

## The Basics of Multifamily Asset Management *By Michelle Maltase*

Asset Management can be defined as the process of overseeing property performance with the goal of enhancing value and maximizing return to the owner. It combines the analysis of everyday operations with long-term investment goals. If you are an owner of investment property, you have the opportunity to capitalize on your apartment's performance and at the appropriate time, reposition into another investment. This may be accomplished by implementing, executing and maintaining an asset management plan.

### Where to Start?

It is hard to tell where you want to go if you don't know where you have been or currently are, is a great analogy of why asset management is important. The need for an asset management plan and how it will be utilized begins with your investment goals and objectives. A good start is to evaluate your apartment's everyday performance by asking yourself a few questions. Am I maximizing my cash flow? How is my depreciation helping to shelter income? Is the property's condition being maintained or improved? Are rents at market value?

Where are my expenses being allocated and are they in-line with industry standards and comparable properties? This is where a qualified property manager is key in the success of the property's performance. Each year you should sit down with your property manager and review your budget together. Set a plan on how to create value and increase net operating income. Periodically, review the variances between actual operating numbers and your budget and make sure you have a clear understanding of any discrepancies. Having a business plan for your apartment will assist you in achieving the apartment's maximum value. This is an important first step in formulating a strategy to build value and implement your asset management plan.

### Your Asset Management Team

In multifamily real estate, your asset management team should consist of your property manager, broker, attorney, and accountant. This team can aid you in establishing and executing your asset management plan.

- ***A real estate broker*** brings value only after the operation of your investment is quantified and your goals are understood. A good broker understands the importance of long-term relationships based on trust and performance. A broker will know the market relative to current comparable values, sales trends, and be able to guide the owner in the decision making process relative to debt service, acquisition or disposition.
- ***An accountant*** will analyze your financial situation considering depreciation and the benefits of doing a 1031 exchange, which can be an indispensable tool if used correctly in asset management.
- ***Your attorney*** will review sales documents, provide legal advice and help steer a straight course through the transaction process.

### Timing Is Everything in Real Estate

The single family home market collapse due to foreclosures, more stringent lending criteria and a weak economy has helped the multi-family market. No longer do we see tenants vacating apartments to purchase homes. If your property's value has been maximized, now may be the perfect time to sell by utilizing the IRC 1031 exchange in repositioning your portfolio. A broker understands the time constraints that come with a 1031 exchange and will assist in identifying replacement properties well in advance to relinquishing a property. This can be a challenging process without the guidance of a good broker. If not planned appropriately, an investor may be required to complete a reverse exchange. A reverse exchange is when a seller has identified and purchases a property prior to closing the sale of the relinquished property. This type of exchange can be extremely complicated, time consuming and expensive. A buyer must determine financially how to assist the accommodator in obtaining the desired property and provide the down payment. With a good asset management plan a reverse exchange should be avoided and a more desirable forward exchange implemented. Recently, several of my clients are taking cash at closing. The feeling is that the capital gains tax may never be lower than it is now. Cash in a recession is not a bad commodity.

With the ever changing economic environment, you need to ensure that your plan remains viable by reviewing yearly. The key is to be proactive and maintain the discipline to manage your assets in a rational, analytical manner. Warren Buffet once said "The investor of today does not profit from yesterday's growth".

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