan for the

Interpersonal relations have shifted toward more cooperation, openness in decision making and emphasis on performance based on labor-management trust. A goal of many organizations is to get workers highly involved in their jobs through quality improvement groups or labor advisory groups.

Several writers, among them, Douglas McGregor, Rensis Likert, Chris Argyris and William Ouchi have presented studies in support of a change in worker-manager relations that result in a greater productivity.

McGregor wrote in 1960 about two sets of assumptions management made about employees. These sets were given the catchy titles "Theory X" and "Theory Y."

Theory X portrayed the worker as lazy, lacking ambition and creativity and wanting above all else, security. Managers holding Theory X likely tend to manage using concepts that see management responsible for

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*Over the past 25 years, profound changes in management theory have been observed.*

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use of our property. Our strategic plan for real estate presumes that we will hold it until someone proves to us a better alternative exists. We have no need to understand the real estate markets and no need for resources to do anything but respond to requests."

## WHY A TEAM?

The choice of the title "Property Management Team" for the management group to be given the responsibility for managing the local government's real property allows for a short discussion drawing on classical studies in interpersonal relations.

Over the past 25 years, profound changes in management theory have been observed. Changed social values and increased educational levels in the work force have required the manager to seek newer methods to maintain and improve the technique.

planning, organizing, and making important decisions. This type manager directs people and assumes management responsible for motivating the worker.

Theory Y utilized a different set of assumptions in which people were seen as being ambitious with work being a natural part of their jobs. These people seek responsibility and self-control in achieving goals.

Theory Y produces delegation of important decision making, less passiveness and increased trust of employees.

McGregor's contribution was that he forces managers to examine their assumptions about people and how these assumptions in turn, influence their own management practices.

Rensis Likert developed a questionnaire to measure characteristics of organizations, classifying management practices into four "systems."

System 4 of his classifications leads to supportive relationships placing emphasis on team management. The leadership process in system 4 is important in getting the best possible results from the employee.

In Argyris's approach to management, he focused on individual needs and desires, recognizing a great need

perception of the local governments purpose for chartering their team.

The Team size may vary depending on 1) the situation of the property to be managed, 2) the urgency at the time for its formulation, or 3) the length of time intended to evaluate its usefulness. It would be unreasonable to begin with less than seven (7)

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*A Property Management Committee is the result of a combined group of employees charged with providing the first line of information to the policy makers of the local government.*

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to begin treating people as adults. As people mature they should move from positions of dependence to ones of independence. Managers can foster this change by allowing employees an increased say in decisions and by creating jobs that are expanded in their scope. As with McGregor and Likert, Argyris pointed out the need for building on the ability of organizational members to use each other's unique talents toward goal attainment.

In the early 1980's, William Ouchi published his "Theory Z", an introduction of Japanese management techniques describing impressive productivity results in Japan. Of greatest benefit to American management technique was the concept of the importance of group consensus in decision making.

The concept of team management was being observed for the first time with management in the workplace being an essential part of the plan.

What should the Property Management Team consist of? The team should consist of a group of upper or middle management personnel with a dedication to lend separate independent opinions as to how the local government's property is to be managed. The team must be of a homogeneous nature regarding their perception of the purpose of the job to which they are appointed. The team must have a reputation for an indepth

members or more than fifteen (15). The selection of the optimum number will probably be determined by the level of management personnel allowed to participate in its beginning.

The original makeup of the Team will necessarily be influenced by the determination of the local government responsible for its formation. If budgetary constraints prohibit additional funding at the time of initialization, it may be expected that a higher level of management personnel will be required to participate. In a small organization this level of management will be expected to have the higher probability for success and will, at the same time, have the necessary experience to perform an ongoing evaluation as to the usefulness of the Team.

The City of Henderson, Nevada began a function of Property in an experimental stage with the City Council dedicating a group of seven (7) key city personnel as a Property Management Team. This team included the City Manager, City Attorney, Public Works Director, Planning Director, Finance Director, Economic Development Director, and City Auditor.

To head this group of select management personnel, the City Council chose its Property Management Technician. It was clearly indicated that this was to be of an experimental nature when no budget was provided

for the Team.

At the Teams' first meeting, the Property Management Technician requested the name of the team be changed to Property Management Committee. To provide an end to the story, the committee exists today with the beginning of a budget and reports regularly to the City Council with recommendations as to how the city's properties should be handled.

### **WHAT IS A PROPERTY MANAGEMENT COMMITTEE?**

A Property Management Committee is the result of a combined group of employees charged with providing the first line of information to the policy makers of the local government. This information will be in a nature of recommendation as to their collective opinion for specific actions to be taken toward solving a well defined problem.

It is important that the committee be aware of not only the importance of their recommendations on the problem to be solved, but also any political ramifications that may occur to their local government. Failure to give due consideration to this method for solving a problem could produce unwelcome reactions and reduce reliance on the committee in the future.

In fulfilling the purpose for its creation, it would be expected that the committee have at its disposal an inventory of those real properties to be managed. The collection or creation of a property inventory will be of first priority in defining the committee's purpose. To begin problem identification without an inventory would be a great disadvantage to members of the committee less familiar with the problem.

### **WHAT IS THE PROPERTY MANAGEMENT COMMITTEE'S PURPOSE?**

The Property Management Committee is formed for the purpose of providing a deliberation and recom-

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mendation for the management of real property to the policy making members of the local government. As a committee, they have an ability to examine and report on problems without the direct influence of public scrutiny. It must be remembered that the final decision for the problem will remain with the elected public officials and, as a result, recommendations must be tempered with a great deal of reason.

All recommendations from the committee should contain a clear statement as to the problem being considered, its resolved opinion of the solution and any alternatives that the committee discovered. If it is decided to offer alternative recommendations, each alternative to be considered should be complete with any assumptions used in reaching the recommendation clearly identified. A

useful guide for this situation could be "never try to second guess a policy makers' opinion."

### WHAT IS THE FUNCTION OF THE PROPERTY MANAGEMENT COMMITTEE?

It is the Property Management Committee's function to advise the local government, as a group, in the form of recommendations as to ASSET MANAGEMENT.

Asset Management is a process of decision making to maximize the value and revenue potential of real estate. The process includes property management, market analysis, valuation, preventative maintenance and marketing. Results to be expected from these less glamorous, but no less valuable impacts for such process are:

- more efficient use and occupancy of property by local government departments

- correct timing of operational maintenance for physical plant
- better capital budgeting
- more effective and quicker response to requests (both internal and external) to use or value real property
- ability to recommend with confidence among various courses of action for real estate, with increased cooperation and support from users and citizenry.

The property functioning asset management system Will provide a broad range of rewards, most less noticeable than construction of a new City Hall, but cumulatively more valuable. It is incumbent upon an asset manager to achieve all of these results by maximizing real property utility and value and to educate all interested parties to both the large and the small successes that asset management drives.

Asset management is not an optional concept. The application of enlightened techniques for managing real property has been forced by the need to control value acknowledged by three "players." The worth of real estate assets has been discovered 1) by public agencies, who more and more see themselves as competitive, self-funding enterprises; 2) by the development industry, which often has a "better" use for land in places where good development sites are becoming scarce; and 3) by constituents who demand accountability from governmental entities for budget and performance.

### PUBLIC ASSET MANAGEMENT GOALS

The goals of public asset management are several:

To maximize real estate value, minimize real estate cost, and in the process advance the public good (via better urban design, or creation of jobs through construction or enterprise location, for example.)

To enable rational decisions on questions involving real estate: "Should we own or lease our prem-

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ises? Keep versus sell? Stay versus move?"

To measure accurately the benefits or drawbacks of property and buildings currently being used to provide services or to house local government support activities. Employee morale, productivity, energy costs are some of the factors that an asset management system will consider.

To take advantage of market momentum by initiating public-private actions that make full use of the local government's advantage as a strategic owner, occupier, user and regulator of real estate.

To improve the efficiency of planning, budgeting and maintenance in all local government departments that use real estate.

## DEFINING ASSET MANAGEMENT

In practicing asset management, sequential activities emerge which define the concept as a process. These activities can be defined by viewing them as "building blocks" listed as follows:

## ESTABLISHING THE SYSTEM

1. Objective definitions and understanding of goals. Any real estate management team that does not begin here will inevitably return here, because decision making will slow if the local government's commitment to and understanding of the process is inadequate.

2. Collect information regarding the needs of the entity. This will entail more than a listing and location of properties to be managed. It begins with a defining of the current situation, interview the stakeholder (defined as users or current decision makers) to determine the parameters of the proposed real estate management system: What are likely requirements? What are probable opportunities? To understand how things currently work, follow several real estate decisions through to determine who controls information: what real or perceived influence various parties

and agencies have, and the time it takes for the decision making process to work. No one can invent an asset management system without understanding the current situation and how it will be affected by a "new and better" system.

3. Define the needs of the local government in its roles as:

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*No one can invent an asset management system without understanding the current situation and how it will be affected by a "new and better" system.*

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**User:** What are its actual and proposed land and building needs?

**Investor:** What return on investment is required?

**Provider of social enhancement:** What public amenities exist or are needed?

**Designer:** What aesthetic environment is sought?

**Product marketer:** What is the competitive position of this entity compared to others, and what advantage does control of real estate yield?

It is very important that every member of the Public Asset Management Team involved in making recommendations to the local government understand the needs defined above. However, the various members may have various priorities. The purpose of the Asset Management Function is to represent the needs of the local government as a user and as an investor. The Asset Manager looks at the local government's real estate first as a user, evaluating the efficiency of use, the occupancy cost, and the location and image of property occupied. At the same time, the Asset Manager recognizes that real estate has investment value, to be measured by income, residual value and the cost of holding property versus any other action. The social and aesthetic values of the real estate are also considered, but their importance is more appropriately measured by the community and communicated through elected officials and other

avenues of citizen input.

## ORGANIZATION & STAFFING

An asset management system must be staffed and organized with a capable, responsible and authoritative focus. A representation of one such structure can be illustrated by using the following attributes:

**Expertise.** Real estate expertise (read "experience") is essential. Asset management involves the disciplines of valuation, construction, buying and selling, marketing, real estate development. It would be rare to find one such person with all of this experience, but there is still the "team concept" previously described to draw upon. Assemble as many relevant skills as possible, from in-house, and contract consultants to provide the balance.

**Objectivity.** Real estate asset management should be organized as an entity separate from the agency responsible for planning policy and separate from departments that handle operations and maintenance.

**Analytical Skills.** The ability to make detailed analysis (of markets, of financing, of return versus risk) is critical. Balancing in-house expertise with the experience of outside consultants will tend to produce optimum results.

**Creativity.** The asset management system will only work in a local government that is creative, able and willing to take measured risks, and free to function without undue political influence.

**Power.** The asset manager must be able to act on behalf of the local government, making decisions regarding timing, tools, design, and so forth, and to affiliate with private investors. It is probably best if the

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asset manager reports directly to the chief executive and has his or her own budget.

**Continuing Life.** The asset manager's function must be a permanent one continuing beyond tenure of any one council. Real estate management, as a function, should not be subject to an election schedule.

**Action Orientation.** The asset management office should function with a minimum of bureaucracy and be prepared to take the initiative to begin projects and introduce solutions.

### In Summary

The preceding has introduced the reader to several forms of Property Management

Beginning with the PROPERTY MANAGEMENT TEAM with its simple form having the advantage of

combining the skills of several management groups for the gain of producing a whole greater than the sum of its parts

Into the PROPERTY MANAGEMENT COMMITTEE and its first line responsibility to recommend property management policy to the local government

Concluding with ASSET MANAGEMENT with its detailed and sophisticated processes for recommending to the local government those policies best suited for the reasons given to it for being utilized.

The underlying theme intended to be presented was the application of modern management theory to the public sector. Whether it be limited by budget, manpower, expertise or resistance to change, the experience of using a Property Management Team must some day come of age.

## Long-Range Transportation Planning

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institute long-range transportation planning becomes urgent.

It would be a shame to pass on to the next generation a transportation network that was designed to accommodate no growth after the next 20 years. The expense and hardships caused by continual reconstruction and rerouting would lessen our ability to compete globally and lower the quality of our lives.

Land use planning should address people's needs and not try to make people adapt to limited infrastructure capabilities. The American commitment to freedom of individual choice (and to the capitalistic system) requires planning that provides opportunities for both family and business. University of Maryland economist Julian Simon made an excellent comment recently on a report discussing population growth, alleging that "while more people mean more problems, the history of humanity is a history of surmounting problems."

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## Land: A Question of Value

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show that an investor buying this land for \$3.08 per square foot could get a 20 percent return. But in the marketplace, land on retail corners five years from developers are currently buying land for \$6.00 per square foot is likely to sell for \$3.75 to \$4.50 per square foot.

The pricing of land in the market is still influenced more by the fallacy of so-called comparable sales than it is based on economic reality but on the tenuous requirement that a subsequent buyer will also purchase above true economic value. While valuation of land based on future use depends on various subjective assumptions, it does give the investor a more valid reference point.

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