Property Management Companies

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Recently, the phrase "property management" has become quite established as a common expression in the real estate industry in Japan. Various real estate magazines feature property management along with securitization and other investment methods. Real estate companies, large and small, seem to show keen interest in it.

The problem is that the very concept of property management is a direct import from Europe and the United States. It will take some time before it takes definite shape and becomes established in the business practices of the Japanese real estate industry. Needless to say, there is nothing uniquely Japanese (as opposed to, say, American) in the day-to-day operations in the real estate business. The complexity lies in the fact that the prerequisites for the business in Japan are being shaken up by its emergence.

For one thing, investment in real estate, which used to be done for simply holding properties when the myth of ever-higher land prices seemed to be unchallenged, has changed into something that has to be made with the intention of resale. Another feature is that the players in the business seem to have differentiated into three categories of investors, asset managers and property managers, with which we are not yet quite familiar.

What functions should these three have? The real estate industry in Japan is now deliberating this. This is a matter of life and death for property management companies in building their businesses. They will have to provide all services required of property managers, maintaining a level of quality in an environment of growing competition, which will certainly set limits to the level of their fees. In addition, profitability is hard to come by for the companies with small number of clients.

This is not only their problem, but it concerns us asset managers too. We have to rely on property managers and outsource some of our operations to well-performing ones to increase the efficiency of our business. If property management companies, which are our partners, should continue to be at below break-even levels, it will represent a significant risk to our own business.

Emphasis must be placed on improving the efficiency of the businesses. Property management

companies need to have expertise in many different fields such as leasing, engineering and cash flow management, but no single company will be able to handle all of them perfectly at a present moment. A property management company must first develop a system that can manage all the necessary functions at minimum levels, and then try to fill out any gaps in its existing portfolio and raise the levels of such functions. To avoid putting unduly heavy loads on property management companies, we must make every contrivance and effort in compiling reports and devising communication methods.

What we require of managers of property management companies are not the accumulation of knowledge but flexibility of mind to enable them to assimilate our viewpoint and positive attitude toward ingenuous enhancements of business efficiency. If such managers play active roles, the property management sector of the industry will move more rapidly than expected toward a state of oligopoly controlled by a few companies run by them.