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Barry Saywitz
The Saywitz Company

Wielding the Scalpel

New Strategies to Maintain Control of Operating Expenses

It might seem as if property managers ran through their entire bag of cost-cutting tricks during the downturn in the economy. In the quest to keep assets in the black managers renegotiated vendor contracts, reduced staffing levels, trimmed outlays for landscaping and maintenance, and switched out conventional light fixtures for low-usage new bulbs.

"I think most companies have done the easy tightening of the belt already." Said Barry Saywitz, President of The Saywitz Company., a diversified investment and service firm based in Newport Beach, CA. Many of these cost-cutting methods have become standard during the past several years, which only raises expectations that managers will find ways to reduce costs or keep them flat.

In that regard, there is good news on several fronts. Given the pace of the economy, big price jumps for most categories of operating costs appear unlikely. Some categories of expenses call for special attention, such as energy. On the positive side, many costs trends appear to favor owners. Competition among vendors kept the lid on pricing during the recession, and the trend may continue during the recovery. In the retail sector, for instance, average operating costs declined from $5.36 per square foot to $4.38 per square foot, according to the Institute of Real Estate Management's most recent annual survey. Although due to the exhaustive nature of research, there is a year's lag time in reporting these findings, the results are suggestive of overall trends in a relatively slow-changing climate.

Among retail operating costs, insurance and taxes accounted for 45% of overall expenses, followed by contracted services like security, landscaping and trash hauling, which made up 16% of expenses. Maintenance and repairs were 9% of the total, according to IREM's research, trailed by utilities at 8%. On a regional basis, operating costs were twice as high in the Northeast and Mid-Atlantic regions as they were in the Southeast.

The office sector is showing a distinct split between city and suburbs. Operating costs for downtown properties edged up 0.5%. Behind the uptick was a 4.7% bump in taxes and a 1.4% increase in utility prices that offset flat or declining costs for maintenance, insurance, administration and other areas. The suburbs have told a different story. The average cost of running office properties was 17.4% lower than in the nation's Downtown markets. Although such statistics reflect a wide range of geographic markets, they convey a sense of broader trends. Across all categories, operating costs were higher in regions where revenues were higher.

Given the trend among service costs, some property managers are taking a fresh look at their vendor procurement this year with an eye toward obtaining further savings through efficiencies of scale. In a climate where vendors remain hungry for work, property managers report that landscaping, maintenance and other contracted services offer continued potential for savings.

Some managers are even challenging longtime, trusted vendors to compete with one another. Western National Property Management is requesting proposals from the vendors that currently serve the company's 24,000-unit multi-property portfolio in the West. "We're not looking to gouge our vendor partners," some of which have been providing services to the company for a quarter century, explained Laura Khouri, the company's President. Wherever possible, Western National wants to identify cost savings through economies of scale. The firm currently retains about 20 painting contractors throughout its portfolio. The proposal process could trim that number to as few as four or five. Those vendors that are selected to stay on will most likely be rewarded with more lucrative new contracts.

Like vendor and utility contract renegotiations, property tax appeals are an established part of cost-containment methods. The volume and degree of those appeals varies widely, but declines in property values continue to encourage owner to challenge assessments. Challenging property taxes is an attractive strategy around the country, yet veterans warn that it also has a longer lead time for returns than other categories of cost-cutting. "There's money to be had - it's just not a quick fix," noted Saywitz. "The problem is, you have to appeal it every year."

Structuring of leases, vendor partners, tax appeals and running a tight ship are all major factors in a company's bottom line and ensuring each individual property's highest and best performance is achieved.

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