

# 2009 COMMERCIAL REAL ESTATE MARKET GUIDE

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## MULTIFAMILY

### Revitalizing 'distressed' properties may prove well worth the trouble

**D**escribed as "urban war zones," distressed residential complexes can often be a management nightmare.

"Window screens are missing and small squares are cut in the blinds at the corners of the ground-floor windows — enough room to hand out whatever someone is looking to buy," says Matthew D. Summers, describing one of any number of "distressed properties" located in the Houston area. "At night, there is little light, pizza delivery drivers will not come on the property and vending machines are caged up like Fort Knox."

But Summers, president of management at Houston-based Kaplan Management Co. Inc., says revitalization is not impossible.

"You can't even begin thinking about the financials as long as the community is being run by the street," he advises.

Summer provides pointers on taking control based on successful tactics his firm took on one such nightmare property.

in every distressed community. A subtle relationship exists between the needs of a community and the appropriate management approach to solve problems. A stiff-necked spirit in management — whether real or perceived — will poison a community, not rehabilitate it.

**Q** What general methods would you recommend for dealing with these types of properties?

**A** Consistent enforcement. In distressed communities, there is less likelihood of resident compliance with property policies and regulations. Any inconsistency in the enforcement of rules and policies is viewed as a management shortcoming that can be leveraged to protect a violator from consequence.

It is essential that residents and occupants of a distressed community understand that if you engage in criminal behavior, management will summon the police, file a criminal complaint and then follow up with the civil eviction process. No excuses, no circumstantial latitude, no second chances — zero tolerance and universal enforcement. Similarly, management must also aggressively enforce

all community rules and policies. Once the certainty of enforcement exists, residents will begin to voluntarily comply.

In seeming contrast, another important management strategy must encompass unparalleled resident service. Residents should be greeted warmly, maintenance requests completed quickly, the community should host social events and the manager and staff must be accessible. These sorts of resident services are generally included in most property management strategies simply to aid with resident retention — but in distressed assets, they serve a larger objective.

**Q** How do you prevent vandalism?

**A** The "broken window theory" holds that vandals tend to be more willing to break windows after the first window has already been broken out. They are less willing to be the first to break a window. Similarly, once a building is "tagged" with graffiti, others are then more willing to contribute to this vandalism. By quickly repairing windows, removing graffiti and picking up trash, vandals are less likely to engage in this conduct.

The application of this theory to property management is self-evident. When management conveys a concern for upkeep, residents will begin to adopt pride in their community.

**Q** Are these types of properties really worth the trouble?

**A** As market conditions continue to change, there will be progressively more distressed assets in need of effective management stewardship. While there is no simple formula that will yield success in every application, a management strategy of unflinching enforcement, unparalleled resident service and elimination of deferred maintenance will form the framework upon which success can be built. Residents of distressed communities thirst for professional management and a community that is free of strife. Those that are able to achieve this objective will see the financial fruit of their labor in these communities. What may be initially perceived as a fee-management nightmare may end in a result that is among your best professional accomplishments.

Nicole Bradford



Summers

**Q** How did you take control?

**A** Many management companies take the same basic approach: Find a staff that will not be easily terrorized and keep changing personnel until they find someone who will stay, bring in contract security to provide a visible presence, enforce policies and file evictions, do as many civil trespass warnings as possible and glaze over the bad while trying to lease the good.

But at one particularly distressed asset — a property infested with crime and vandalism — our first stop was at the Street Crimes Unit of the local police department. This unit was assigned to street robberies, narcotics, gang activity, extortion and prostitution. We donated two vacant apartment units for surveillance and two units for use by confidential informants. After several days of surveillance and controlled buys, the police department arrived at the property early one morning with a prisoner transport bus and executed multiple felony warrants. The warrants were closely followed by a docket full of evictions.

**Q** Did it work?

**A** We are beginning to see the fruits of our labor. Crime is decreasing, voluntary compliance with community policies is taking root, residential turnover is diminishing, deferred maintenance is being addressed and families are returning. However, this management protocol cannot be used in a cookie-cutter fashion