

## Q-STUDY No. 13

### BRAD: Property Management

#### *“The Cover Sheet”*

Brad was the manager of an office complex—one of 26 his company owned across the US. Brad found himself in some legal trouble after renewing the lease of an existing tenant: He had missed the fine print that had been handwritten into the original agreement by his predecessor several years earlier. This addition stated that the real estate agent who had introduced the client company would be paid for all future renewals. As a result of this mistake, he was sued by the originating agent for nonpayment of the renewal commission.

Realizing he had no option, Brad, recommended to his boss that they pay the commission and put the issue behind them.

After delivering the commission check to the originating realtor, Brad returned to his office and told his office manager they were going to review all 185 leases on file at the time. He intended to create a cover sheet for each lease that would identify any modifications made to the original lease documents no matter how minor. This effort took about a week-and-a-half with Brad and his secretary reviewing every page of every lease, making the necessary notes and then placing what he called his Lease Abstract cover sheet on the top of each lease.

#### **A Companywide Solution**

A few months later, Brad’s boss, Mike, a regional vice-president, dropped by the office. At the end of each visit, it was Mike’s custom to randomly grab a handful of lease files and toss them out on the conference room table to review.

When Mike opened the first folder, he noticed the new cover sheet and asked Brad about it. Brad told him he had been upset about having had to turn over the commission check because of a mistake that should have been avoided. He added that Mike was now looking at his solution to the problem.

Mike immediately recognized the benefit the cover sheet would have across the entire company. He took the concept back to the corporate office, where it was adopted for use in all 26 office parks.

Important to note here is that Brad had not realized the value to the company of what he had done. He had solved a problem that had existed companywide for many years. That problem? The cost of engaging attorneys every time a property manager made a lease-renewal mistake by failing to spot the fine-print inserted into previously negotiated leases. These mistakes cost the billion-dollar company a million dollars or more a year. While Brad’s focus had been to remedy a situation he had incurred at the

street level, he had resolved a problem that happened in some form across the company every week.

### **Calculating the Value Contribution**

Brad's solution was the creation of the lease cover sheet. The net result of this accomplishment—the value contribution (C in the QTNT formula) to the company—can be calculated based on the following information.

Brad was responsible for the profitable management of 400,000+ net leasable square feet. The annual quoted rate per square foot at the time was \$12.00 per foot. If you multiply those two numbers, you come up with the gross revenue Brad was charged with achieving on an annual basis were the property to be 100% occupied.

**400,000 sq. ft x \$12 rent per net square foot = \$4,800,000 gross annual income**

As anyone in the real estate business will tell you, the real estate and legal professions are “joined at the hip.” In addition to the cost at the corporate offices for in-house legal, each leasing office across the country had a local firm on retainer. Based on his budget and experience, Brad determined that he spent approximately 2% of his annual gross income on all legal fees. In the interest of calculating his QTNT conservatively, he decided to use a factor of 1% that could be saved by not having to engage legal counsel for avoidable mistakes.

**\$4,800,000 annual income x .01 legal expense = \$48,000 in legal fees**

Brad's annual pay at the time was \$56,000 per year. He is now able to calculate the approximate savings realized by the company when this number is multiplied by 26 office parks.

**\$48,000 annual legal fees saved x 26 office parks = \$1,248,000**

**Total approximate annual savings on legal expense = \$1,248,000**

**Brad's annual pay = \$56,000**

**Brad's QTNT for creating his Lease Abstract Cover Sheet= 22.29**

Because, at 400,000 square feet, Brad managed the smallest office park in the company (some exceeded 2,000,000 net leasable square feet) and by choosing to use a 1% savings factor on legal expenses, these are reasonable and conservative savings he can share with management at any level.

The important takeaway from this Q-Study is that you might be saving your company several hundred dollars or several thousand dollars a year, a month, or a week because of your efficiencies. When you begin to add up these savings across other offices, locations or branches, you could very well be responsible for saving your company gobs of money!

