REAL ESTATE ASSET MANAGEMENT

A PROCESS AND A PROFESSION

By Dustin Read, PhD/JD

IREM Institute of Real Estate Management

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IREM is dedicated to supporting real estate management strategies that advance an environmentally sustainable and economically prosperous future.

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About the Author

Dustin C. Read, PhD/JD, serves as an Assistant Professor of Property Management and Real Estate in the College of Liberal Arts and Human Sciences at Virginia Tech, where he teaches courses in asset management, commercial leasing and real estate development. His research interests include asset management, property management and the role of real estate in local economic development.

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About the Institute of Real Estate Management

The Institute of Real Estate Management (IREM®) is an international community of real estate managers dedicated to ethical business practices, maximizing the value of investment real estate, and promoting superior management through education and information sharing. An affiliate of the National Association of REALTORS®, IREM is the home for all industry professionals connected to real estate management—and the only organization serving both the multi-family and commercial sectors. IREM offers a variety of membership types for professionals of every experience level, from on-site managers to high-level executives. IREM awards these credentials—CPM®, ARM®, ACoM, and AMO®—to those who meet high standards of education, experience, and ethical business practices. Since 1933, IREM has set the standard for best practices in real estate management. Today, IREM® membership includes over 19,000 individual and 550 corporate members.

PREFACE

In 2003, IREM published a ***Glossary of Real Estate Management Terms*** describing the responsibilities of property managers and asset managers in the following way:

> ***Property Manager:*** *The person who supervises the day-to-day operation of a property, making sure it is properly leased, well maintained, competitive with other sites, and otherwise managed according to the owner's objectives.*
>
> ***Asset Manager:*** *One who is charged with supervising an owner's real estate assets at the investment level ... An asset manager may have only superficial involvement with day-to-day operations at the site.*

These definitions still have relevance, but the property management and asset management disciplines are clearly different today than they were 10 to 20 years ago. Competitive pressures have forced real estate practitioners working in these closely aligned fields to expand their service offerings and collaborate closely with each other in order to achieve the investment objectives of sophisticated real estate ownership groups.

This type of behavior has contributed to what many call a "blurring of the lines" between property management and asset management functions that can make it difficult to differentiate between the two in practice. While their roles are distinct, property managers and asset managers share common goals. Both seek to drive value—property managers, primarily through hands-on, day-to-day operational activities, and asset managers, by being keenly focused on the strategic and financial aspects of the investment. Frequently, these two roles overlap.

IREM funded this study to gain a better understanding of the core responsibilities of asset managers and the skills required for success in the profession. The project is intended to complement the substantial amount of research IREM has undertaken in the past examining the evolving job requirements of both property managers and asset managers and the tasks they commonly perform. By focusing on the perspectives of asset managers and the individuals with whom they regularly work, the research is anticipated to contribute to the existing body of knowledge and paint a clearer picture of the real estate management process as a whole. The results are also expected to serve as a foundation for future efforts intended to enhance the profile of real estate asset management as a professional service and improve the quality of educational programs available to those who currently work in the field or aspire to do so in the future.

EXECUTIVE SUMMARY

Purpose:

Asset management is critically important to the success of many large real estate investors, yet it is often poorly understood by those working outside the field. Therefore, it is important to clarify the roles asset managers play in different types of organizations for a number of reasons:

- Defining the unique body of knowledge required for success in real estate asset management can help establish it as a professional service, providing a status that will attract talent to the industry.
- Understanding what is expected of real estate asset managers can help education providers better tailor their offerings to meet evolving industry needs.
- Differentiating real estate asset management from property management in more clear and concrete terms can improve communication and understanding between these two groups.

Methodology:

The research presented addresses existing knowledge gaps by summarizing the results of more than 90 interviews conducted with real estate practitioners familiar with asset management as both a process and as a profession. In the aggregate, the results of the qualitative analysis offer answers to the following three questions:

1. **What are the roles, responsibilities, and requirements of real estate asset managers?**
2. **What education, training, and skills tend to contribute to long-run success in the industry?**
3. **How do real estate investment companies source and develop asset management talent?**

Major Findings:

- The asset management process typically involves a series of interrelated functions or activities designed to enhance the financial performance of income-producing properties, which include (1) acquisition support, (2) business planning, (3) leading a team, (4) budget preparation, (5) lease/capital expense approval, (6) promoting operational efficiency, (7) market research, (8) financial analysis, (9) disposition assistance, and (10) reporting/surveillance.

- These functions can be delegated to a number of different parties in a number of different ways depending upon the structure, culture, and strategic objectives of a given real estate firm. Some individuals holding asset management titles engage in all of these activities and have considerable autonomy to make property-level decisions. Other asset managers have much narrower job descriptions and far less discretion. These differences make it difficult to define asset management as a profession in universally accepted terms.

The following interrelated functions or activities in the asset management process are designed to enhance the financial performance of income-producing properties:

- **Acquisition support**
- **Business planning**
- **Leading a team**
- **Budget preparation**
- **Lease/capital expense approval**
- **Promoting operational efficiency**
- **Market research**
- **Financial analysis**
- **Disposition assistance**
- **Reporting/surveillance**

- The interviews suggest four common approaches to asset management exist throughout the real estate industry, which are distinguishable based on the amount of attention devoted to financial management relative to human resource management.
    - Analytical asset managers have strong quantitative backgrounds and primarily view their work as that of data analysis, financial modeling, and surveillance, as opposed to that of leading a team of leasing agents and property managers.
    - Operational asset managers tend to come from property management backgrounds and prioritize collaboration with onsite personnel as a means of improving performance and enhancing tenant relations.
    - Transactional asset managers limit the amount of time they spend on both financial analysis and property management issues in favor of interacting with the brokerage community, negotiating leases, and setting rents in an effort to drive revenue growth.

  - Comprehensive asset managers simultaneously have strong financial management and human resource management skills that allow them to participate in all of the aforementioned activities at a high level and make strategic decisions.

- The education, training, and skills required for success in asset management depend largely upon which approach a real estate company adopts in practice. It may also influence where a company sources asset managers and the support systems put in place to foster their professional growth.
- Despite the existence of alternative approaches to asset management, many of the executives interviewed shared a common belief that there are excellent career opportunities in the field for those who are decisive and have a relatively high level of financial acumen, effective communication skills, and the ability to motivate people. This was perceived to be true for both entry-level jobseekers and seasoned professionals due to the ongoing institutionalization of the real estate industry and the growing need for asset management services.
- The greatest opportunities appear to exist for those who have an interest and the aptitude to work in an environment that serves as a bridge between the worlds of real estate finance and operations.

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Defining Real Estate Asset Management

Asset management, definable as both a process and a profession, is critically important to the success of large real estate investors. It is nonetheless poorly understood outside, and to some degree inside, the real estate industry due to the use of inconsistent terminology and differences in the organizational structure of companies specializing in the ownership and oversight of income-producing properties. The confusion is problematic to the extent it prevents talented individuals from pursuing careers in asset management or impinges upon the development of supportive services for those already working in the field. It can also contribute to a lack of understanding between those managing real estate as an investment vehicle and those operating

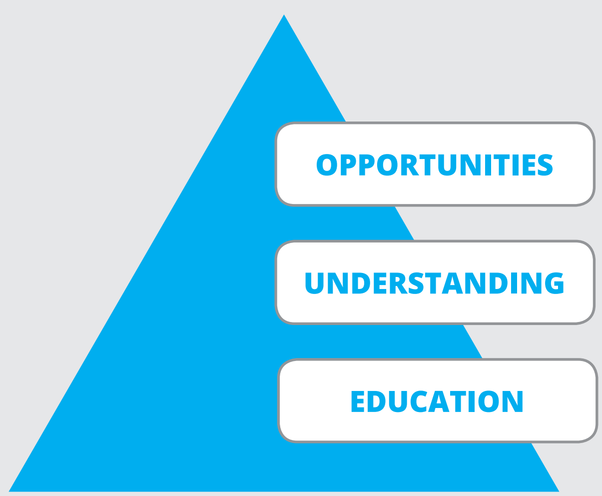
WHY DO WE (OR WHY SHOULD WE) CARE?

Sources of confusion:

- Inconsistent terminology
- Diverse organizational structures
- Integrated activities

A need for greater clarity:

- Attracting talent
- Improving communications
- Creating new career paths
- Developing supportive services



it on a daily basis when the two groups lack a true appreciation for what the other really does. These issues warrant efforts to operationalize asset management in terms that are practical and relatable.

Roles
Responsibilities
Requirements

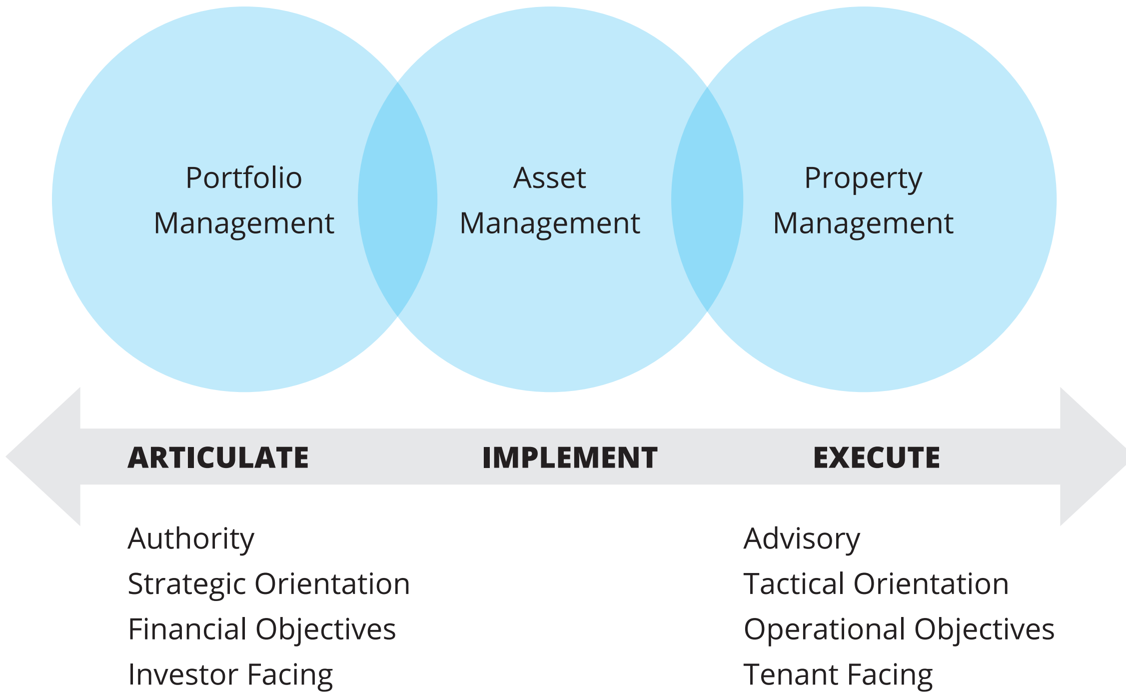
The research presented in this report examines the roles, responsibilities, and requirements of asset managers working in different settings throughout the U.S. in order to better define their place in the real estate management industry as a whole. This is accomplished by analyzing the results of more than 90 interviews conducted with individuals working in this capacity or in close conjunction with asset managers. Attention is devoted to identifying the range of tasks commonly associated with the asset management process and how they are delegated or structured within various types of organizations. Emphasis is also placed on exploring practitioners' perceptions about the skills required for success as an asset manager, as well as the training typically required to obtain various positions in the field. The results suggest real estate asset management can take on many different forms and involve a host of different players that are all linked together by a property-level focus on improving financial performance acquisition through disposition.

The report begins with a review of the existing asset management literature and a discussion of the gaps therein that contribute to misunderstanding. This is followed by a brief summary of the qualitative research methodology used in the study at hand to build upon the existing body of work. The results of the interviews completed throughout the data collection process are then presented and analyzed. Finally, the report concludes with an assessment of the opportunities and challenges currently facing aspirant asset managers.

The Traditional Real Estate Management Trichotomy

Real estate management professionals are often divided into three broad categories for descriptive purposes, which include portfolio managers, asset managers, and property managers (Fisk 2015). They are hierarchical in the sense that property managers report to asset managers in some instances, with asset managers in turn reporting to portfolio managers, when all three tiers are present within an organizational structure (McAllister 2012). The categories also reflect the fact that individuals working in each of these capacities have different roles and responsibilities that become increasingly dynamic or strategic, as opposed to tactical, as one moves up the hierarchy (Muczynski 2015). These distinctions are presented in Figure 1 and can be better understood within the context of the real estate management industry's evolution.

FIGURE 1. Real Estate Management Trichotomy



Real estate portfolio management came to prominence as a profession in the 1970s as a result of emerging demand for income-producing properties by institutional investors in the U.S. seeking the benefits of diversification (Snowden and Young 1996). Well capitalized endowments, life insurance companies, and pension funds stimulated the industry's growth by engaging knowledgeable real estate practitioners to help them navigate markets with limited transparency and relatively high transaction costs (Seiler et al. 1999). Today, professionals working in the field continue to help a diverse array of clients develop and implement strategies to deploy capital into real estate portfolios offering an acceptable risk profile and returns that are weakly correlated with other investment alternatives (Viezer 2010). Sophisticated portfolio managers also advise their clients on the use of leverage, quantitative risk management tools, and opportunities to further diversify their holdings through the acquisition of properties that differ in terms of location, product type, tenant mix, and lease structure (Nieboer 2005; Viezer 2010; Clayton et al. 2011). Their goal is to achieve the stated investment objectives of a specific real estate fund or managed account (Clayton et al. 2015).

Asset management has a shorter history than portfolio management and is largely a product of the financial crises of the mid-1980s that left many U.S. financial institutions with substantial portfolios of real estate owned (Glickman 2004). A number of these institutions retained so-called asset managers to help them stabilize properties acquired after loan default and position them for eventual sale (McNair 1994). Over time, the asset management position evolved from that of a work-out specialist into that of an advisor working on behalf of willing real estate investors and portfolio managers to execute strategies at the property level spanning from acquisition to disposition (Singh et al. 2012). These professionals are charged with the task of maximizing the value of each asset in their respective portfolios by making decisions that account for property characteristics and market conditions (Gruis and Neiboer 2004). Since asset managers are responsible for the post-acquisition financial performance of the properties assigned to them, they can serve as an intermediary between portfolio management and on site property management (Neiboer 2005).

> **"…the asset management position evolved from that of a work-out specialist into that of an advisor working on behalf of willing real estate investors and portfolio managers…"**

Property managers differ considerably from the groups previously discussed because they are in charge of operating and maintaining the physical assets under their care. They are the primary point of contact for residents and tenants, as well as the party responsible for preliminary budgeting, rent collection, bill payment, obtaining competitive pricing from vendors, and overseeing on site personnel (Glickman 2004). Property managers also provide asset managers and others they work for with market intelligence and serve in an advisory capacity when assessing the merits of proposed capital improvement projects, leasing decisions, and asset repositioning strategies (Fisk 2015). The property management industry has become increasingly professionalized and specialized throughout the last century in response to market dynamics and those working in the field regularly take on a much greater responsibility for property-level accounting, financial reporting, and risk management than they did in the past (Muhlebach and Alexander 2008). Competitive pressures continue to force property management firms to reevaluate their service offerings and become more responsive to the needs of both ownership groups and the residents or tenants they engage with on site (Read et al. 2016). Balancing these requirements is fundamental to success in the position.

Sources of Confusion and Disagreement

The aforementioned real estate management trichotomy offers a useful starting point to study the nuanced relationships between portfolio, asset, and property managers, but it can also contribute to confusion and disagreement due to several complicating factors. Discussion most frequently arises when attempting to differentiate the role of the asset manager from that of the property manager in practical terms and in ways that are generally embraced throughout the real estate industry. At the most basic level, the problem is semantic because companies use different titles to describe individuals engaging in functions typically associated with asset management (Salustri 2016). Similarly, those holding asset management titles may participate in operational activities on occasion that more commonly fall in the domain of property management (Jackson 2012; Fields 2015). The amount of overlap that exists between the two positions depends largely on the size of a company and whether it is an owner-operator or strictly a financial manager outsourcing operations to third parties. All of these factors serve as obstacles to the development of a universally accepted definition of real estate asset management that is completely free from criticism, debate, or, at the very least, ongoing discussion (Feldman 1995; McAllister 2012; Read et al. 2016).

Perhaps a more perplexing problem for those interested in defining asset management stems from the fact that individuals employed in this capacity must now work more closely

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> **The metrics by which asset managers are evaluated also indicate that the nature of their work is much more focused on enhancing the overall financial performance of their properties, acquisition through disposition, as opposed to maintaining tenant relationships and minimizing quarterly budget variances.**

than ever with property managers to satisfy the intensifying demands of their clients (Fields 2015). Technologically integrated reporting systems, collaborative decision making, and close cooperation between investment managers and operational staff have become hallmarks of successful management platforms (Poon and Brownlow 2014). Strides made by the property management industry as a whole to become more financially savvy and professionalized throughout the last several decades have made this type of relationship possible in many ways (Goss and Campbell 2008). Data collection, benchmarking, and market surveillance tasks once completed by asset managers are now pushed down to property managers who have the human resources in place to handle the workload in a competent manner (McMahan 2006; Carswell and Phillips 2008; Salustri 2016). Interactions of this sort complicate seemingly clear lines of demarcation between asset management and property management in an industry where collaboration is becoming the norm rather than the exception.

Although there are areas in which the roles and responsibilities of asset managers and property managers overlap, that is not to suggest the former profession is simply an extension of the latter. The physical separation that exists between asset managers and the properties in their portfolios in and of itself creates knowledge gaps that require them to approach their work in a more strategic and less tactical fashion than those overseeing day-to-day operations (Kelly 2009; IMA 2015). The metrics by which asset managers are evaluated also indicate that the nature of their work is much more focused on enhancing the overall financial performance of their properties, acquisition through disposition, as opposed to maintaining tenant relationships, and minimizing quarterly budget variances (Nieboer 2005; Fromm 2012). These differences are notable, but nonetheless insufficient as a standalone means of defining asset management as a profession, because proactive property managers also view their activities as strategic and no less important to the long-run success of thoughtfully crafted real estate investment strategies (Omar et al. 2015; Read et al. 2016).

A final shortcoming or limitation of the traditional real estate management trichotomy is its orientation towards controlling equity interests with little consideration of asset management as an important tier in the organizational hierarchies of direct lenders, loan servicers, and low-income housing tax credit syndicators. Companies working in each of these arenas regularly employ asset managers to monitor the financial performance of the properties in their portfolios and evaluate the threat of delinquency or noncompliance with any agreed upon financial terms (Cummings and DiPasquale 1999; Vestewig 2003). The activities of asset managers working in companies such as these generally become strategic in nature only when there is a threat of default requiring corrective action or intervention (Chen and Deng 2013; Liu and Quan 2013). Thus, the requirements of these asset managers are different in scope than their peers employed elsewhere.

A Need for Greater Clarity and Understanding

Clarifying the roles asset managers play in different settings is a worthwhile undertaking for a variety of reasons. First, defining the unique body of knowledge required for success in asset management may help establish it as a professional service garnering an economic premium over other indirect competitors present in the marketplace (Malhotra and Morris 2009; Von Nordenflycht 2010). This type of status is likely to attract talent to the industry and increase its

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recognition as a viable career path for individuals with the right aptitudes, skills, and training. Second, obtaining a thorough understanding of what is expected of asset managers from their employers may help education providers better tailor their offerings. This is important in light of ongoing debate underway in both universities and professional service organizations as to what should be included in real estate training programs (Poon and Brownlow 2014). Third, differentiating asset management from property management in more clear and concrete terms may improve communication and understanding between these two groups (Feldman 1995; Read et al. 2016). It stands to reason that property managers can become better at their jobs by appreciating the challenges of asset management, just as asset managers are likely to benefit from greater exposure to the operations side of the business. All three of these considerations justify further study of what asset management actually entails in practice.

One way of achieving this aim is by operationalizing asset management as a process involving a significant number of activities, which are not necessarily the exclusive domain of anyone holding a specific job title (Smid and Nieboer 2008). Figure 2 presents 10 such activities cited in the extant academic literature and trade publications (McNair 1994; Glickman 2004; McMahan 2006; Kelly 2009; Jackson 2012). They include acquisition support, business planning, leading a team, budget preparation, lease/capital expense approval, promoting operational efficiency, market research,

FIGURE 2. THE ASSET MANAGEMENT PROCESS

financial analysis, disposition assistance, and surveillance and reporting. These activities comprise the implementation of the investment strategy at the property level and oversight of its execution by operators and others (Gorman 1990). Increasing cash flow, maximizing value, and hitting return targets within the confines of established parameters are the end game.

There is no shortage of research outlining asset management functions in a manner similar to Figure 2. What is lacking in the existing body of work is in-depth exploration of how these functions are organized and conducted by different companies participating in the asset management process. Likewise, relatively few studies examine the career paths of asset managers and the skills required for success in the field. Filling these gaps may shed light on the profession and what is needed to promote its ongoing development.

Analyzing the Perceptions of Real Estate Executives

A total of 257 individuals working in asset management or in conjunction with asset managers were contacted to participate in this research via telephone and/or e-mail. The list of potential respondents was compiled with the assistance of rankings prepared by trade organizations and trade publications identifying the largest real estate owners and service providers by product type throughout the U.S., as well as executive search firms engaging in real estate placements. Throughout the course of the data collection process, 92 of these individuals agreed to participate for a response rate of approximately 36 percent. Executives employed by large owner-operators, life insurance companies, private equity funds, publicly traded real estate investment trusts (REITs), direct lenders, tax credit syndicators, and real estate service firms can all be found in the sample, as shown in the frequency distribution presented in Figure 3. The individual respondents were selected based on their familiarity with real estate asset management as both a process and a profession.

257

individuals working in asset management or in conjunction with asset managers were contacted to participate in this research

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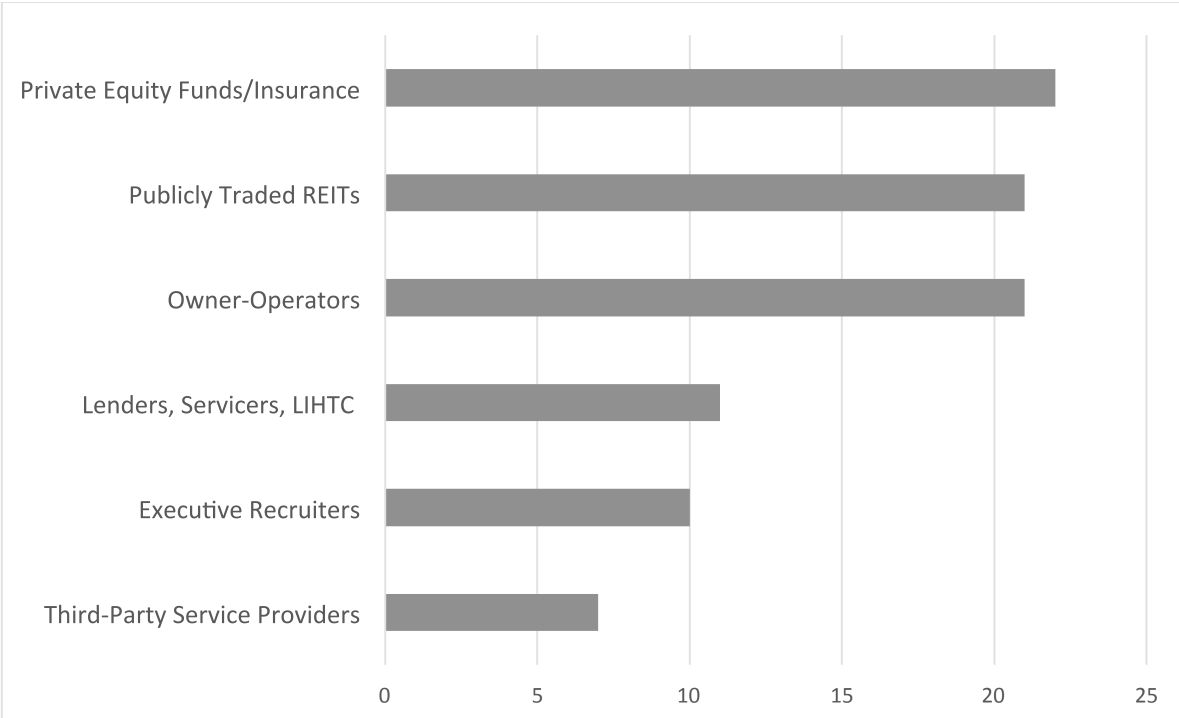
92 **of these individuals agreed to participate for a response rate of approximately**

36%

FIGURE 3. Frequency Distribution of the Companies Represented in the Sample*



* Each respondent participated in an interview 30 minutes to 1 hour in duration and was asked a series of questions related to the following three overarching themes:

1. What are the roles, responsibilities, and requirements of real estate asset managers?
2. What education, training, and skills tend to contribute to long-run success in the industry?
3. How do real estate investment companies source and develop asset management talent?

Each respondent participated in a telephone interview lasting approximately 30 minutes to one hour in duration. The conversations were guided by a series of open-ended questions provided to the interviewees in advance for review. All of the questions included in the list were designed to explore the prevailing state of the asset management industry, functional responsibilities of asset managers in practice, challenges involved in the profession, working relationships between these professionals and other real estate practitioners, and the education, skills, and training required for success in the field. Structuring the interviews in this manner gave the respondents a clear understanding of the research objectives, while also granting them considerable discretion to talk about any topics they deemed relevant. The respondents were also informed in advance of the interviews that neither they nor their companies would be identified in any way, which encouraged them to speak freely about their unique professional experiences and perceptions.

Transcriptions of the interviews were reviewed and organized to identify patterns in the data relevant to the research questions of interest. The process yielded valuable information about both the parties and the activities involved in asset management. The results are presented in the following sections based on their relationship to the study of common asset management functions, the attributes of successful asset managers, and the impact of organizational culture or structure on asset management tasks.

Organizing and Interpreting the Qualitative Results

The executives participating in this study generally discussed asset management in terms consistent with those found in the existing literature. Many described individuals working in this capacity as the ones responsible for "overseeing financial performance, creating value through strategic decisions, and managing the competitive position" of each property in their respective portfolios. It was also common for respondents to frame the roles of asset managers representing equity investors in relation to those of the parties with whom they work, with one noting "asset managers fit neatly between portfolio managers and property managers because they are responsible for implementing property-level strategies reflective of portfolio objectives and the financial engineering used to acquire the assets." A significant number of respondents acknowledged that asset management is sometimes difficult to define as a profession because it "continues to evolve, crosses a lot of boundaries, and takes on different forms." These perceptions conform to theoretical expectations and thereby suggest much can be learned from the existing research.

A significant number of respondents acknowledged that asset management is sometimes difficult to define as a profession because it...

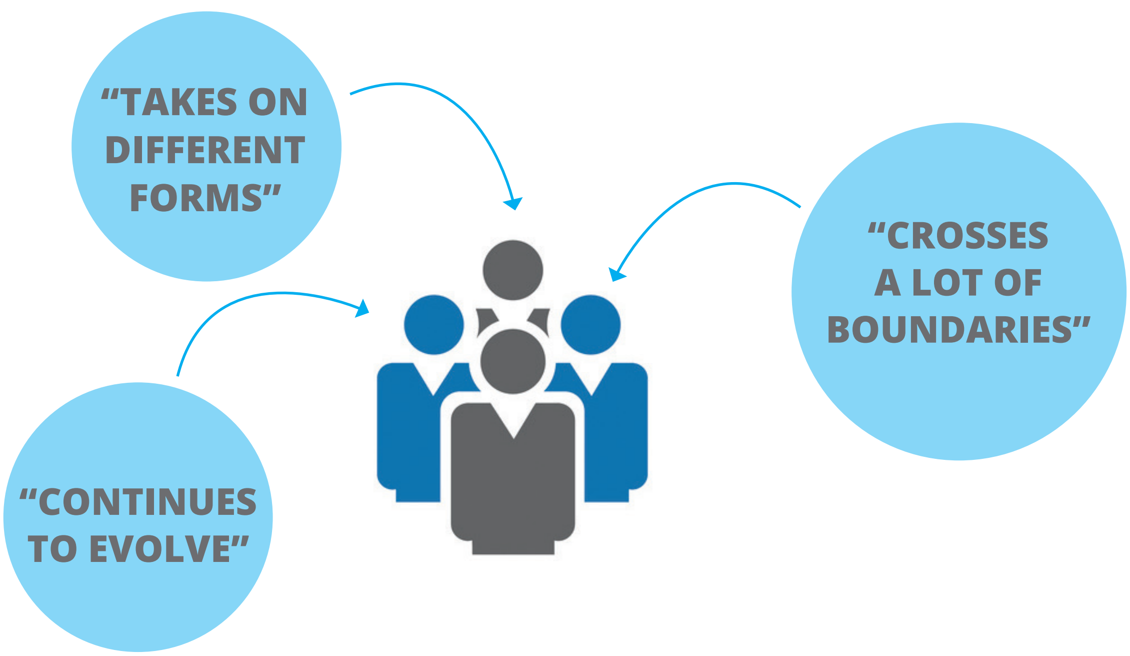


PHOTO © FINGERMEDIUM / ISTOCK

The executives participating in this study described individuals working in asset management as the ones responsible for ...

"managing the competitive position"

"creating value through strategic decisions"

"overseeing financial performance"

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Furthermore, comments made by the respondents support a decision to study asset management primarily as a process and secondarily as a profession. This is appropriate because there is a high level of consensus about the tasks asset management typically involves, despite the fact that these tasks are delegated in different ways across companies depending upon their culture, needs, and resource constraints. The results presented in this report are therefore organized with process in mind, considering the responsibilities asset managers may take on throughout the life cycle of a real estate investment. Many of the tasks outlined assume asset managers have the autonomy to make an array of management decisions, which may not be the case for those representing limited partners or debt providers who primarily engage in monitoring and surveillance. This limitation must be kept in mind when interpreting the results. Attention is devoted to factors influencing how all of these professional responsibilities are satisfied in practice. Approaching asset management in this way limits confusion stemming from the use of inconsistent job titles and designations.

Understanding Asset Management as a Process

The asset management process typically involves a series of interrelated functions or activities designed to enhance the financial performance of income-producing properties. In broad terms, the process involves the following 10 functions.

1 Acquisition Support

Identifying the types of properties that should be included in diversified real estate investment portfolios is outside the scope of the traditional asset management process. Nonetheless, professionals working in asset management departments are increasingly being called upon to assist acquisition teams in the evaluation of prospective real estate purchases. As one asset manager working on behalf of an owner-operator stated: “The days of acquisitions birthing the baby and turning it over to asset management to raise are over.” This sentiment reflects the fact that asset managers are often asked to vet the underwriting assumptions used by acquisition specialists to justify the initial pricing of real estate investment opportunities. Collaborating in

> **“The days of acquisitions birthing the baby and turning it over to asset management to raise are over.”**

this manner leverages the market knowledge asset managers possess, while simultaneously preventing these professionals from later claiming the underwriting assumptions used to support an acquisition are unrealistic or unattainable once a property is turned over to their care.

The amount of influence asset managers have over underwriting and investment decisions appears to vary substantially across real estate companies. Some of the respondents described an asset manager's role in acquisitions as that of merely "riding shotgun," serving in an "advisory capacity," or "providing information as requested" throughout the due diligence process. Others spoke of a "close partnership with acquisitions," the need for asset management to "sign off on all underwriting assumptions" before the submission of a deal to the investment committee, and the high probability of a proposed transaction being rejected in the event asset management "got cold on a deal and didn't offer strong support." All of these comments suggest real estate companies attempt to align the interests of those procuring investment properties with those responsible for the post-acquisition financial performance in different ways. One respondent acknowledged this is an ongoing challenge: "Asset management wouldn't necessarily buy the same things as acquisitions, but we understand that we have to buy things to drive growth." Another respondent posited: "You have to effectively incentivize acquisitions to be smarter about what they buy and bring asset management into the discussions earlier to serve as a check and balance in the underwriting."

ACQUISITIONS

Several of the respondents spoke at length about efforts on the part of their companies to foster cooperation between asset management and acquisitions through the reallocation of job functions or the reorganization of departments within their firms. In a limited number of instances, this involved shifting a significant amount of deal sourcing responsibility to asset managers well positioned to identify ground-up development opportunities or value-add plays in the markets where they already had assets under management. An asset manager working on behalf of an owner-operator indicated this approach can be advantageous because it "instills an acquisitions mentality" in asset managers, but can also be problematic when asset managers "focus too much on development deals and new acquisitions instead of the existing portfolio" or "rely on property management to fill the void" when they don't have time to complete their other work.

Another strategy involves making acquisitions more accountable for the ongoing financial performance of the properties after their transition to asset management, or even consolidating the two functions in a single department. Perceptions about both of these approaches were mixed. On the positive side, respondents argued that having asset management and acquisitions "under the same umbrella makes people think a little bit more before pulling the trigger on a deal" and encourages collaboration between individuals that "typically come from different mind sets." On the negative side, respondents contended that "separating asset management from acquisitions and coordinating their activities" is the only way to put meaningful "checks and balances" in place. The interviews offer some evidence that these competing positions stem from a real estate company's culture and the amount of interaction regularly expected from its employees.

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Some of the respondents described an asset manager's role in acquisitions as "riding shotgun," serving in an "advisory capacity" throughout the due diligence process.

2 Business Planning

The extent to which asset managers participate in the development of business plans for the properties in their portfolios may also hinge upon their relationship with acquisitions. This is the case because “business plans are built into acquisition models outlining where a company wants to go and where it wants to finish.” Respondents contended that this is particularly true for value-add deals or closed-end funds with relatively short holding periods and defined exit parameters. An asset manager employed by an owner-operator clearly articulated this point: “The business plan gets defined in the underwriting assumptions at acquisition. The big ideas are conceived in advance of closing because we aren’t baby sitting real estate. We are coming into deals with a value-add strategy in mind. The underwriting assumptions are incorporated into the budget on the buy side and handed over to asset management for execution.” In these scenarios, asset managers’ activities are more tactical and less strategic unless they have an opportunity to express their opinions during due diligence or can effectively advocate for a modification to the investment strategy post acquisition.

> **“The business plan gets defined in the underwriting assumptions at acquisition. The big ideas are conceived in advance of closing because we aren’t babysitting real estate. We are coming into deals with a value-add strategy in mind. The underwriting assumptions are incorporated into the budget on the buy side and handed over to asset management for execution.”**

An asset manager’s role in business planning can become more pronounced when acquisition specialists evaluate and value a property based on its current performance, before turning to asset managers, property managers, and leasing professions to assess any upside potential that may exist. Situations such as these require asset managers to “work with a team to evaluate the market, assess the physical condition of a property, and outline a repositioning strategy as appropriate.” Asset managers are then charged with implementing the agreed-upon strategy or refining it as necessary to achieve the objectives of ownership.

Asset managers arguably participate most heavily in business planning when properties are purchased in a stabilized condition by investors preferring long-term holds. While this may initially

BUSINESS PLANNING

Create → **Implement** → **Assess** → ***REVISE***

seem counterintuitive, transactions such as these require asset managers to continually monitor a property's competitive position, propose corrective action when it is perceived to be in decline, and succinctly convey the rationale behind any decisions that are made. They must also "establish annual goals for a property that reflect market conditions" and assess the impact of achieving those goals on an asset's marketability in the event of sale. Thus, short-term planning must complement long-term planning. Some of the most formal plans include matrices describing an asset's competitive position, differentiable features, needed capital improvements, appropriate responses to changing market conditions, and opportunities to strengthen the tenant mix.

Some of the most formal plans include matrices describing...

- **An asset's competitive position**
- **Differentiable features**
- **Needed capital improvements**
- **Appropriate responses to changing market conditions**
- **Opportunities to strengthen the tenant mix**

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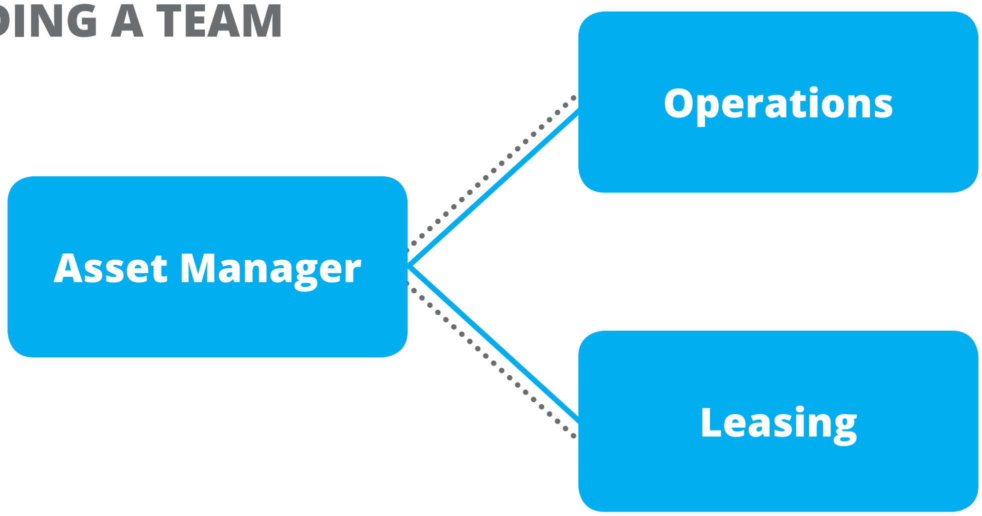
3 Leading a Team

Once an investment property has been acquired and a business plan is in place, asset managers oftentimes play a role in assembling and overseeing the team responsible for bringing the strategic goals to fruition. For example, asset managers working on behalf of large private equity funds may be charged with the task of retaining third-party leasing agents and property managers to respectively market and operate one or more of the properties in their portfolios when these functions are not handled internally. The relationship between asset managers and third-party service providers is therefore hierarchical in these situations, with the former group of professionals capable of replacing the latter in the event they are unsatisfied with the price or quality of services rendered. This is advantageous when it allows asset managers to select best-in-class service providers in each market where they have properties. Outsourcing these services also helps asset managers "scale-up" more quickly as new properties are added to their portfolios and leverage the "business intelligence" third-party service providers glean from regularly working with multiple clients.

LEADING A TEAM



Asset managers may oversee the work of leasing professionals and property managers, or work alongside them, depending upon the organizational structure of a real estate investment firm.

The relationships between the aforementioned parties become more complex when investment firms handle marketing and operations internally in the hopes of deriving some form of competitive advantage. Property management and leasing professionals working for vertically integrated real estate companies may have separate and distinct chains of command that preclude them from reporting directly to asset managers. The organizational structure limits the amount of pressure asset managers can impose upon these team members and can prevent them from pushing tactical responsibilities down in an effort to focus on more strategic endeavors. A comment made by one of the executives interviewed echoed the sentiments of others by cautioning that “increasing the pressure to perform can encourage in-house property management and leasing to become less and less transparent” unless a company has a strong culture of collaboration and cooperation. Asset managers working in this type of environment must motivate people in the absence of direct authority in order to capture the benefits purported to accompany in-housing leasing and property management such as greater consistency in “service delivery” and “stronger tenant relations.”

> **“Good asset managers have to really enjoy leading an internal or external team and driving results because it’s a managerial role at the end of the day.”**

… Asset managers oftentimes play a role in assembling and overseeing the team responsible for bringing the strategic goals to fruition.

PHOTO © LUCKYBUSINESS / ISTOCK

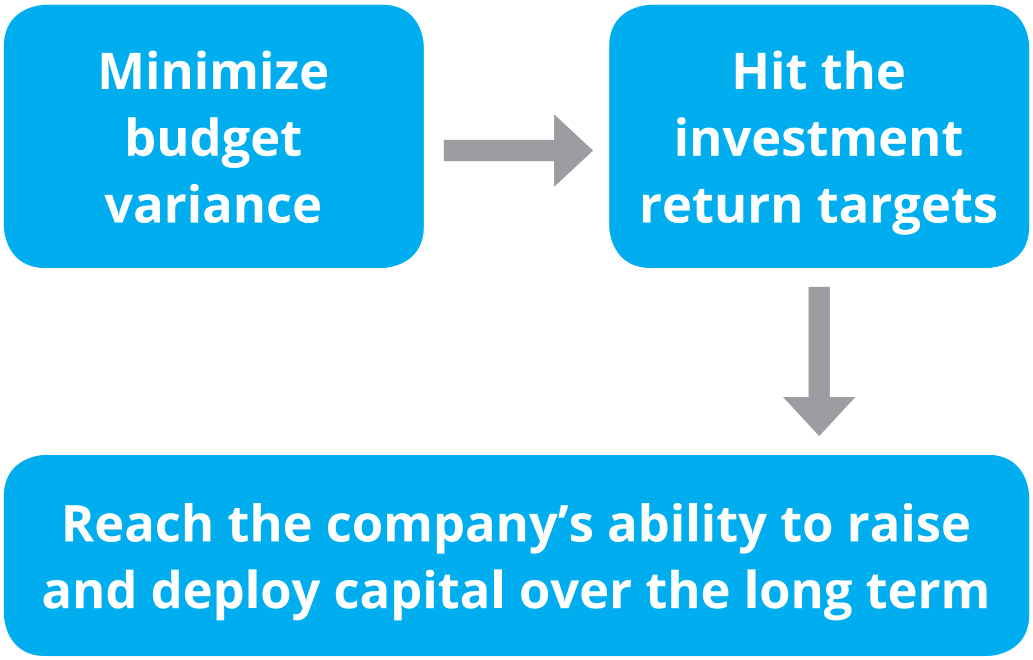
Irrespective of whether asset managers directly oversee the activities of leasing and property management or work alongside these parties to effectuate the business plan, it is often their responsibility to “articulate a clear message” and “establish defined channels of communication.” As one respondent said: “Good asset managers have to really enjoy leading an internal or external team and driving results because it’s a managerial role at the end of the day.” This may involve weekly calls to gain an understanding of “what is going on at the property level,” the implementation of procedures to ensure “consistency in reporting and the roll up of information to ownership” and “candid conversations” about budget variances and an asset’s competitive position. The answers leasing agents and property managers provide must be “sufficient in detail to help asset managers make the right decisions” based on “boots-on-the-ground” market intelligence. Likewise, proactive asset managers should help the members of their team understand the impact of leasing and operational decisions on valuation and expected returns. Put more simply, “Value creation occurs by helping property management and leasing understand the thresholds that must be achieved to do deals and make suggested capital improvements.”

4 Budget Preparation

Few asset management activities require more ongoing communication and coordination than budgeting. Although it is customary for asset managers to approve budgets and monitor variances, the process requires extensive participation by leasing agents, property managers, and in some instances, construction managers to predict future revenues and expenses. Respondents expressed agreement that well-crafted budgets are the product of these parties working together effectively to “map out an investment strategy” and “align it with the resources necessary for its execution.” However, there was less consensus about how these goals should be achieved from a practical standpoint and how frequently budgets should be updated to take into account evolving market conditions and underlying shifts in a property’s competitive position. The interviews indicate that asset managers must balance demands for accurate and timely forecasting against the need to make decisions quickly without always having the benefit of models or perfect information.

> **“Asset managers spend too much time budgeting, re-budgeting, and budgeting again, which results in tweaking around the edges as you get a little bit better information, rather than moving on and focusing on value enhancements.”**

BUDGET PREPARATION



The respondents readily acknowledged that budgets and business plans are "out of date as soon as they are printed" and require "continual revision," but also suggested addressing the problem is more difficult than it might initially appear. One stated, "Asset managers spend too much time budgeting, re-budgeting, and budgeting again, which results in tweaking around the edges as you get a little bit better information, rather than moving on and focusing on value enhancements." Another added, "The people that are successful in this business make decisions in real time" and let the market drive lease approvals as opposed to strictly adhering to a budget that may encourage an asset manager to unwisely forgo the best deal available. Comments such as these indicate that thoughtful asset managers use budgets as guides and as a means of monitoring performance, rather than as documents demanding strict conformance and absolute deference.

That's not to say accuracy in budgeting is unimportant. Asset managers are evaluated on their ability to deliver cash flows consistent with those supporting the price at which a property was originally purchased. Minimizing budget variance is therefore essential to hitting investment return targets that affect a real estate company's ability to raise and deploy capital over the long term. An asset manager is left with the task of continuously working towards the budget, while remaining realistic and up to date on economic conditions. Explaining unforeseen market dynamics leading to budget variances in a manner that helps portfolio managers and ownership groups "avoid surprises" and "pursue corrective action" may therefore prove to be just as important to asset managers' success as their ability to adeptly forecast revenues and expenses.

Although it is customary for asset managers to approve budgets and monitor variances, the process requires extensive participation by leasing agents, property managers, and in some instances, construction managers to predict future revenues and expenses.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5 Approving Leases and Capital Improvements

Approving leases and capital improvement projects are two asset management functions closely related to budgeting because they have a direct impact on a property's cash flow. And while these responsibilities do not fall to asset managers in all real estate companies, it is relatively common for individuals working in this capacity to have authority to autonomously approve leases and capital spends that are included in a budget or within defined dollar limits. Asset managers approach these tasks in different ways across firms. A quantitative approach, oversight approach, and deal-making approach were observed in the interviews.

> **"The heart of asset management is analysis; deciding how and when to spend money."**

Asset managers employing a purely quantitative approach tended to have somewhat limited authority to engage in lease negotiations or approve capital investments. They described their role in the process as that of helping transaction teams or senior executives make these decisions through comprehensive financial analysis. Alternatively, those reporting an oversight approach had more autonomy to make leasing and capital investment decisions after turning to leasing agents, property managers, and analysts for assistance. The asset manager's responsibility was described as that of interpreting the analytical work of their team to ensure alternative courses of action were presented for review in concert with educated recommendations before making a final decision. Finally, those reporting a deal-making approach inserted themselves into lease negotiations and capital improvement projects early on and remained involved through completion. Asset managers in this group analyzed and approved these transactions independently for the most part.

APPROVING LEASES AND CAPITAL IMPROVEMENTS

Quantitative approach → "We support our transaction teams by conducting financial analysis of lease options and the associated capital improvements."

vs

Oversight approach → "Good asset managers get leasing and property management to lay out the options, make recommendations, and support them with data."

vs

Deal-making approach → "Our asset managers work with brokers directly on lease transactions from proposal through negotiations."

The respondents discussed three distinctive approaches to evaluating proposed leases and capital improvement projects.

It is difficult to overstate the importance of leasing and capital investment decisions to the asset management process. As one respondent said, “The heart of asset management is analysis; deciding how and when to spend money.” This sentiment led many of those interviewed to define asset managers as professionals with the autonomy, financial acumen, market knowledge, and negotiating skills necessary to complete these transactions in the face of economic scarcity. Respondents representing this school of thought described individuals lacking one or more of these attributes as “advisors” or “analysts” rather than asset managers.

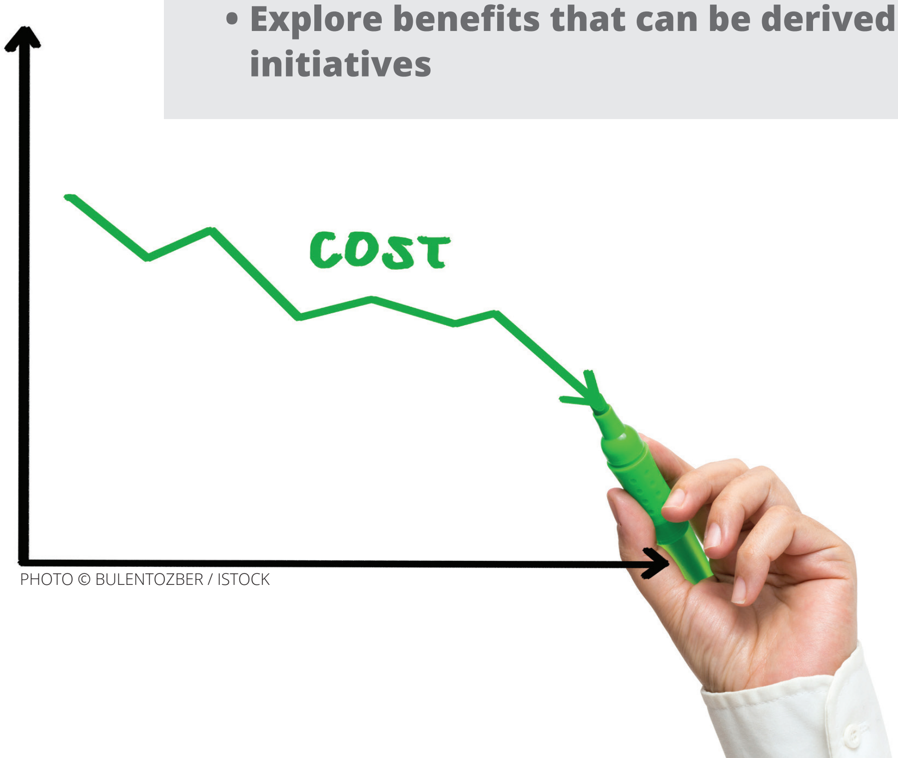
6 Promoting Operational Efficiency

In addition to approving leases and capital improvement projects to increase a property’s gross revenue, asset managers attempt to grow net operating income by promoting operational efficiency. This may involve working with operators to identify cost savings, leveraging economies of scale, or exploring benefits that can be derived from sustainability initiatives. Interestingly, some real estate companies look to asset managers to engage in all of these activities, while the expectations of others are far more modest in scope.

Respondents working for vertically integrated real estate companies often described more robust efforts to collaborate with property managers to reduce operating costs than did their peers working for companies outsourcing operations. In fact, this group cited cooperation as one of the greatest benefits of keeping property management in-house. Companies outsourcing property

Asset managers work with operators to...

- **Identify cost savings**
- **Leverage economies of scale**
- **Explore benefits that can be derived from sustainability initiatives**



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management alternatively discussed the efficiencies obtained by hiring best-in-class service providers, relying on their expertise and meticulously benchmarking performance. Effective communication and surveillance, as opposed to close collaboration, were anticipated to lead to cost savings in many of these cases. Outsourcing was expected to yield the highest returns when asset managers "proactively" encouraged service providers to seek out operating efficiencies without "second guessing property managers' decisions" in counterproductive ways. These perceptual differences are important because they show asset managers may view property managers as partners or as supervisees, which is likely to influence how both groups approach their work.

> **"Sustainability initiatives come in a lot of forms. Some are company driven, some are client driven, and some are put in place on an opportunistic basis."**

Those interviewed also expressed divergent opinions about the roles asset managers play in pursuing cost savings through economies of scale. A limited number of respondents noted that they were responsible for bundling service contracts or negotiating with vendors to leverage the buying power of their companies, but these activities were more frequently handled at the executive level or by property management firms. More common responsibilities of asset managers included oversight of property tax appeals, tax credit applications, and pending litigation for the properties in their portfolios to minimize costs and risk exposure.

A limited number of respondents noted they were responsible for bundling service contracts and negotiating with vendors to leverage the buying power of their companies.

The executives participating in the study put forth an even broader range of responses when asked to discuss the extent to which asset managers participate in sustainability initiatives. One respondent explained the variance by stating: “Sustainability initiatives come in a lot of forms. Some are company driven, some are client driven, and some are put in place on an opportunistic basis.” Energy and water conservation efforts fell squarely within the domain of asset management in a little over a dozen of the companies represented in the sample, with several of the respondents noting that their firms appointed sustainability managers or sustainability groups to “vet deals from a conservation perspective,” “seek out best practices in property maintenance,” and “develop analytics to show the value to tenants and clients.” Many more respondents indicated that sustainability goals were established at the corporate level or approached by asset managers in an ad hoc manner after receiving recommendations from property managers or demands from clients.

7 Financial Analysis

An overwhelming majority of the real estate practitioners interviewed put forth financial analysis as one of the most important responsibilities of those working in asset management. This is unsurprising in light of the role these professionals play in the strategic deployment of capital to improve the financial performance of properties and minimize risk, as previously discussed throughout this report. Engaging in these activities undoubtedly requires an understanding of real estate valuation fundamentals and the ability to assess the impact of operational decisions on investment returns. As a respondent quipped, “You’ll never hurt your career in asset management by having a strong background in finance and the ability to help people make good investment decisions.” The only disagreement observed in the interviews related to differences in opinion about the breadth and depth of financial analysis skills asset managers require for success in their chosen field. In this respect, respondents’ perceptions varied quite significantly and in predictable ways.

… Several respondents expressed concern about a “spreadsheet jockey” culture emerging in asset management departments and the threat of overreliance on financial models contributing to “rigid thinking.”

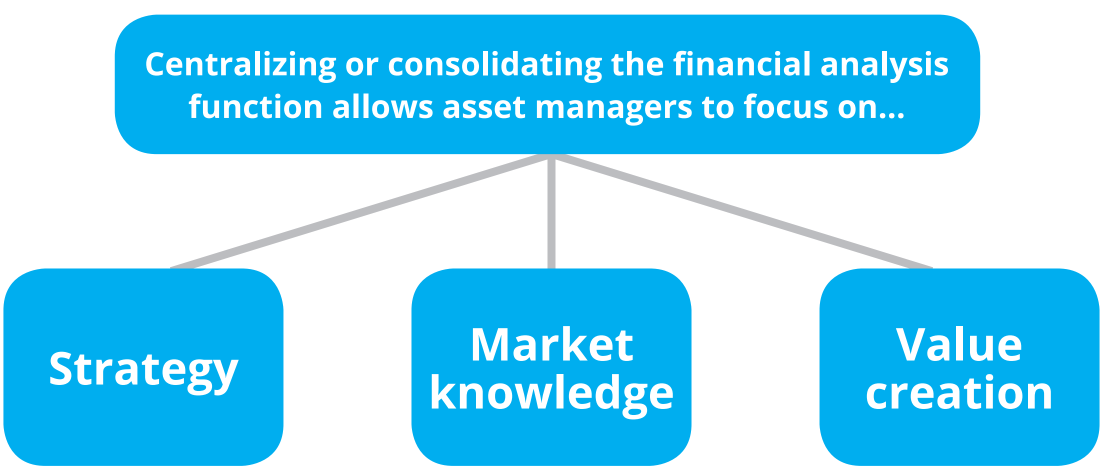
PHOTO © ANDRESR / ISTOCK

> **You'll never hurt your career in asset management by having a strong background in finance and the ability to help people make good investment decisions.**

At a minimum, asset managers were expected to have a thorough understanding of direct capitalization and discounted cash flow analysis, along with the ability to use these techniques to estimate property values and expected returns in different market settings. There was also a general presumption that asset managers be able to use time-value-of-money principles to analyze alternative lease structures and proposed capital improvements in order to calculate effective rental rates in the presence of concessions and anticipated payback periods on capital outlays. A basic understanding of debt financing and the impact of leverage on property-level cash flows was cited as another required skill, with some respondents noting asset managers in their organizations continually monitor capital market conditions and evaluate refinancing options.

A smaller number of those interviewed discussed familiarity with complex debt and equity structures, as well as the ability to incorporate them into elaborate financial models, as an essential component of an asset manager's job. Those that did typically represented large private equity funds with strong financial orientations that outsourced leasing and management services to third-party firms. The ability to explain the results of financial models to senior executives through the use of common financial metrics and ratios was consistently identified as an essential skill, irrespective of the complexity of the analysis undertaken.

FINANCIAL ANALYSIS



Despite the importance of financial analysis and the ability to evaluate properties “through the numbers,” several respondents expressed concern about a “spreadsheet jockey” culture emerging in asset management departments and the threat of overreliance on financial models contributing to “rigid thinking.” Many spoke of a need to get asset managers on site more frequently to see markets for themselves and to remember that real estate is a physical asset serving tenants with unique demands. Centralizing or consolidating the financial analysis function with a group of dedicated analysts was cited by some as a way to free up asset managers to focus on strategy, market knowledge, and value creation. A respondent working for an asset management department organized in this manner suggested, “Financial analysis is somewhat centralized in our company so we can go out and hire people with different backgrounds to fill knowledge gaps on our team in areas such as construction, development, leasing, and property management.” Approaching financial analysis in this manner was perceived to reframe it as a means of advancing the business plan and not an end in itself.

8 Market Research

Since financial models are only as good as the assumptions used in their estimation, asset managers must have a strong understanding of all of the markets where they have properties. Thoughtful business planning, budgeting, and leasing decisions also require a robust command of supply and demand fundamentals at the local level that can only be obtained through a combination of primary and secondary data. Successful asset managers respond to this reality by spending a great deal of their time tracking market trends and evaluating the competitive position of the properties in their portfolios. One respondent clearly articulated the linkage between market research and an asset manager’s broader professional responsibilities as follows: “The best way to add value is by making sure your properties are the most competitive in the market, which means understanding the market, knowing your competitors, and offering tenants something different. Proper positioning also builds resiliency into your portfolio, which is part of risk management.”

> **“The best way to add value is by making sure your properties are the most competitive in the market, which means understanding the market, knowing your competitors, and offering tenants something different. Proper positioning also builds resiliency into your portfolio, which is part of risk management.”**

MARKET RESEARCH

Effective asset managers rely on a combination of primary and secondary data sources to monitor market conditions.

New technologies are redefining the way asset managers conduct market research by allowing them to analyze an extraordinary amount of data about both their properties and the cities in which they are located. These resources are changing the rules of the game and forcing professionals working in the field to move beyond “anecdotal conversations about a property’s competitive position” towards fact-driven analysis supported by “information collected in real time.” They also provide asset managers with unprecedented opportunities to bring “market-specific information together with property specific information” to more effectively benchmark, assess a property’s risk exposure, and “determine which investments are likely to thrive or struggle.” That said, the benefits of data analysis do not come without a price. A respondent working in the multifamily housing industry directly addressed this issue: “All of the big questions [in asset management] right now are about data because we are collecting a lot of it from our properties and our residents. The difficulty is figuring out how to make it work for you instead of letting it bog you down; figuring out what is worth computing and what you are computing simply because you have the data.” Other respondents cautioned that some market trends are difficult to identify through data analysis alone.

The perceived importance of asset managers having first-hand knowledge of the markets where they have properties came across loud and clear in the interviews, as can be seen in the following statement made by an executive working for an insurance company: “Good asset managers force themselves to get out in the market and avoid getting sucked into the trap of looking at second-hand information and generating reports.” An asset manager working for a publicly-traded REIT specializing in retail added: “Asset managers need to spend more time looking at the big picture, thinking about where their properties fit into the market as a whole, and evaluating opportunities to relocate or replace tenants to improve performance.” In fact, when asked to identify the one thing asset managers tend to devote too little time to in practice, the most frequent response was getting out in the market and communicating with brokers and property managers doing deals in the area. A respondent expressing agreement with this position opined: “Asset managers have to spend time on site to really understand how people want to use space and how it relates to investment value.” These comments suggest secondary data, no matter how good, is not a perfect substitute for primary data. It should be viewed as a complement and as a means of augmenting an asset manager’s market knowledge.

9 Disposition Assistance

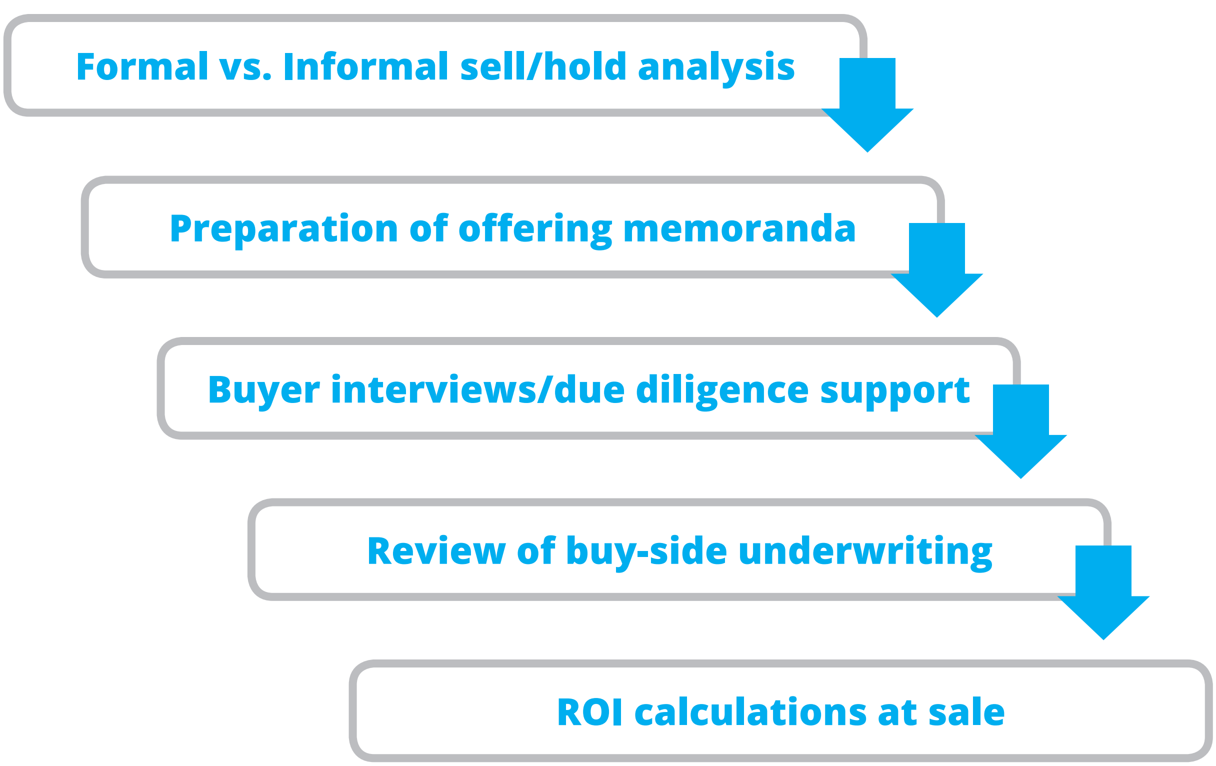
Exit strategies are always on asset managers’ minds because of the impact sale proceeds have on property-level returns. Furthermore, the amount of information these professionals have about the properties in their portfolios puts them in a unique position to help senior executives make sale decisions. It is therefore common for asset managers to aid in the disposition process in a number of ways, ranging from sell/hold recommendations to in-depth involvement in marketing activities. A respondent summarized this point by stating, “Asset managers are heavily involved

Exit strategies are always on asset managers’ minds because of the impact sale proceeds have on property-level returns.

in dispositions because no one knows the property better than they do and they can vet all of the information included in an offering memorandum. They can also use the information they have to lead capital transactions groups towards a sale decision." The manner in which asset managers approach these duties may be formal or informal depending upon the real estate firm.

Nearly all of the respondents spoke of asset managers using information derived from market research and financial analysis to make ad hoc sale recommendations when "the competitive position of a property is perceived to be in decline" or "large capital outlays are expected in the near future" to address issues such as tenant rollover and deferred maintenance. Many of the asset managers interviewed also prepared lists of properties on a quarterly basis that needed to be considered for sale in the "short, medium, and long term." On the extreme end of the spectrum, asset managers described robust financial modeling exercises conducted on a routine basis to forecast "equity multiples and internal rates of return at different sale dates." An asset management department's level of financial acumen and the presence or absence of a disposition team within a given firm often influenced the frequency and extensiveness of sell/hold recommendations.

DISPOSITION ASSISTANCE



> **Asset managers are heavily involved in dispositions because no one knows the property better than they do and they can vet all of the information included in an offering memorandum. They can also use the information they have to lead capital transactions groups towards a sale decision.**

Once a disposition decision is made, asset managers may be called upon to “write offering memoranda” or “prepare financial models supporting the pricing.” They may also be asked to conduct “buyer interviews, oversee the due diligence process, or review the buyer’s underwriting” once a property is under contract. These activities require close cooperation with property managers, which can be an issue when third-party service providers believe they are “working themselves out of a job” by helping effectuate the sale. It often falls to the asset manager to keep property managers motivated through the completion of a transaction, even when many activities supporting the sale are outside the scope of the property management agreement. The responsibilities of an asset manager may not come to an end until a deal is done and an ROI calculated.

10 Surveillance and Reporting

All of the asset management functions previously discussed involve some amount of surveillance and reporting designed to keep debt and equity providers apprised of the state of their investments. These over-arching responsibilities can manifest themselves in the form of narratives describing the physical condition and market position of properties; evaluations of a leasing and property management team’s effectiveness; financial reports summarizing key performance metrics and budget variances; periodic value estimates; justifications for any deviation from the acquisition strategy or business plan; and assessments of legal threats and other sources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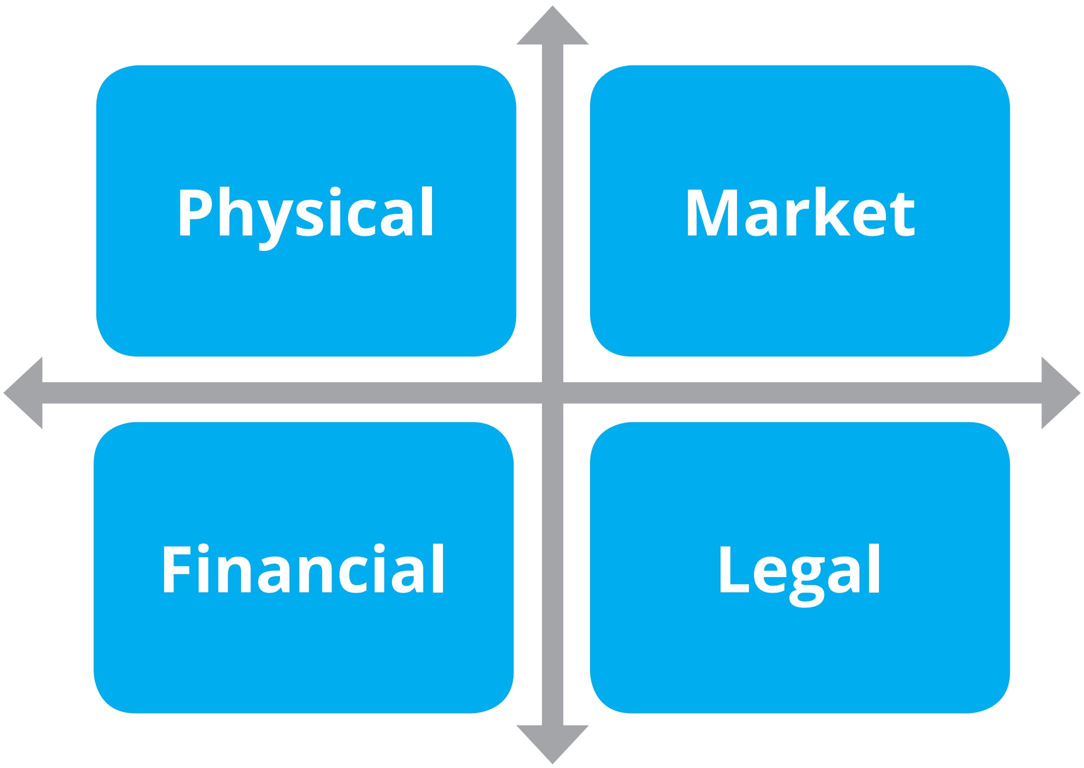
Reporting and surveillance comprise a large part of most asset managers’ jobs.

SURVEILLANCE AND REPORTING



of risk exposure. The amount of time devoted to each of the items on this non-exclusive list of activities varies dramatically across real estate firms, but the executives interviewed uniformly agreed that reporting and surveillance comprise a large part of most asset managers' jobs.

Predictably, many respondents expressed frustration about the pervasiveness of these administrative duties. One contended, "The reporting requirements of owners and regulators are skyrocketing, which makes it tough for asset managers to make a reasonable profit. You end up assigning more properties to each asset manager and they become clerks rather than value creators." Another noted that asset managers are increasingly being called upon to "understand

> **"The reporting requirements of owners and regulators are skyrocketing, which makes it tough for asset managers to make a reasonable profit. You end up assigning more properties to each asset manager and they become clerks rather than value creators."**

their portfolios in intimate and sophisticated ways that create a need for ongoing reporting and data analytics." There is little reason to believe these conditions will change in the near future due to the institutionalization and professionalization of the investment real estate market, leaving asset managers to balance reporting and surveillance with their other professional demands. Several of the respondents acknowledged that time constraints and competitive pressures force many asset managers to "push down" routine reporting tasks to third-party property managers when possible, thereby creating a host of other responsibilities associated with oversight, supervision, and relationship management.

On a more promising note, an asset manager working for a private equity fund argued, "Good reporting practices may not be a value-add at the asset management level, but they are at the portfolio management level when they help you retain an investor or encourage an investor to increase its financial commitment." Another suggested, "Reporting forces you to look at things in different ways and identify issues before they become significant problems." Both statements speak to the changing nature of the asset management process within many large organizations. Professionals working in this capacity are increasingly being asked to merge their knowledge of real estate fundamentals and financial analysis with an ability to "spot trends" and "identify outliers" in large data sets. An executive recruiter working in the asset management space addressed this expectation by saying, "Companies are looking for individuals that have high analytical capacity. Not just the ability to run the numbers, but to see things coming down the pipe in terms of opportunities and threats." Asset managers' roles are starting to reflect this new market reality.

Approaches to Asset Management: A Typology

The activities described in the preceding sections of this report can be delegated to any number of parties in any number of ways. However, comments made by the respondents suggest many real estate companies adopt one of four approaches to asset management, identifiable by the amount of attention they ask their employees to devote to human resource management relative to financial management. Figure 4 presents a typology of asset managers organized around these two dimensions. To accommodate discussion and comparison, the alternatives are referred to as the analytical asset manager, operational asset manager, transactional asset manager, and comprehensive asset manager throughout the balance of this study. The typology is useful because it sheds light on the skills required for success in different types of asset management positions, while also offering insight as to how different companies source and develop talent.

FIGURE 4. Typology of Asset Managers

	Strong Human Resource Management Orientation	Moderate Human Resource Management Orientation
Strong Financial Management Orientation	Comprehensive Asset Managers	Analytical Asset Managers
Moderate Financial Management Orientation	Operational Asset Managers	Transactional Asset Managers

Analytical Asset Managers

Analytical asset managers primarily view their work as that of data analysis, financial modeling, and surveillance, as opposed to that of building and leading a team of real estate practitioners. Thus, they tend to have a strong financial management orientation and a modest human resource management orientation. Debt providers often employ this type of asset manager because they lack the authority to directly engage in management decisions and strategic planning unless a property is in distress or a loan is in default. Equity providers also employ analytical asset managers to leverage their expertise in using data to identify trends and their ability to evaluate the performance of income-producing properties through quantitative measures.

Companies hiring analytical asset managers place a premium on individuals with finance, accounting, or other quantitative backgrounds and often bring entry-level talent into their firms as analysts who gradually take on more responsibilities as they gain market knowledge and greater familiarity with their portfolios. Academic pedigree and graduate degrees are important to some real estate companies, but neither generally supplants the need for extensive on-the-job training once an individual is hired. Some analytical asset managers become more knowledgeable about real estate operations over the course of their careers through regular interactions with property managers and leasing agents, while others progress little in this respect.

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A number of respondents contended that analytical asset management is so pervasive in some companies that understanding real estate fundamentals "may or may not be imperative" so long as asset managers can develop "strong surveillance lists" and use them to monitor assets "through the reports submitted to them." Periodic site visits and conversations with operational personnel are regularly conducted as part of this approach to supplement secondary data sources, but many of an asset manager's tasks are completed "through a computer screen" to ensure properties perform in accordance with the business plan and budget.

Several of those interviewed argued that this approach can be advantageous when it keeps asset managers "one step removed" from property managers and leasing agents, thereby allowing them to evaluate properties and the individuals responsible for operating them more objectively. Others strongly opposed this position based on a belief that too much separation between asset managers and the properties in their portfolios puts them at risk of "developing expectations that are unrealistic or not fluid enough to embrace changes that occur at the property level." In a vast majority of cases, respondents posited that data analytics must always be balanced with "on-the-ground" market intelligence for asset managers to do their jobs well.

Operational Asset Managers

Operational asset managers approach their work differently than analytical asset managers in the sense that they place more emphasis on the importance of collaboration and ongoing cooperation with all members of the real estate management team. They may or may not hold asset manager titles, but in the event they do, they are still heavily involved in property management and leasing decisions because they have experience working with tenants and a solid understanding of real estate as a physical asset. As one respondent familiar with an operational approach stated, "There's a real estate culture in our company that is fundamentally different than a financial services culture. I want my asset managers deeply involved in operations."

Operational asset managers place more emphasis on the importance of collaboration and ongoing cooperation with all members of the real estate management team.


PHOTO © MAPODILE / ISTOCK

Strong human resource management orientations and modest financial management orientations distinguish operational asset management from other approaches. Companies typically hire operational asset managers when they believe they can most effectively maximize the investment value of real estate by ensuring all members of a management team are working together to satisfy tenant demands, monitor market conditions, and assess potential threats. These companies are also motivated by an assumption that asset managers with operational knowledge are better positioned to streamline management procedures and add value throughout the budgeting process. Operational asset managers are often sourced from property management departments after demonstrating an understanding of valuation concepts and strong communication skills.

> **Both those in favor and those opposed to an operational approach acknowledged that asset managers can get too far down in the weeds working with tenants and vendors at the expense of higher-level strategic thinking.**

Vertically integrated real estate companies with relatively flat organizational structures appear to be the most frequent adopters of an operational approach to asset management. In such cases, asset managers are responsible for a number of activities commonly associated with regional property management in addition to significant surveillance and reporting tasks. Business planning, along with the approval of major leases and capital improvement projects, is often coordinated by higher-level executives to keep asset managers focused on identifying efficiency gains and promoting consistency in service delivery at the property level.

Respondents favoring an operational approach proposed a number of benefits including “greater tenant satisfaction” and “lower overhead,” and an asset management team “close enough to properties to make decisions quickly and with conviction.” Opponents warned of asset managers “losing sight of the bigger picture,” devoting too little attention to “long-term value creation,” and failing to bring “a unique perspective” to their work separate and apart from that of the property management department. Both those in favor and those opposed to an operational approach acknowledged that asset managers can get “too far down in the weeds” working with tenants and vendors at the expense of “higher-level strategic thinking.”

Transactional Asset Managers

Transactional asset managers differ from other types by spending considerable time interacting with the brokerage community, negotiating leases, and setting rents in an effort to drive revenue growth. Their work has a modest human resource management orientation and a modest financial management orientation because data analytics and oversight of the management team are secondary to sourcing and closing deals. The attention devoted to leasing does not replace other asset management tasks, but does reprioritize them.

Asset managers approaching their jobs in a transactional manner delegate many responsibilities related to budgeting, surveillance, and reporting to property managers in order to focus intensively on tenant needs and the competitive position of properties in the marketplace. As one respondent working for a firm embracing this approach to asset management stated, “As long as property managers are in budget, we leave them to their work for the most part.” Companies adopting a transactional approach may hire individuals with brokerage backgrounds, but appear to more frequently look for people who have financial acumen or prior asset management experience that can be trained in market research and lease negotiations.

Advocates for the transactional approach noted that a “leasing-oriented environment” is inherently strategic because it requires asset managers to understand market fundamentals and the factors that differentiate a property from its competitors. This involves “working with brokers, driving the markets, and participating in trade organizations to be the face of an asset in the city where it is located.” Financial analysis and budgeting remain important because they dictate


Transactional asset managers differ from other types by spending considerable time interacting with the brokerage community, negotiating leases, and setting rents in an effort to drive revenue growth.

PHOTO © PIRANKA / ISTOCK

> **The primary challenge associated with a transactional approach is finding asset managers who can be analysts, or at least analytical, while still being dealmakers.**

what lease terms and capital improvements can be offered to prospective tenants to “advance the business plan, while still getting a deal done.” Focusing on leasing therefore requires asset managers to consider how all of their decisions impact “top-line revenue growth.” Part of this responsibility entails setting “challenging, yet realistic goals” for external brokers and actively “directing lease negotiations” to help ensure they are achieved.

The primary challenge associated with a transactional approach is finding asset managers who can be “analysts, or at least analytical, while still being dealmakers.” This requires real estate companies to make thoughtful staffing decisions and put compensation structures in place that appropriately incentivize asset managers to behave in the desired way. Even under the best of circumstances, sourcing talent with both a “nose for the deal” and a willingness to engage in more mundane asset management tasks can be a problem.

Comprehensive Asset Managers

Comprehensive asset managers are the fourth and final group presented in the typology who most closely resemble those described in the existing academic literature. They simultaneously have strong financial management orientation and strong human resource management orientation, which are the product of the diverse real estate experience they bring with them to their jobs. These professionals are often granted a great deal of autonomy to make leasing and capital improvement decisions because their command of real estate valuation fundamentals allows them to quickly assess the financial impact at the property level.

While comprehensive asset managers’ familiarity with real estate as both an investment vehicle and as a physical asset allows them to critically review budgets and operating procedures, these professionals tend to empower their teams to track market data and make day-to-day operational

decisions in order to remain focused on implementing and refining business plans and strategy. Their unique skill set creates an expectation that they can communicate effectively with on site personnel and ownership groups. Comprehensive asset managers often have a background in finance or some other quantitatively rigorous field, augmented with work experience in areas such as development, leasing, and/or property management.

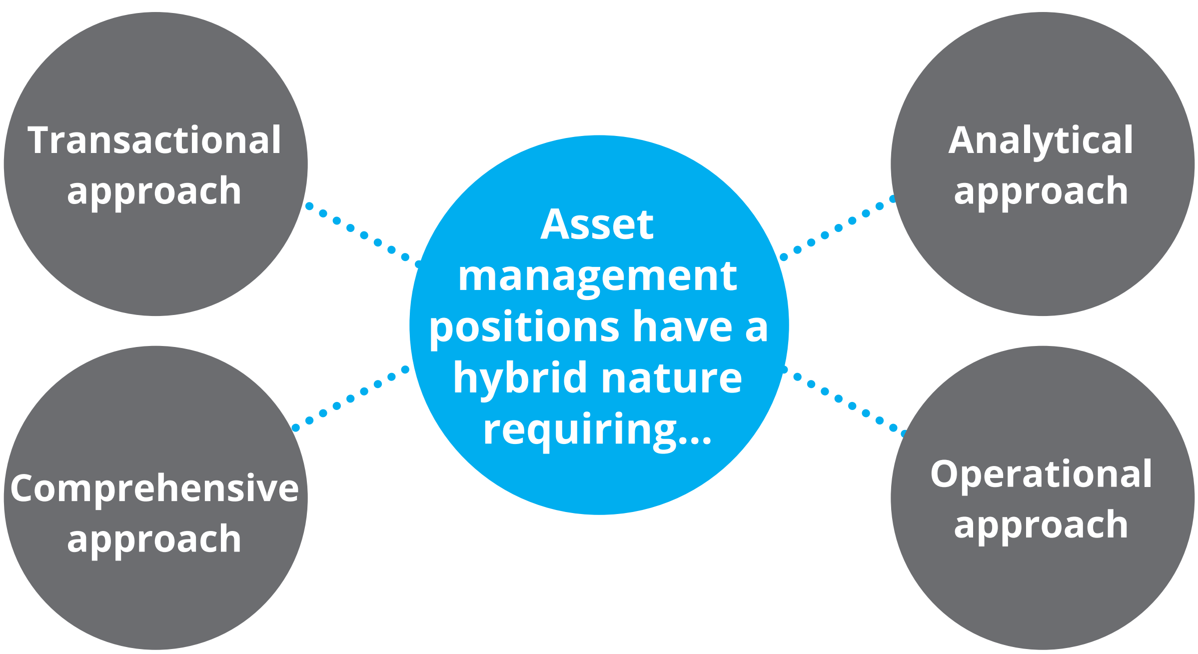
Few of the respondents dismissed or minimized the value derived from a comprehensive approach to asset management. In fact, several of those interviewed acknowledged that their firms are currently trying to move away from one of the other approaches in an effort to place asset managers in a "more centralized" or "strategic role" within their respective companies. The difficulty lies in retaining individuals with the right combination of analytical and interpersonal skills, coupled with an impressive portfolio of experience.

As one of the executive recruiters interviewed stated, "Everyone wants the whole package, but it rarely comes at a price tag they are willing to accept." Another respondent contended that even companies with the personnel needed to approach asset management in a very comprehensive manner can find it challenging because "tactical responsibilities often become disruptive of strategic responsibilities." Concentrated efforts are therefore required to prevent an asset manager's role from devolving into simply another "middle management function creating a drag on returns" or "slowing a company's responsiveness to the market."

The Future of Asset Management

Since the typology presented in this report is a simplified representation of reality, it is by no means capable of accurately describing the responsibilities of all asset managers or the merits of all alternative approaches to the asset management process. Its usefulness is further limited by the fact that many asset management roles evolve over time as individuals gain experience or as the needs of the companies they work for change. Furthermore, most asset management positions have a hybrid nature requiring the professionals who hold them to jointly exhibit some characteristics of the analytical, operational, transactional, and comprehensive approach. These shortcomings are notable, but the typology nonetheless has value because it offers real estate practitioners a lens through which different career paths in the asset management field can be viewed.

ASSET MANAGEMENT ROLES EVOLVE OVER TIME



For example, a lack of exposure to real estate investments may not preclude an individual with academic training in finance from transitioning into a career in asset management with a company that embraces an analytical approach. Individuals with backgrounds in property management and experience working with tenants may find more appealing opportunities with companies that take an operational approach to asset management so long as their employers are willing to help them develop their analytical skills. Financially savvy asset managers interested in adding deal making and negotiations to their surveillance-oriented responsibilities may alternatively prove to be a better fit with companies that adopt a transactional approach. At the same time, companies embracing a comprehensive approach to asset management may be attracted to seasoned real estate professionals with diverse backgrounds even if they have never worked in the field. These scenarios illustrate just a few of the ways in which job seekers can derive value from understanding how companies view the role of an asset manager and how it in turn influences their personnel decisions.

Comments made by the respondents, including the following, provide additional support for the contention that companies approach asset management in different ways: “Asset management means different things in different places. There is asset management in the context of a lender or special servicer, which involves heavy surveillance and reporting; asset management in real estate organizations involving oversight of leasing and property management teams to create value at the property level; and asset management in a private equity shop, which involve lots of reporting to investors in an account or fund format, along with interactions with lenders.” This statement is reflected in Figure 5, which offers some examples of how different types of asset managers may approach the 10 previously discussed activities comprising the asset management process as a whole. The most pronounced differences are expected to exist in regards to the way comprehensive asset managers approach or prioritize their work in comparison to the other groups.

> **Most asset management positions have a hybrid nature requiring the professionals who hold them to jointly exhibit some characteristics of the analytical, operational, transactional, and comprehensive approach.**

FIGURE 5. Linking the Asset Management Typology to Professional Priorities

	Analytical Asset Managers often focus heavily on:	*Operational Asset Managers often focus heavily on:*	*Transactional Asset Managers often focus heavily on:*	*Comprehensive Asset Managers often focus heavily on:*
Acquisition Support	Capital market conditions when vetting underwriting assumptions	Operating & capital expenses when vetting underwriting acquisitions	Rental rates & absorption rates when vetting underwriting assumptions	Advising investment committees on all aspects & features of proposed acquisitions
Business Planning	Measuring whether the goals in the business plan have been achieved	Assessing whether the goals in the business plan are actually achievable	Using the business plan to determine lease terms & conditions that are acceptable	Developing the business plans for all of the properties in their portfolios
Team Leadership	Selecting on site personnel & monitoring their performance	Cooperating & collaborating with on site personnel	Setting realistic goals for internal & external leasing agents	Communicating the investment strategy to on site personnel
Budget Preparation	Continually refining budgets to reflect market conditions & valuing implications	Carefully evaluating budget variances & contributing factors to identify problems	Empowering others to make budgeting decisions in order to focus on leasing	Considering whether budget decisions conform with the defined business plan
Lease/CAPX Approval	Evaluating the financial impact of lease structures & capital outlays	Assessing the impact of lease structures & capital outlays on on site personnel	Negotiating lease terms & capital improvements with prospective tenants	Ensuring leases & capital outlays ultimately advance the strategic goals
Operational Efficiency	Analyzing data & spotting trends	Refining policies & procedures	Evaluating the impact of OPEX on leasing	Assessing the impact of OPEX on value
Financial Analysis	Constructing complex financial models	Providing inputs for financial models	Using financial models for deal evaluation	Conveying the results of financial models
Market Research	Evaluating secondary data collected from reports & surveys	Evaluating primary data collected at the property level	Evaluating primary data collected at the submarket level	Communicating the implications of market data to owners
Disposition Assistance	Conducting financial analysis in support of sell-hold decisions	Conducting physical inspections in support of sell-hold decisions	Reviewing leasing trends in support of sell-hold decisions	Providing sell-hold recommendations on a regular basis
Surveillance and Reporting	Benchmarking & accurately conveying information to owners	Identifying potential maintenance & tenant relations problems	Tracking emerging tenant demands & leasing velocity	Using reporting as a means of improving performance

Filling Knowledge Gaps and Spotting Talent

It is important to note that discussing alternative approaches to asset management is not meant to dismiss the fact that many real estate companies bring new people into their organizations to fill defined knowledge gaps rather than to conform to predetermined ideologies. Nor is the presentation of a typology intended to overshadow the general consensus that appears to exist among real estate practitioners regarding the personal and professional attributes of asset managers that tend to contribute to their long-run success irrespective of the nuanced and context specific aspects of their work. Both factors warrant consideration.

Asset managers only have two jobs, maximizing value and minimizing risk. Everything they do is tied to one of those two things, but how they do it depends on the property, the client, and the investment strategy.

For example, some firms hire asset managers with strong analytical skills because they need to augment departments already replete with experience in real estate operations. Others seek out asset managers with an understanding of value-add or opportunistic investment strategies to round out staffs more familiar with core or core plus assets. Still others retain the services of asset managers because they have worked with specific real estate product types or with clients the company hopes to do business with in the future. One respondent acknowledged the importance of filling knowledge gaps by stating, “Asset managers only have two jobs, maximizing value and minimizing risk. Everything they do is tied to one of those two things, but how they do it depends on the property, the client, and the investment strategy.” The respondents also identified several personal and professional attributes anticipated to influence how far asset managers advance in their careers, which are presented in Figure 6. They include a relatively high level of financial acumen, effective communication skills, the ability to motivate people, and decisiveness in the face of uncertainty. These attributes were perceived to influence asset managers’ success no matter their job descriptions, day-to-day professional responsibilities, or types of companies for which they work.

Respondents highlighted the importance of financial acumen by stating that "the analytical and quantitative capacity simply has to be there" because asset managers "evaluate properties through the numbers and have to understand the impact of decisions on value." This requires asset managers to have the ability to convert the results of financial models into "actionable information" and convey it to senior executives in ways that "clearly show what is going on at the property" or "demonstrate whether the business plan is working." Hands-on experience with software packages accommodating discounted cash flow analysis, such as Excel and Argus, were generally perceived to be of great importance and necessary for the completion of these tasks even when asset managers did not spend a substantial amount of time on financial modelling. At the very least, individuals working in asset management were expected to have a strong command of financial statements and the capacity to interpret them in an effort to identify property-level opportunities and threats.

Many of the executives interviewed were also quick to note that asset management is not exclusively about the numbers, encouraging one to state, "You can't just be a project manager and you can't just be a [quantitative analyst]." The people that advance in the industry were purported to communicate effectively with "the people on the ground and the people in the boardroom" to ensure operators understand the strategy for a property and leadership understands the obstacles that stand in the way of achieving strategic objectives. Respondents frequently contended that written communication skills were equally important to oral communication skills due to the need to "keep track of interactions with on site management" and "maintain institutional knowledge as to why decisions were made." Drafting carefully thought-out agendas for meetings with property management and leasing personnel was also put forth as a means of "reducing ad hoc demands" on operators and clearly conveying ownership's priorities (Figure 6).

FIGURE 6. Personal and Professional Attributes Contributing to an Asset Manager's Success

Several respondents cautioned that the need to communicate does not always replace the need to motivate. Good asset managers were reported to have a knack for “getting operators to do what they want them to do without beating them over the head” and conveying a “vision for the property with conviction” that encourages people to follow. Another respondent summarized the point: “The success of an asset manager is driven in many ways by their ability to reconcile differences in opinions and perspectives across multiple parties working at multiple locations with whom they don’t have a direct reporting relationship. It’s a tough job because it entails so much. It requires a tremendous commitment to communication and cooperation.” This statement acknowledges the importance of the interpersonal side of asset management that can easily be overlooked when individuals working in the role are too focused on analytical tasks and reporting duties.

> **“The success of an asset manager is driven in many ways by their ability to reconcile differences in opinions and perspectives across multiple parties working at multiple locations with whom they don’t have a direct reporting relationship. It’s a tough job because it entails so much. It requires a tremendous commitment to communication and cooperation.”**

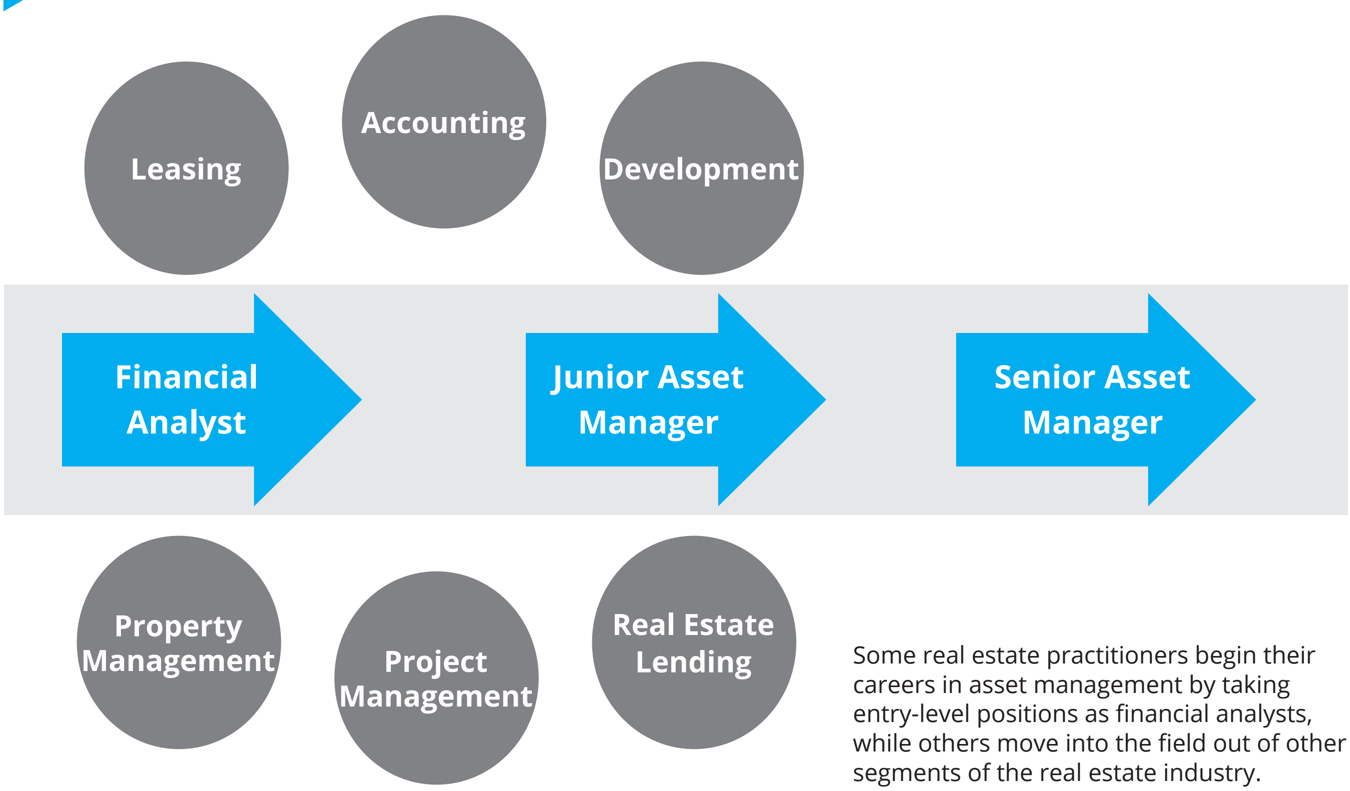
Effective communication and motivation were both perceived to be linked to an asset manager’s ability to make tough decisions in the face of uncertainty. Strong asset managers were described as “decisive,” “open to exploring options,” and capable of directing people in ways that “prevent problems from dragging out longer than they should.” Respondents responsible for hiring asset managers stated that they are looking for “problem-solvers, not playbook followers” and people committed to “exercising sound judgment even when the ultimate impact of a decision on a property is unclear.” This was perceived to be particularly important when implementing riskier real estate investment strategies where asset managers are called upon “to make tougher and quicker decisions with more variables in play.” A willingness to acknowledge mistakes and pursue a different course of action when appropriate was identified as part of this process. One respondent contended, “Asset managers need to be able to look at a property and know when it’s time to do something different.” This was noted to require both “adaptability” and “responsiveness to change.”

> **Asset managers need to be able to look at a property and know when it's time to do something different.**

Assessing the Opportunities and Challenges Presented by Careers in Asset Management

The results of the interviews conducted as part of this study suggest there are perhaps more attractive career opportunities in asset management today than ever before. In just more than three decades, the field has emerged from relative obscurity to be recognized and valued by a large segment of the real estate industry. Some respondents went as far as describing asset managers as "the backbone of an investment shop" and "the ones that get their hands dirty to implement a real estate investment strategy." Statements such as these offer compelling evidence that asset management has grown into a well-respected professional service supporting the operations of many sophisticated real estate investment platforms across the U.S.

CAREER PATH

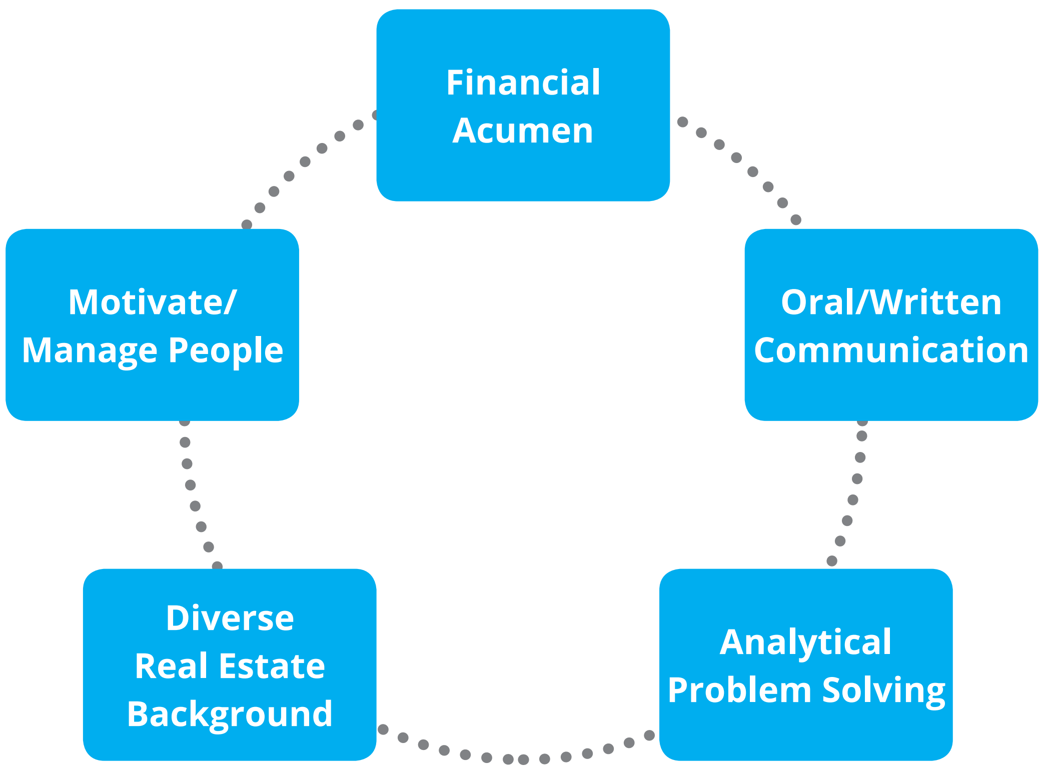


Some real estate practitioners begin their careers in asset management by taking entry-level positions as financial analysts, while others move into the field out of other segments of the real estate industry.

There are also reasons to believe the immediate future is bright. One respondent noted, “We are at a point in the market cycle where demand for asset managers is increasing. Firms are absorbing the properties they developed or acquired during the recent market expansion and they need good asset managers to run them from an investment perspective.” Another added, “Many real estate companies are shifting their focus to efficiency gains as growth opportunities slow and exploring the benefits of reinvesting in the assets they already own.” Both of these trends are anticipated to support the “maturation” of asset management as a discipline, while creating lucrative career paths for talented individuals transitioning into the profession.

The most exciting opportunities appear to exist for individuals with diverse backgrounds that have “touched a lot of things in their career” and obtained the skills of a “fully formed” real estate investment specialist. Respondents reported robust demand for individuals that can “think outside the box to create value” by leveraging their past experience in real estate finance, operations, and development. At the same time, the executives interviewed expressed an ongoing need to hire aspirant asset managers at a junior level with a “passion for real estate, the intellectual capacity to grow into leadership roles, and an interest in working in an environment straddling real estate operations and finance.” Entry-level job candidates with the “right combination of soft skills and finance savvy” were expected to do very well in the asset management field.

EDUCATION, TRAINING, AND SKILLS



That's not to say asset management is without its challenges. Despite the complexity of the job, a large number of respondents acknowledged that asset managers do not receive the same level of compensation as individuals working in other departments who are at similar points in their careers. An executive working for a private equity fund frankly stated, "If you are serious about a career in asset management, you have to like the work … It's not as sexy as acquisitions, financing, or development." Others agreed, noting "asset management doesn't offer the fame or glory as deal making" and "people with the right skills often find out that it isn't the most lucrative place to spend a career." These sentiments were not expressed by all of the respondents, but were pervasive enough to warrant discussion.

> **If you are serious about a career in asset management, you have to like the work … It's not as sexy as acquisitions, financing, or development.**

Another concern raised by the respondents related to the amount of attention asset managers are really able to devote to developing strategy and gathering market intelligence in practice. Several of those interviewed stated that a majority of their time is spent "reporting, managing crises, and dealing with people issues." Those expressing this position warned of asset managers getting "chained to their desks" and so "engrossed in the minutia" that they fail to proactively seek out opportunities or identify emerging problems. Managing these competing responsibilities is undoubtedly easier in some real estate companies than others, but it should not be dismissed as an inconsequential component of an asset manager's job. Recognizing these constraints and taking steps to overcome them were commonly put forth by respondents as keys to success.

There are few reasons to believe the administrative requirements of asset managers will become any less cumbersome moving forward. Competitive pressures are forcing many individuals working in this capacity to "cover bigger geographic areas, oversee more product types, and have a greater number of properties in their portfolios overall" than they have in the past. This requires asset managers to "delegate effectively" and balance their workload to "avoid getting bogged down in details at the expense of the bigger picture."

The aforementioned opportunities and challenges create a need for those considering different careers paths in asset management to answer a series of questions before accepting positions in the field. Some relate to the corporate culture of a given firm: How much value does the company place on asset management? Do asset managers sit on the investment committee or directly engage in strategic planning activities? Does the company's asset management process closely resemble an analytical, operational, tactical, or comprehensive approach? Job seekers should also consider whether adequate support systems are in place: Is the existing asset management

Competitive pressures are forcing many individuals working in this capacity to "cover bigger geographic areas, oversee more product types, and have a greater number of properties in their portfolios overall" than they have in the past.

team comprised of individuals with diverse skills and do they work together regularly? Are the responsibilities of those working in asset management clearly defined within the company and are there established channels of communication in place with other departments enabling collaboration? How much discretion do asset managers have to delegate select reporting and surveillance tasks to third parties, and are asset managers directly involved in the selection of leasing or property management teams? Finally, opportunities for professional growth should be explored: Does the company have a mentoring program or engage in structured on-the-job training? Is a graduate degree required at some point to continue to advance? Do asset managers within the company typically move on to other departments, or do they remain in the discipline where they were originally hired? This nonexclusive list represents but a few of the factors aspirant asset managers should take into account when evaluating prospective employers and job openings.

Concluding Remark

By reviewing the extant literature, completing dozens of interviews, and synthesizing the thoughts of a diverse group of executives, this report offers new insights into the roles, responsibilities, and requirements of asset managers working in different types of real estate companies. It also presents a typology that can be used to better understand alternative approaches to asset management and a discussion of the factors that frequently contribute to an individual's success in the field. The analysis is intended to serve as a starting point for future study of the asset management process, as well as a means of stimulating conversation about the steps that can be taken by trade associations, educators, and other interested parties to support the ongoing growth and development of asset management as an attractive and rewarding career option.

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