

Property Management Professionals Discuss Trends

The staff of Northern Illinois Real Estate Magazine developed a roundtable discussion with four of the area's property management experts to discuss trends, concerns and projections of the industry.

These professionals were: Harvey Alter, Executive Vice President of Alter Asset Management; Nancy Capadona, Portfolio Manager at the Hearn Company; Gary Kass, President of Kass Management Services, Inc.; and Tom Morabito, President of Seneca Real Estate Group. We thank them for their insightful and thoughtful responses.

Please provide a brief intro to yourself and the type of industries your firm serves.

Capadona: I personally have worked in the Commercial Real estate industry of Chicago for twenty years, and the Hearn Company serves primarily Commercial Office clients.

Alter: Alter Asset Management was originally created to be stewards of Alter's national portfolio of office, medical office, industrial, and retail buildings, as well as its land holdings. As our portfolio changed ownership over the years, we were asked by the buyers of our property and our tenants to continue leasing and managing their assets. In addition, we were able to leverage our skills set into management assignments for institutional and entrepreneurial third-party owners. At more than 3 million SF nationally, this third-party business today constitutes the majority of our work.

I spearhead AAM's business development and tenant-relations team. Growing up, I watched my Dad build Alter into one of the country's leading real estate developers. Along the way, I saw how a well-managed building with a strong tenancy could withstand the headwinds of the real estate market and create a best-in-class property management company.



Alter

Morabito: Seneca is a full service advisory firm specializing in Property and Asset Management, Leasing, and Investment Sales.

Kass: I am President of Kass Management Services Inc. and have been active in the property management industry for 35 years. We are experienced in managing Residential Rental Properties, Condominium Associations, and various Retail and Office properties throughout the metro Chicago area. I also currently serve as president of the Lincoln Park Builders Club of Chicago.

What are the popular amenities tenants are attracted to? Are there certain amenities most owners offer?

Morabito: On the residential front, tenants look for "Condo-Quality" amenities. Granite counter tops, stainless appliances, in-unit laundry. With respect to the buildings themselves, even if they are not living in a "doorman" building, tenants require and search for a manager that will provide service to their unit and the building as if we had 24-hour service at the door and maintenance to serve them. So, their expectations and demands have increased.

Kass: Office Tenants are attracted to contemporary, clean properties, well-located close to transportation. The properties have to provide the latest technology and we're finding most tenants want 24/7 access to their offices. Loft environment is still very popular and if the property offers some type of lounge space for their employees with Wi-Fi access, it is a definite plus.

Capadona: In our experience with clients, the tenant amenities are gearing toward life-style amenities these days, for example, fitness centers, game rooms, tenant lounges that are interactive and that provide alternative working or meeting spaces outside of work, as well as roof decks, and outdoor spaces, where applicable.

Alter: A lot of the amenities are being driven by the tech, financial services and Fortune 500 firms looking to attract millennials. This concern with recruitment and retention has motivated a whole host of high amenities. A good model is in the East Loop where an asset like One Prudential Plaza—in the past a very traditional Class A asset—has added a



Capadona

13,000 square foot rooftop deck with a fire pit overlooking Millennium Park, a 12,000 square foot fitness center and a 7,000 square foot clubhouse. We see the same happening in the suburbs where new build-to-suit projects like Zurich American and Duchossois Group / Chamberlain Group are underway, along with high-profile acquisitions by Hamilton Partners and Cornerstone RE Advisor, which will all bring entertainment and retail amenities within the office environment. It's really a strategy to create a neighborhood within the building or the campus.

Security concerns have changed immensely over the years. What type of security needs do your tenants require and what type do the landlords offer?

Alter: Buildings differ primarily because of the tenant mix. Security needs to evaluate what operations are in the building and the attendant risks. Some tenants have a high-traffic of visitors which necessitates ID verification, bar-coded badges and voice verification from the tenant granting access. It's important to institute a good security awareness program among workers that gets them to notice what is going on around them. We are also seeing more sophisticated behavior in terms of cameras, i.e., multiplexers that toggle randomly between cameras are being replaced by sensors that can de-

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tect activity through thermal imaging and motion sensors, which then activate cameras to record activity. Evacuation drills are key as tenants are required to understand the patterns and flows of people that need to be enacted in the event of an emergency.

Kass: We are installing video monitoring in common areas of properties, implementing solutions for secure package delivery, reviewing common area lighting, and entry paths into properties and in some cases installing security systems inside individual units. We are also issuing alerts when we are made aware of relevant incidents in the areas of the properties.

Capadona: Most tenants want security in the building such as access control, i.e., card-readers, and guests pre-registering before entering the building, options which we have offered and upgraded at our properties.

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Kass

Morabito: Tenants want security cameras, and if it can be accommodated, a building staff that includes door staff and on-site engineering.

How has technology improved property management between maintaining profitability and keeping good relations with tenants?

Kass: Smart phones and email has had the most impact on our business. Property managers are accessible and able to be responsive from anywhere in the world. Additionally, tenants are able to communicate, email requests, and pay their rent via their device 24/7. They also have the ability to track work orders online after being submitted. I believe profitability is improved by the advances in property management software and the way technology has increased a property manager's ability to be more efficient.

Morabito: Technology is a hugely important factor today. Most tenants are extremely savvy, and most importantly they are mobile. They want to pay their bills online, and request work orders without picking up their phone. We have systems in place at Seneca, either through our mobile app, or thru our website, that allows tenants to communicate with us, and in turn, we serve their needs without them having to get us on the phone. Similar to Amazon, they can pay and make their requests seamlessly. We send out automated email notices to each and every tenant that has requested service, detailing time and date of arrival. We have automated processes which send follow-up emails once the work is completed, along with a survey to rate the quality of work that was performed. We also follow-up with personal visits and phone calls.

Alter: Property management firms need to deploy a Customer Relationship Management (CRM) platform that can coordinate the multitude of functions involved in running a building. We are seeing rent payments and work orders done via apps now where it used to be through a password-protected tenant website. A strong CRM platform also needs to be able to pay operating expenses and process work orders with contractors. Sophisticated owners require near real-time access to operational and financial data. All of the data captured through this CRM environment becomes very valuable in short-term and long-term planning for the asset, doing preformats for leasing transactions, planning large capital im-

provements, and exploring disposition or refinancing opportunities.

How does your company interact with tenants to ensure their retention?

Alter: I always say that we start working on the lease renewal the day the tenant moves in by working hard to maintain the highest level of satisfaction. Two ways we do this are through services and programming in the buildings. Beyond assuring basic buildings services, we involve the tenant in our sustainable practices like recycling programs, retrofitting lighting, and implementing energy efficient initiatives in regard to the HVAC systems. We also generate enormous goodwill with concierge-level services, dry cleaning, day care, spa services, along with seasonal programming like farmer's markets, gourmet food trucks, and landlord-sponsored tenant events. This creates an experience within every one of our buildings that can't easily be replicated. That's key in differentiating a building and securing lease renewals.

Kass: We start with contacting them at the earliest possible date to begin the discussion about their possible lease renewal. If a tenant has decided not to renew we ask them to provide feedback about why they made their decision and if we feel there is an opportunity to reverse their decision, an attempt is made to do so. Additionally, we might offer an incentive to motivate them to stay. Our managers are instructed to contact tenants directly rather than just relying on email as a means of communication. As commercial leases are more complicated to negotiate it's important for the manager to be responsive to the tenant when they have questions or concerns during the renewal process.

Capadona: We continue to do lots of face to face meetings with tenants, for example, luncheons with key individuals and trying to be in front of our tenants; hosting seminars for tenants; and regular communication regarding events that are happening in our building and in our community.

Morabito: Retention is the key to any real estate investment, whether a residential or commercial building. It is crucial that we maintain personal relations with all tenants. I believe we do this as well as anyone because it's a key area of concern to us. While we utilize technology to facilitate efficiency, the success of a tenant staying or going usually rests with how well we have communicated with them over the course of their term, and how well we have served them. We strive on a daily basis to find the balance in serving tenants, as well as serving our client. It's difficult at times, but our staff is trained to service our tenants as long as its within the fullest extent of the parameters of their lease agreement.

In terms of tenant leasing activity, are there certain industries you see as more active? Why?

Capadona: We've had activity in a lot of different sectors, not just in one or two. For example, from the new technology firms, and still from law firms and financial firms that may be resizing and looking for a different kind of opportunity—really a lot of activity in different sectors.

Alter: Tech is the one most-cited as the driver of leasing but I think it's less an issue of industry and more an issue of workforce. Firms that rely on younger knowledge workers are driving the bulk of the activity. Corporate relocations

downtown are a huge driver: Kraft Heinz signed a 169,696-sq.-ft. lease at the Aon Center in the East Loop, where it will move 1,500 employees from Northfield; and Motorola leased 150,345 sq. ft. at 500 W. Monroe St. in the West Loop. The good news is that there is still demand in the suburbs to absorb this space:

for example, Medline Industries has paid \$44.7 million for the former Kraft Heinz headquarters, where it will begin moving employees from Mundelein later this year.

Morabito: Leasing activity ebbs and flows due to the market. Right now, the residential “for rent” market is extremely hot. A lot of would-be first time home buyers have decided to rent, creating a supply of renters, therefore, pushing rents. Commercial activity is strong and a lot of retailers are back to expanding their footprint. I would say that commercial rents have not reached the levels of 2008 and 2009, but they have been increasing.

I would like to add a point about investment in real estate today. One needs to look at the township and taxing district that a property is located in, because rising future taxes on properties is the biggest fear among investors. One should consult a tax attorney prior to a purchase to see what impact a new purchase is going to have on the investment. That's what I see as a huge risk that often seems to get overlooked in the buying process.

Kass: We are finding that outside property data bases are very important to generating leads for leasing our properties, such as Loopnet. Real estate brokers and tenants are utilizing these types of services when looking to relocate. We still rely on traditional brokers to lease space and list our availabilities on our company website.



Morabito

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