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New year ushers in IREM opportunities

The new year always brings forth new opportunities to look toward bigger and grander horizons, and this year is certainly no exception.

In 2006, we’ll set several new programs in motion, rocketing our way closer to our ultimate objective—to be the first choice of real estate owners, investors, managers and their companies. Just some of the exciting initiatives we have planned for this year include:

- The development of a new credential—the Accredited Commercial Manager (ACM)—for commercial site managers managing portfolios of at least 20,000 square feet will launch by the end of 2006. Establishing this new membership program supports our strategic goal to provide leading-edge products to broader markets.

- The Institute will research creating a new certification for international condominium managers and present a business plan at the IREM Leadership and Legislative Summit in April 2006. IREM acknowledges the demand for more condominium-specific education abroad and recognizes an opportunity to extend our international reach. Originally presented by our colleagues in Chile, this initiative gained support from real estate managers throughout Latin America and Europe.

- Major enhancements for IREMFIRST—one of your top member benefits—are scheduled for this year. By mid-2006, IREMFIRST will be reorganized so you can search by specific topic rather than product line. Searching for resources by topic will make IREMFIRST even easier to navigate and more useful to you on the job. Take advantage of all opportunities to perform your work with greater speed and ease, and be sure to visit www.IREMFirst.org regularly.

- At least four new IREM courses are in the works this year. New course development was initiated by member feedback, helping us pinpoint which topics and issues need to be addressed further via IREM education. As always, the latest industry trends will also be a key driver in shaping new course material.

It is an honor to serve as your 2006 IREM national president, and I am excited about working with such a dedicated team of IREM leaders, members and staff. I look forward to collaborating with you this year on creating even better IREM opportunities in the future.

Fred Prassas, CPM
2006 IREM President
features

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20 Back to the Future: Historic properties offer unique and lucrative management opportunities. Diana Mirel

32 Meth Explosion: Surge in methamphetamine use leaves property managers with physical, legal and financial mess. Allan Richter

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42 Yielding Results: Removing the human factor from pricing may boost revenue. Emma Johnson
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Hurricane damage spurs whirl of activity in Congress

Dozens of bills offering a myriad of solutions in the aftermath of hurricane season have been introduced before Congress. The House passed three IREM-supported bills providing waivers for federal housing programs including Section 8, rural housing and Community Development Block Grant Programs. While the Senate has yet to act, HUD and Rural Housing have waived many of the occupancy requirements.

Congress also passed a bill increasing the National Flood Insurance Program's borrowing authority, enabling insurance companies to make payments on claims as a result of hurricanes Katrina, Rita and Wilma. The program will likely be subject to a major overhaul in the coming months, and Congress will probably review a federal natural disaster insurance program including other types of disasters like tornadoes, earthquakes, volcanoes and tsunamis.

A post-Katrina tax bill focused on helping individual taxpayers in the Gulf area passed. Its "involuntary conversion" provision extends the period residential and commercial property owners may reinvest Katrina-related insurance proceeds without having to pay capital gains tax from two to five years.

House representatives and senators debated a business-focused bill including a number of pro-real estate provisions in December 2005. Included was a depreciation provision allowing businesses in the Gulf Opportunity Zone or GO Zone to write off 50 percent of the cost of new equipment and certain commercial and multifamily rental real estate expenditures placed in service through 2007 or 2008 for real property. Another provision extended deductibility for brownfields cleanup costs in the GO Zone for two years and includes petroleum as an eligible contaminant for brownfields. Additionally, the proposal provides partial expensing of 50 percent for demolition and cleanup costs.

Several other proposals include important provisions for outside the Gulf region. The Senate passed a bill in November 2005, extending brownfields remediation expensing for one year and extending 15-year depreciation for leasehold improvements for one year. The bill will move to the House for consideration.

Terrorism insurance likely to revisit Congress

Legislation to extend the Terrorism Risk Insurance Act of 2002 passed the Senate in November 2005. The Senate version, S. 467, includes an extension of the act for two years and increases the triggerable event size from $5 million to $50 million in 2006. The House passed its similar version, H.R. 4314, in December. It covers acts of domestic terrorism and establishes different retention levels in lines of insurance covered. The differences are being resolved in conference committee.

Annual Capitol Hill visit approaching

On April 26, IREM members will have the opportunity to meet with U.S. senators, representatives and their staff to voice support for their legislative priorities at the eighth annual Capitol Hill Visit Day.

More than 300 members of IREM, the CCIM Institute, and the REALTORS® Commercial Alliance participated in the 2005 visit, lobbying on behalf of the commercial real estate industry.
Advisory panel finalizes tax reform proposal

Modifications to the tax code proposed by President Bush's advisory panel on tax reform in November 2005 have raised concern in the real estate industry. The proposal has yet to be passed.

If the proposal passes, several of its specific recommendations could have a major impact on investment/commercial real estate. Some of the possible major changes include:

1. The cost of all investment in real and personal property earned will be deducted. Carry-over periods will be given for amounts that cannot be deducted when an asset is in service. The full price of the asset will be expensed regardless of whether it is debt-financed.

2. Capital gains will be taxed at 15 percent or as low as 8.25 percent.

3. A mortgage interest deduction can be converted to a 15 percent tax credit. The housing sector constitutes 15 percent of the nation's Gross Domestic Product.

4. Tax deductions for second homes will be eliminated.

5. Deductions for property taxes, as well as other state and local taxes, can be retracted.

To read the advisory panel's full and final report, visit http://www.taxreformpanel.gov/final-report/.

IREM will continue to provide more information on any tax changes affecting the real estate industry as it becomes available.

IREM sponsors victorious legislation

Thanks to the hard work and dedication of IREM, CCIM Institute, and REALTORS® Commercial Alliance members lobbying on behalf of their industry, Congress passed legislation reforming class action suits and bankruptcy in 2005.

The Class Action Fairness Act established a uniform set of criteria for determining when a multi-state class-action lawsuit can be moved from state court to federal court. The new law authorizes federal courts to hear class-action suits involving more than $5 million when the case is outside the home state of the defendants or when less than one-third of the case is located in the home state of the defendants. Federal lawsuits are significantly more difficult to approve. The new guidelines are also intended to limit the plaintiff attorney's ability to "venue-shop" when filing class action suits.

President Bush signed a bankruptcy reform bill into law, addressing several issues impacting property managers. The provisions better position real estate assets when tenants or owners file for bankruptcy. The law positively impacts many kinds of real estate including condos, rental properties, retail centers and single assets like multifamily buildings. The law lifts the automatic stay for rental housing when the bankruptcy petition is filed after the judgment of possession. The law increases the initial time for shopping center tenants to make a decision whether to assume or reject their leases to 120 days, with one allowable extension of 90 days for cause. In regard to single asset bankruptcy, the law provides a 90-day automatic stay to all single asset properties, with no cap on the value of the asset.

The Junk Fax Prevention Act was signed into law. It does not legalize unsolicited fax advertisements, but does allow for an established business relationship exception. Property managers may send unsolicited faxes without prior permission provided the requirements are met. In addition, senders must now include opt-out instructions on the first page of any commercial fax sent.

The Energy Policy Act of 2005 includes new energy programs and tax incentives for energy efficiency enhancements. Although the bill largely benefits energy companies, it contains provisions benefiting real estate professionals and consumers. Commercial real estate professionals will benefit from incentives like the energy efficient deduction for commercial buildings.
**Warehouse market remains robust**

Despite rising energy costs, increased short-term interest rates and multiple hurricanes, demand for warehouse space remains strong, according to information from Colliers International. During the third quarter of 2005, the industrial real estate market absorbed 55.6 million square feet, compared to 57.1 million square feet registered during the same quarter one year ago.

This consistently strong absorption pushed the national vacancy rate down to 8.8 percent during the third quarter, compared to 9.7 percent one year ago. Additionally, rents reflected a moderate quarter-over-quarter rise, inching up 1.2 percent during the third quarter.

**TOP 10 WAREHOUSE SPACE MARKETS (BY SIZE):**

<table>
<thead>
<tr>
<th>Market</th>
<th>Vacancy percent in third quarter, 2005</th>
<th>Vacancy percent in third quarter, 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta</td>
<td>11.5%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Central N.J.</td>
<td>6%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Chicago</td>
<td>9.3%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Dallas-Fort Worth, Texas</td>
<td>11.2%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Detroit</td>
<td>12.3%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Houston</td>
<td>7.8%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>2.5%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Milwaukee, Wis.</td>
<td>7%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Northern N.J.</td>
<td>5.7%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Philadelphia</td>
<td>10.9%</td>
<td>12.3%</td>
</tr>
</tbody>
</table>

*Source: Colliers International*

**California appreciates appreciation**

The bubble hasn't burst yet. California's housing market is headed toward a record year after the median price of an existing home jumped 17.3 percent in September, and home sales rose 3.9 percent from a year earlier, according to a recent report from the California Association of REALTORS®.

The median price of an existing, single-family detached home in California rose to $543,980 from $463,830 in September 2004. The realtor group forecasts California's median home price will rise by 10 percent in 2006, compared to 2005's projected increase of 16 percent.

While the report suggests price and sales data will reach a record high for the state's housing market, the market is still expected to cool, as reflected by home price appreciation. The report also suggests all tiers of the market are appreciating more slowly than one year ago. However, home appreciation in 2006 will be stronger inland than in coastal areas, according to the report.

**Research council ranks cities' entrepreneurial environments**

Entrepreneurs unsure of where to set up shop now have a reference point when making one of their first critical business decisions. The National Policy Research Council's Entrepreneurial Activity Index measures the best places to start or grow a business. The index measures two key aspects of entrepreneurship—business formation and business growth. The council's overall entrepreneurial ranking is the combination of a "young company ranking"—the best places to start a business—and a "rapid growth ranking"—the best places to grow a business.

<table>
<thead>
<tr>
<th>2005 TOP TEN ENTREPRENEURIAL STATES</th>
<th>Overall Entrepreneurial Ranking</th>
<th>Young Company Ranking</th>
<th>Rapid Growth Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>1</td>
<td>1</td>
<td>1</td>
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<tr>
<td>New Jersey</td>
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<tr>
<td>Delaware</td>
<td>3</td>
<td>8</td>
<td>4</td>
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<tr>
<td>Virginia</td>
<td>4</td>
<td>6</td>
<td>5</td>
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<tr>
<td>Alabama</td>
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<td>2</td>
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<tr>
<td>North Carolina</td>
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<td>9</td>
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<td>Maryland</td>
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<td>Georgia</td>
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<td>4</td>
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<td>South Carolina</td>
<td>9</td>
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<td>13</td>
</tr>
<tr>
<td>Hawaii</td>
<td>10</td>
<td>12</td>
<td>8</td>
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</tbody>
</table>

*Source: Entrepreneur magazine and National Policy Research Council*
**ecotalk**

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**Austin’s power**

Using traditional fossil fuels to power office and manufacturing space is becoming passe in corporate America. Decision-makers at microprocessor maker AMD recently announced plans to purchase green energy derived from renewable resources to power its Austin, Texas, operations for the next 10 years in an agreement with the Austin Energy GreenChoice Program.

Purchasing green energy over a 10-year period is expected to eliminate the equivalent amount of pollution created by 9,055 cars in Austin each year or the amount of energy needed to power 5,263 homes in Austin annually, according to Austin Energy. AMD will use sources of renewable energy from wind power and landfill methane gas to provide clean energy. The process helps reduce power plant emissions and reliance on fossil fuels.

Dedication to green energy is not limited to AMD's Austin operations. On a global scale, AMD has committed to reduce energy use by 30 percent; water by 40 percent; and greenhouse gas emissions by 40 percent, all by the end of 2007.

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**Green on top**

Often recognized for its lavish parks and well-manicured vegetation throughout the downtown area, Chicago is taking its penchant for greenery to new heights—actually, to the roof. The City of Chicago’s Department of Environment recently teamed up with the Department of Planning and Development to create a grant program offering homeowners and owners of small commercial buildings—buildings with less than 10,000 square feet—a chance to create rooftop gardens to conserve energy. The program encourages environmental innovation via economic incentives, rewarding each chosen applicant a $5,000 grant, shelling out a total of $100,000 in grants.

Green roofs reduce storm water runoff and the “urban heat island” effect, ultimately resulting in energy savings of up to 30 percent, according to officials from the city’s Department of Environment. City officials said the city’s 20,000-square-foot green roof atop Chicago’s city hall saves the city $40,000 to $50,000 a year. The rooftop gardens help cool the floors below during warmer months, and the plants can produce a warming effect when dormant in cooler weather.

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**Energy beyond oil**

Proving there’s more than oil in Texas, the Lone Star State is tapping into the possibilities of wind energy. The Texas General Land Office signed an agreement with Galveston-Offshore Wind LLC, a division of Wind Energy Systems Technologies, to build the first offshore wind-energy project in the United States.

The agreement calls for a multi-million dollar lease comprised of research, construction and production phases. Wind Energy Systems will build two meteorological towers to gather wind data in the Gulf of Mexico to determine where the wind energy development will be built. The company will then construct an expected 50 wind turbines, after which the 30-year production phase will begin.

According to information from the land office, the offshore wind farm will produce enough electricity to power about 40,000 homes, whereas an equal amount of electricity would require 20.7 million barrels of oil over 30 years. Additionally, land office officials said the wind energy development could prevent 21,000 tons of sulfur dioxide and almost 10,000 tons of nitrogen oxides from being emitted over a 30-year period.

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**Quotables**

"I never thought of losing, but now that it's happened, the only thing is to do it right. That's my obligation to all the people who believe in me. We all have to take defeats in life."  
Muhammad Ali, retired American boxer

"The new year begins in a snow-storm of white vows."  
George William Curtis, American writer and public speaker

"Don't knock the weather; nine-tenths of the people couldn't start a conversation if it didn't change once in a while."  
Kin Hubbard, U.S. journalist, humorist, homespun philosopher

"Methamphetamine labs can be found in virtually every state in our nation. Nobody is safe, and we all share the burden of cleanup costs."  
Mark Dayton, U.S. Senator (D-Minn)

"I have learned over the years that when one's mind is made up, this diminishes fear; knowing what must be done does away with fear."  
Rosa Parks, former seamstress who helped launch the civil rights movement

"The only acting you ever see at the Oscars is when people act like they're not mad they lost. Nicole Kidman was smiling so wide, she should have won an Emmy at the Oscars for her great performance."  
Chris Rock, comedian

"It is not that humans have become more greedy than in generations past; it is that the avenues to express greed have grown so enormously."  
Alan Greenspan, retiring chairman of the Federal Reserve Board
AEGON Center exudes powerful, modern presence within historic Louisville, Ky.

by Diana Mirel

Louisville, where bourbon and horse-racing reign supreme, has deep historical roots. However, modern luxury has inched its way into the Bluegrass State and is being embraced by Louisville's corporate elite. No building reveals this trend more than the AEGON Center, a recognizable structure in the city's skyline.

The domed building has become a symbol of the thriving, yet understated, professionalism and corporate culture characterizing Louisville's downtown area. Upon its completion in 1993, the AEGON Center quickly became the premier office building in the city, offering opulent offices and convenient retail space to the city's downtown.

The 680,000-square-foot office building is the tallest building in Kentucky, reaching 549 feet. Along with office space, the building has 18,787 square feet of retail space and an adjoining five-level garage.

The AEGON Center incorporates big-city glamour within a modest Midwestern metropolis. It was designed by John Burgee Architects with architect Phillip Johnson as design consultant—architects of the renowned AT&T Building in New York City.

"At night, the dome is lit up, and it has become a beacon or landmark in the community," said Chris Cieminski, Hines' AEGON Center property manager. "It makes a statement for the downtown buildings."

Complementing the building's prominent dome are features like the carved granite exterior and a paved patterned granite, half-acre, street-level plaza complete with decorative lighting, greenery and four fountains.

Despite its grand presence, the building reveals Louisville’s welcoming atmosphere with an intimate interior, housing 15 tenants. AEGON Insurance occupies one-third of the building, and the balance of the building includes law firms, financial institutions and accounting firms. Retail space includes a bank, sundry shop, copy center and deli.

"We tend to have a lot of high-profile people that come to the building, especially with the law firms," Cieminski said.

As one of the most high-profile buildings in Louisville, space is coveted and vacancies are rare. The building is currently 98 percent leased.

"Historically we have always maintained an occupancy level of 95 percent," he said. "The firms that are here really enjoy being here."

While its four-star quality design has helped the AEGON Center remain occupied for its 12-year life, Hines said it's popular, in part, because of effective management. In fact, the IREM local chapter recently awarded the AEGON Center and Hines with the IREM PREMA Award for the best managed office property in Louisville.

The key to effective management, Cieminski said, is responding to tenant needs. Recently an AEGON Center tenant satisfaction survey revealed tenants wanted additional parking adjacent to the building, and Hines took action. Collaborating with the building's owners, Hines expanded the parking garage by 287 parking spots, winning kudos from the building's tenants.

"It is really important that [property managers] don't become complacent," Cieminski said. "We need to continually challenge ourselves as a management team and be progressive and responsive."

Diana Mirel is a contributing writer for JPM. Questions regarding this article can be sent to kgunderson@irem.org.
■ With eight touchdowns in 1990, San Francisco holds the record for scoring the most touchdowns in a Super Bowl game. Not scoring a single touchdown in 1972, Miami holds the record for scoring the fewest touchdowns in a Super Bowl game.

■ Black History Month has been celebrated every February since 1926.

■ The groundhog's reputation as a weather prophet came to the U.S. in the mid-18th century with German immigrants.

■ In 1950, Gwendolyn Brooks became the first black woman to win a Pulitzer Prize in poetry.

■ An estimated 12 million renter and homeowner households pay more than 50 percent of their annual incomes for housing.

■ Approximately 11.7 million Americans ages 12 and older reported trying methamphetamine at least once during their lifetimes, representing 4.9 percent of the population ages 12 and older, according to the 2004 National Survey on Drug Use and Health.

■ While 75 percent of chocolate purchases are made by women all year long, during the days and minutes before Valentine's Day, 75 percent of the chocolate purchases are made by men. Over $1 billion of chocolate is purchased for Valentine's Day.

Search Me

**www.rentalprop.com**

Rental Property Reporter provides information, tips and advice for residential property managers and real estate managers. Resources include access to landlord-tenant laws for all 50 states and rental property consulting assistance, as well as collaborative tools like "ask an expert" and message boards to exchange ideas with other landlords and property managers. The Web site also offers choices for finding a property management company, apartment or landlord associations, and tenant screening companies.

**www.business.gov**

Geared toward small businesses, business.gov provides legal and regulatory information in the United States. The Web site guides the entrepreneur through the business development process by offering access to resources in areas like business law, finance, human resources, government contracting, taxes, and training. This information helps ensure small businesses are in compliance with all government rules and regulations.

**www.workindex.com**

WorkIndex.com offers a comprehensive index of human resources-related Web sites, news, tools and information to help employers make hiring decisions. Over 5,000 Web sites for HR professionals are available to assist with a broad range of tasks from recruitment, career management, and employee appraisal and evaluation to understanding employment laws and legislation.

Pulse Points

Log on to www.irem.org/jpm to answer this issue's online survey. Real-time results will appear on the site, and a final tally will be published in the next issue.

**Question**

As the use of the illegal drug methamphetamine increases in popularity, have any of your properties been touched by meth lab production?

☑ yes
☑ no

**The results are in from last issue's poll**

**What is the biggest challenge in managing a mixed-use property?**

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<tr>
<th>Challenge</th>
<th>Yes</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>Managing demands and expectations</td>
<td>86</td>
<td>27</td>
</tr>
<tr>
<td>Managing noise</td>
<td>73</td>
<td>23</td>
</tr>
<tr>
<td>Handling a property's overall performance for owner</td>
<td>48</td>
<td>15</td>
</tr>
<tr>
<td>Attracting consumers to lease or buy</td>
<td>36</td>
<td>11</td>
</tr>
<tr>
<td>Lease administration</td>
<td>24</td>
<td>8</td>
</tr>
<tr>
<td>Proper planning of parking for commercial space and residential dwellings</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>Maintaining a good relationship with the surrounding neighborhood</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>4</td>
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<tr>
<td>Managing security issues for tenants</td>
<td>10</td>
<td>3</td>
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**Vote Total** 317
Big challenges in Big Easy
Gulf Coast real estate managers improve disaster plans
by Amanda Kaschube

Behind the force of Category 4 Hurricane Katrina, came damages estimated from $70 billion to $130 billion, making it one of the most costly storms on record.

For property managers, the cleanup effort is twofold: They must rebuild their portfolios as well as their clientele. However, with growing concerns about living below sea level and the potential for future storms, cleanup is not easy, said Joe Pappalardo, president of Latter & Blum Property Management.

"People have calculated the ongoing risk of living in a hurricane zone and suffering wind damage, like anywhere else in the United States," he said, "but I don't think any of us anticipated the prolonged damage."

Before and after
While Hurricane Katrina had a staggering effect on New Orleans' economy, the numbers before the storm were already harsh, according to a study by Property & Portfolio Research.

Pre-Katrina, total employment growth in the second quarter of 2005 fell to 0.5 percent after peaking at a seven-year high of 1.3 percent in the first quarter. Population growth averaged just 0.2 percent over the past 10 years, a fraction of the 1.2 percent growth nationally.

Even so, property managers said their vacancy rates were low. Pappalardo's properties in New Orleans had a low- to mid-90 percent occupancy rate, and Ronald Rauber, CPM, property manager for Select Properties, said his property was at a 95 percent occupancy rate.

Richard Stone, director of commercial sales and leasing at Latter & Blum in New Orleans, said pre-Katrina, 70 percent of New Orleans' population resided in Jefferson and Orleans parishes—the areas the hurricane hit hardest.

After the hurricane, Pappalardo said properties in the unaffected suburbs were 100 percent occupied, but affected properties were uninhabitable. His properties in Baton Rouge saw occupancy surge from 80 percent to near 100 percent. Rauber's properties in New Orleans were 40 percent occupied.

"Most of our properties are in Jefferson parish. Literally all of our properties were affected," Rauber said. "I supervise eight structures. Five suffered flood damage, and the other three had severe wind and rain damage. We're a week away from some, months away from others. Totally, of our properties in New Orleans, there's about $3.5 million damage."

Property & Portfolio Research found 60 percent of New Orleans' office space was damaged, and the vacancy rate jumped from 18.2 percent before the storm to 64.6 percent after Katrina. Its study predicted vacancies will return to the 20 percent range over the next two years, although the net result will be less demand and supply.

Along with the rate influx for hotel space, the demand for warehouses has increased since Katrina. Out of approximately 55 million square feet of warehouse space, 11 percent was vacant prior to Katrina. Within two weeks of the hurricane, vacancies decreased to less than 5 percent, Stone said.
"We’ve leased every warehouse that’s available and modern," he said. "Certainly, some tenants will leave once the city is rebuilt, but it’s as low a vacancy rate as we’ve seen.”

**Real estate realities and challenges**

Since 1851, 49 hurricanes have directly hit Louisiana—18 being categories 3 to 5, according to information from the National Weather Service. Hurricane Katrina ranked third among U.S. hurricanes for pressure at landfall, according to the National Oceanic & Atmospheric Administration.

Nevertheless, Pappalardo, who lived through massive flooding in New Orleans during the 1960s, said Katrina’s aftermath caught him off guard.

"Never would I have anticipated such a ripple effect through the economy and through the society that we’ve experienced this time," he said. "It’s mind-boggling. I’ve been planning for my whole professional career, and none of us imagined how far-reaching and how long-term this type of disaster could be."

Most of his company temporarily relocated to Baton Rouge. 75 miles away from New Orleans, but a few staff members stayed in Jefferson parish working on getting properties repaired. He said even if a property didn’t sustain structural damage, other obstacles remained, like closed gas stations and grocery stores.

"How can you live like that?" he said. "People are staying away because of that. Gradually, people will go back. People say, 'If you go back, I’ll go back.’”

Rauber said he faces the same challenges. Ninety percent of his 50 employees have remained with the company. His corporation also moved its office to Baton Rouge, but returned to Jefferson parish at the end of November. Rebuilding won’t happen nearly as fast he said.

"If you’re not down here, you can’t understand it," he said. "It’s still crazy down here. [Although] we are functioning in Jefferson parish, New Orleans parish is a ghost town."

**Strengthening emergency plans**

Much as they did in the aftermath of September 11, property managers are trying to learn from Katrina and modify their hurricane plans for the next storm. Pappalardo said his emergency plan probably rated a B-minus or C-plus, but it did better than most.

"We as professionals need to employ every trick in the book—that’s a no-brainer," he said. "We’re being paid in good times when it’s easy to do the job, and when it’s not easy—that’s when we’re needed the most.”

His plan includes quickly mobilizing his employees, sending a broadcast e-mail to tenants, owners and vendors and filing insurance forms for all properties. A staging area far enough away from the disaster but close enough to monitor the situation is also a necessity. Pappalardo said he intends to meet with others to gather more information.

Questions about the levy system still loom for those in and returning to New Orleans. The levies were built to protect against a Category 3 storm—Katrina was a Category 4.

"The concern is it may take ten years to correct those inefficiencies," Pappalardo said. "You have people [upper to upper middle class] who are looking at their $3.75 million house and saying, 'Do I want to go back and rehab my house and have this happen again next June?’ I think New Orleans can and will rebuild, however.”

Amanda Kaschube is a contributing writer for JPM. Questions regarding this article can be sent to kgunderson@irem.org.
Alternative work schedules
Employers benefit when employees have choices

by Pamela V. Rothenberg

Employers are increasingly permitting employees to customize their work arrangements through alternative work schedules. Employees often seek flexibility to allow more time to care for children or elderly parents or simply to improve work-life balance. Employers can implement flexible work arrangements as a strategy to retain qualified people, enhance productivity and lower overhead costs.

Employers considering alternative employee work schedules—like part-time work, telecommuting, job sharing and flextime—should be cognizant of the advantages and disadvantages associated with these arrangements.

- The Fair Labor Standards Act has no special modifications for flexible schedules or full- or part-time status. To be exempt from overtime, employees must meet the duties tests of executives, administrative professionals or outside sales employees; be salaried; and be paid at the salary level required for exempt status under the act. Although a part-time employee may be scheduled to work less than 40 hours per week, guaranteed compensation must be $455 per week or $23,660 annually to meet the salary threshold for overtime exemption. The act does not permit prorating the minimum salary required for exempt status.

- Employers should consider the Equal Pay Act, which prohibits sex-based pay differentials, when determining compensation for employees with alternative work schedules. If an employee with an alternative schedule performs the same tasks as a full-time employee, the employer should consider paying the part-time employee the equivalent pay prorated for the number of hours required.

- Alternative work schedules can reduce benefit costs. However, employers must check their benefit plans to ascertain at what level benefits are provided. Employees working more than 30 hours a week may be considered full-time and thus eligible for health plan benefits.

- Employers should review their policies on vacation, sick days, bereavement and additional benefits to determine whether those policies are applied to employees with flexible work schedules. If those policies do not provide such guidance, they should be modified.

- Alternative work arrangements do not relieve employers of legal obligations applicable to regular, full-time employees. Employers are still subject to anti-discrimination laws, occupational safety and health regulations, worker’s compensation statutes, the Family and Medical Leave Act and unemployment compensation requirements, regardless of an employee’s full- or part-time status.

- Employers should have a written policy detailing the expectations and terms of a flexible work schedule agreement.

To increase employee retention, employers should consider offering workplace options supporting employee work and personal life balance. To be effective, employers should implement these customized work arrangements with careful planning and detailed attention to legal requirements applicable to their specific situations.

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Single solution sought
Despite economic globalization, technology lags with single global solution

by Scott Morey

Lately I have found myself flying all over the world to places like Dubai, Shanghai, Seoul, Frankfurt, Moscow and Florence. I track specific projects that could significantly alter how we operate and manage buildings, ultimately impacting the systems, applications and technology used.

From an operating, platform and financial standpoint, companies originating in the United States seem to be at the forefront of globalization. As such, globalization is creating unique demands and requirements on real estate applications from financial, property management, leasing and building automation perspectives.

From an international financial standpoint, most real-estate specific accounting applications struggle to effectively support other countries’ unique requirements—like multi-currency or use of the metric system—and provide means to view information across the enterprise in a meaningful fashion.

From a property management standpoint, information technology departments must have infrastructure, security and applications allowing multiple outside management companies to access and utilize their systems to accommodate a number of interesting trends and requirements—like varying lease terms and the common use of third party property management companies—occurring outside the United States.

Varying lease terms present a host of challenges for real estate technology branching into different markets. Whereas the average office lease in the United States is three to five years long, office leases last from 15 to 30 years in the United Kingdom. In the United States when a lease expires, someone else moves in, and rent is adjusted to current market rates. The United Kingdom relies on a rent review process with checkpoints every five years or so to review rent and compare it to market. As a result, market rates in the United Kingdom aren't really transparent since transactions are few and far between. Determining market value is difficult, and more time is spent on finding meaningful data.

The other main trend—using third party management companies—might change, however, as the financial debt and equity markets evolve by country. REIT legislation will likely pass in the United Kingdom and Germany in 2006, modifying firms’ financial market and investment strategies and ultimately who manages these assets and how they are managed. Similar to the financial area, it is important to maintain enterprise-wide visibility and have systems capable of supporting that environment.

To date, one single solution cannot entirely support a global real estate operation from both financial and property management perspectives. I also don't see software vendors making any significant investment to achieve that feat. Most companies operating in more than one country have deployed multiple instances of an application per country or use different solutions altogether. While asset values and revenue numbers can be substantial, software companies struggle to be profitable in the real estate market.

Globalization of United States-based real estate companies is providing an opportunity to take leading practices from around the world and continue to differentiate ourselves and add value to investors and customers. As a result, I find myself on a plane two to three times a week—or, rather, too often—flying to see the latest project.

Scott Morey (scottmorey@realfoundations.net) is managing director of RealFoundations Inc.
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Retirement woes
Tenants-in-common investments relieve a life sentence of toilets, tenants and trash

by Paul L. White, CPM

As real estate investors of small properties age, they find they are trapped by their investments—facing high costs to convert their assets into the cash they need for retirement.

Someone who invested in small apartment buildings or shopping centers 20 or 30 years ago has benefited greatly from appreciation, especially with the rapid rate experienced over the past five years. But traditionally, when investors have approached retirement, options for converting their illiquid investments into retirement funds have not been attractive.

Investors have basically had two options: Sell the properties and pay the taxes or complete a 1031 exchange. Losing 15 percent of the gain in appreciation to the capital gains tax is a serious bite. But there is a second bite that comes in the form of the depreciation recapture tax of 25 percent. Most citizens reluctantly pay the taxes they must, but prefer the alternative of avoiding or delaying those taxes if possible.

With the 1031 exchange option, a retiring investor still has several problems. Quality investment properties are hard to find, and the prices have been bid up to unrealistic levels. In addition, the investor knows the problems of the properties he owns but may not want to take on new properties with problems yet to be discovered.

With the issuance of the IRS Revenue Procedure 2002-22, investors now have a new option of completing 1031 exchanges through tenants-in-common real estate investments. They can turn deeded and undivided interests into high quality, institutional grade properties—formerly out of the common investor’s reach and only in the purview of the REITs, pension funds, insurance companies and other major investors.

These larger, prestigious properties have professional management and leasing, and in many cases, professional asset managers advising the co-owners. By being willing to give up to 100 percent control of the properties and sharing the ownership responsibilities with up to 35 co-owners, the investor is able to avoid the double tax bite when selling. Investors are able to invest all of their proceeds into income producing properties.

In return, the investor continues to receive the benefits of real estate ownership by receiving his or her share of the monthly cash flow, the tax benefits of a stepped-up basis for depreciation, and upon the sale of the assets, his or her share of the appreciation—all of this while having the prestige of ownership in a class A asset.

Typically, a tenants-in-common setup reduces an investor’s time spent overseeing his or her investment, and the investor receives the cash flow benefits on the total of his or her investment rather than what is left after taxes.

A tenants-in-common investor has maximized his or her investment while shedding the responsibilities for toilets, tenants and trash for a stream of income for his or her retirement.

Traditionally, when investors have approached retirement, options for converting their illiquid investments into retirement funds have not been attractive.

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We value your partnership!
Review and renew
Evaluating standard lease agreement can thwart disputes, money loss and lawsuits

by Mike McConnell, CPM

It's a new year and a new you. While you might have taken the time to evaluate your life personally and professionally and make some resolutions, evaluating something as seemingly simple as your standard lease agreement might not be a major concern.

Disputes, lost revenue and litigation are all adverse consequences resulting from inconsistent or poorly defined lease terms.

But disputes, lost revenue and litigation are all adverse consequences resulting from inconsistent or poorly defined lease terms. Adhering to a few guidelines, you can simplify lease administration, avoid misunderstandings and add value to each new lease.

1. Write a lease agreement like it's going to be interpreted by an adversary with no knowledge of the lease negotiations or the original intent of the parties. Rely on a third party, not involved in lease discussions, to read the lease draft and determine the intent. Make certain those responsible for administering the lease have also reviewed and approved both standard and non-standard lease language.

2. Establish lease writing procedures, and ensure they are consistently enforced and applied. Require revisions to be clearly identified.

3. Make sure rent calculations and formulas are verified. Confirm dates and time periods are accurately and consistently stated. Establish a firm lease start date. If the date is tied to a contingency, like upon substantial improvement, specify the method for documenting the start date.

4. Make lease anniversary dates on the first day of the month and lease expiration dates on the last day of the month. Any initial occupancy period prior to the first day of the month is in addition to the specified lease period, and the rent is prorated based upon month one rent. January 1 of each lease year should be the effective date for any Consumer Price Index (CPI) rent adjustments.

5. Non-standard provisions should be made personal to the tenant. Limit the period of time such provisions may be exercised, and designate conditions extinguishing or making them void.

6. In the event a tenant does not comply with the specified insurance requirements, stipulate the landlord may purchase the insurance on behalf of the tenant, and add the cost to the tenant's rent.

7. Specify landlord and tenant responsibilities regarding maintenance, repairs and replacements in detail. A comprehensive description of responsibilities, including financial obligations and standards, can help avert common conflict. Make sure your chief engineer weighs in on this subject.

8. If the tenant requires above-standard electric or other utility service, employ a professional engineer to determine the method for calculating the costs. Avoid trying to save costs by doing it yourself.

Leasing is almost always focused on the deal, and lease preparation may not receive the attention it requires. Poor lease preparation can be costly. ©

Mike McConnell, CPM, (mmconnell@earthlink.net) is a property manager for Colonial Properties Trust.
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BACK TO THE FUTURE

Historic properties offer unique and lucrative management opportunities

by Diana Mirel

Photo courtesy the Spinnaker Companies
Everyone has heard it before: What's old is new again—fashion, pastimes and most important, real estate. Owning, restoring and managing historic properties is a niche market gaining momentum. Building owners and property managers reap the benefits with every stride.

Historic properties promise numerous economic rewards, including increased property values, federal and local tax breaks and competitive rents. They also act as catalysts for rejuvenating cities and towns nationwide. If restored properly, historic buildings can define a city, said Donovan Rypkema, principal of Place Economics of Washington, D.C. He is also the author of "The Economics of Historic Preservation: A Community Leader's Guide."

"One of the most critical things for cities is to be competitive, and they have to differentiate themselves," he said. "There are many components to that differentiation, but among them, historic buildings are critical. A sizable portion of a sophisticated market—in growth industries particularly—is recognizing that."

Demand for history

The value of historic properties is not only recognized by real estate managers: Tenants and residents demand office and residential space in historic buildings despite generally higher rents and assessments.

Lorig Management Services in Seattle and Eugene, Ore., often converts old schools into office, residential and retail spaces—some of the company's hottest properties.

"We get better rent and stay fuller in historic properties than in anything else we have in the market," said Barry Blanton, CPM and president of Lorig. "There will always be those who have a thing for historic if it is done well."

Historic done well requires preserving the original characteristics of a property as much as possible while also providing high-quality finishes and technology equal to those in new construction, said Eric Blumenfeld, president of EB Realty Management in Philadelphia. The company converts historic manufacturing buildings into lofts. He said people want to live in spaces with character.

"The buildings differentiate themselves," he said. "You're not looking at a drywall box; They have architectural interest."

As a result, Blumenfeld said he is able to collect higher rent from such units, but a historic designation alone cannot justify increased rents.

"The average loft conversion appeals to a huge range of buyers," he said. "If a wonderful historic conversion is in the same location as a new construction you can command higher rents. But it does cost you as much—if not more—to build because it is just not as easy to do a historic conversion."

Landmark limits

Part of the challenge involved with managing or converting a historic building is following the restrictions set by landmark commissions.

When a historic building is designated a local or national landmark or when it is within a historic district, changes or improvements require an extensive approval process. A landmark board must approve any change or modification, whether for aesthetic appeal or necessary maintenance. The Secretary of the Interior's rehabilitation standards suggest owners restore rather than rebuild deteriorated historic features.

SL Green Realty in New York City owns and manages a number of local landmark buildings, including the News Building, and has worked with the New York City Landmarks Preservation Commission on building modifications, including façade, storefronts, signage, louvers and brick repair.

In Search of History

Real estate managers interested in exploring historic preservation can search for governmental historic preservation commissions. Go to www.preservationatlas.org, click on "local preservation contact list" and choose the appropriate state.

"There is very little you can do in a landmark building without getting approval first," said Edward V. Piccinich, SL Green Realty's executive vice president and director of property management and construction. "You can't just decide to screw something into the wall in a landmark lobby. It is different from a regular building because you have to submit a sample of what you're doing and get approvals on the best match to what was originally there."

Landmark slowdowns

Turnarounds for approval can take up to 90 days, according to information from New York City's landmark commission information. SL Green Realty executives said they often experience a six- to 12-week turnaround. If the board
does not initially approve the plans, the time and money involved can be significant.

When Helmsley-Spear Inc., the Empire State Building's property management firm, replaced windows in the building in the early 1990s, the New York City Landmarks Preservation Commission was unequivocal in its expectations, and a lengthy approval process ensued, said John B. Trainor, Jr., the management firm's executive vice president. “There are more than 12,000 windows in the Empire State Building, and it cost us $3 million in additional costs to have new windows designed,” Trainor said. “Then, [commission members] still weren't approving them. Finally, we took one of the new windows and installed it on the seventh or eighth floor of the building next to one of the old windows and asked if [they] could tell a difference from the street.”

Despite the hurdles preservation presents, SL Green Realty's Piccinich said he supports the designation and enjoys its benefits. He said the company understands the importance of the commission's work. “The [landmark commission] is safeguarding the city's historic and cultural heritage,” he said. “We truly believe it helps stabilize and improve property values. There is a premium you're going to pay when working on a landmark building, but the payback is much higher in terms of net effect through the building's other characteristics.”

Community involvement
In addition to satisfying official requirements, real estate managers of historic buildings must consider community concerns. Communities become heavily involved in historic building development and maintenance.

Progress & the past: Savannah at a glance

With one of the country's largest historic districts, Savannah, Ga., has undoubtedly boosted its state's historic preservation success. More than 40 percent of the 2,500 buildings inventoried in Savannah have architectural or historic significance, according to a study published by the Savannah Historic Foundation.

Rehabilitation of historic properties in Georgia during a five-year period created 7,550 jobs and $201 million in earnings, according to the National Trust for Historic Preservation.

In 1733 Savannah's founders designed the city in a perfect grid pattern with 24 public squares. Today 21 of the original squares are intact and framed by 18th, 19th and 20th century properties. In the 1930s and 1940s, Savannah's inhabitants demolished many distinguished buildings and squares in the name of progress.

In 1955 the Historic Savannah Foundation formed, establishing a comprehensive strategy to promote historic structures through private-sector involvement. Since forming, the Historic Savannah Foundation has directly saved more than 350 buildings and is still a powerful preservation advocate.

The 1979 founding of the school began the college's tradition of renovation, said Gregory Hazelden, sales associate at Cora Bett Thomas Realty Company LLC, in Savannah. "A lot of investors bought historic properties and renovated them into apartments for the students," he said. "That has had a dramatic impact on the economy and property values."

Historic preservation is imperative to the city's economy. The city attracts 5.8 million visitors and $1.1 billion in direct tourism spending annually, according to information from the Savannah Area Convention & Visitors Bureau. Meanwhile, Savannah moves forward in step with its history. "It's not static and unchanging," said Brian Robinson, a professor in the historic preservation department at Savannah College of Art and Design. "The buildings are not just preserved in a jar to look at; we use them every day."
For property managers, success depends largely on open communication.

Blanton of Loriq Management Services said the company makes community outreach and communication part of its management regimen, keeping the community updated on the progress of the historic buildings it owns and manages.

"Every time you do anything to the building, it gets scrutiny because there are a lot of key stakeholders," he said. "It's not just the owners, the tenants or residents. It's the community, the historic review board, the landmarks board and the businesses in the area. Everyone has a stake in it being successful or not."

Specialized services
With so much at stake and challenges like outdated systems, complicated designs and specialized service needs, a dedicated, competent on-site staff is necessary for successful day-to-day operations, Blanton said.

"You have to have people working on the building who love it, care about it and are enthusiastic about it," Blanton said. "If they don't like historic buildings, put them in a different building."

Finding artisans skilled in preserving a building's history is crucial to operations. Rather than outsourcing standard services, many management companies have specialized in-house staff for historic properties.

Having the right workers is essential to successful management, and familiarity breeds efficiency when it comes to historic buildings, said Michael Brown, director of operations for Spinnaker Real Estate Partners, the owner and manager of the Lock Building—originally a lock factory, constructed in 1856—in Norwalk, Conn. The building now houses studio, gallery, office, restaurant and retail space.

"Managing historic buildings has to be done differently," Brown said. "You do not do a typical bid situation where you always look at the bottom dollar. Instead, you look for the contractors that develop a relationship with the building and get to know the building's procedures and quirks."

More work, less taxing
The differences in operating a historic property and other properties can affect taxes. The federal government encourages historic building preservation through tax benefits.

The National Park Service's Federal Historic Preservation Tax Incentives program offers private investors a tax credit of 20 percent of the cost of renovation to rehabilitate a historic building. Since its inception in 1976, the program has helped rehabilitate more than 32,000 historic properties and has stimulated $33 billion in private investment, according to information from the park service.

Buildings are eligible for the incentives if listed as National Historic Landmarks in the National Register; if they contribute to National Register Historic Districts and certain local historic districts; and if they will produce income and be rehabilitated according to the Secretary of the Interior's Standards for Rehabilitation.

Historic Property Tax Program
To learn if a state has a historic property tax program, property owners and managers can visit http://www.nationaltrust.org/help/taxincentives.pdf.

Applying for the tax credit is complicated and should be weighed by interested investors, said Tay Via, a Partner at San Francisco law firm Coblentz, Patch, Duffy & Bass, which specializes in real estate law. She said if going for the tax credit only requires meeting the mandated federal standards already included in the landmark commission's conditions for approval, going for the tax credit makes sense. However, if the federal standards are in addition to the commission's standards, adding more requirements and expenses, she said make sure the scope of the project is worth the labor and money.

State property tax freezes
In addition to federal incentives, approximately 30 states offer a property tax assessment freeze for historic rehabs. The programs encourage the flow of private capital into historic buildings and give investors tax breaks for a certain number of years while the building establishes a tenancy and the surrounding market improves.

Rypkema of Place Economics said if a building hypothetically has had no reinvestment for 40 years and is on the tax roll for $100,000, it will require $2 million in rehabilitation. He said in normal circumstances, the property taxes would go up the next day because the property is going on the tax roll from $100,000 to $2 million.

But with a historic property attached to a property tax assessment freeze, the increase is not the case. If a historic building is rehabilitated based on the state and local
Blumenfeld said. "You can avoid confrontations with neighbors by rehabilitating property rather than starting new construction. Zoning roadblocks decrease when rehabilitating a historic property, according to regulation.

**Advantages abound**

Communities are also often eager to restore historic properties to gain the dual benefits of preserving history and avoiding additional taxes.

"From any kind of fiscal responsibility standpoint, when you re-develop where infrastructure already exists, it saves taxpayer dollars," Rypkema said. "That way taxpayers don't have to pay for extending the water lines and sewer lines out in the middle of God knows where."

Saving taxpayer dollars is always a plus, but redevelopment can make a project run smoother for building owners and managers for other reasons, too. EB Realty Management's Blumenfeld said community conflicts and zoning roadblocks decrease when rehabilitating a historic property rather than starting new construction.

"The advantage is that these structures already exist," Blumenfeld said. "You can avoid confrontations with neighborhood associations about sight lines and setbacks."

Restoration can also save money. SL Green Realty's Piccinich said the cost to upgrade is less than the cost to replace. According to his calculations, upgrading a historic building costs approximately $75 to $125 per square foot, but rebuilding costs about $300 to $350 per square foot. Additionally, a rebuilt property loses an equivalent of three years of income during the demolition, design, bidding, and building periods.

With the ability to save on development costs, qualify for federal tax breaks, be eligible for state property tax freezes and increase rents, more real estate professionals are considering restoration. Preservation of such buildings also often brings community support and goodwill.

With the growing popularity of historic buildings, property managers and building owners can take part in a new, sophisticated market and reap economic and civic benefits along the way.

Diana Mirel is a contributing writer for JPM. Questions regarding this article can be sent to kgunderson@irem.org

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Richard Muhlebach, CPM, got his first job as a property manager in 1971. While Muhlebach walked with his father through the regional mall he managed, showing off the 85 stores under his charge, his dad asked why the mall needed the newly minted property manager if every store already had a manager.

Muhlebach said he, too, was unsure about the definition of a property manager’s role and the need for the position when he started out in the profession. Now a senior managing director at Kennedy Wilson, an international real estate services and fund management firm headquartered in Beverly Hills, Calif., Muhlebach said vague notions and fundamental misconceptions about the roles and responsibilities of property managers still exist—the results of an evolving profession.

“I think most people don’t understand what property managers do,” he said. “Within the real estate industry, they have kind of a vague familiarity with the position, but they don’t really understand it. And the general public doesn’t have a clue.”

Bulb changer to business manager
The evolution of a property manager from someone who merely manages a property—unclogging toilets and changing light bulbs—to someone who operates an asset and manages a business, has blurred understanding of the profession, property managers said.

“I’ve been in the business since 1983, and I’ve seen the role truly evolve from what once was a custodial position—collecting the rent, paying the bills, a pretty basic level of services—into a profession involving complex budgets, financial investments and contract negotiations,” said Lynda Clarke, senior vice president at Norris, Beggs & Simpson, a commercial real estate firm based in Portland, Ore.
The profession became more complicated as more institutional real estate investors like insurance companies, real estate investment trusts and national brokerage firms bought more real estate, said Scott Meadows, senior vice president at Wells Real Estate Funds, a Georgia-based real estate investment management company.

"Institutionalization has driven the need for the profession to keep pace," Meadows said. "When I got into the business 20 years ago, properties were much more locally owned. Today, it is very common to have national investors who have large real estate holdings and require a very high level of professionalism from the staff."

Responsibilities and rewards

As financially sophisticated national investors poured more money into real estate, Clarke said they began to demand an equal level of sophistication from their property managers.

"Now, property managers still have the custodial duties, but also more complicated financial duties," she said. "The institutional clients are demanding more expertise from the property managers, and that has forced the property managers to upgrade their skills."

With the increase in responsibilities, came an increase in compensation. The median annual earnings of salaried property, real estate and community association managers was $36,880 in 2002, according to information from the Bureau of Labor Statistics. The highest-paid 10 percent of property managers earned more than $86,650. Other industry surveys showed salaries and commissions routinely reaching more than $100,000.

Meadows said ten years ago a typical property manager would have made between $35,000 and $45,000. He said today, with the increase in responsibilities, the typical manager earns between $55,000 and $75,000.

"The requirements for a property manager today are dramatically more complex, more challenging and require a very high skill level," said Christopher Lee, president and CEO of Los Angeles-based consulting firm CEL and Associates, "and [managers] need to be paid for the complexity and skill level required."

Complex skill set required

The skill set for a property manager today calls for a unique combination of communication, technical and financial abilities, said Paul Bettano, chief financial officer of Symes Associates, a Massachusetts-based real estate firm.

"A good property manager will know how to budget, will be good at handling tenant relations and leasing and will be good at contract negotiations and facilities management," he said. "It is pretty difficult to find all those skills in one person. It's a tough field: You can either do it or you can't."

Juggling the needs of residents and tenants requires interpersonal and communication skills, and balancing the needs of real estate owners requires the ability to write and understand detailed financial reports, said James Sansone, a principal with the Sansone Group in St. Louis. The Sansone Group manages retail, office and industrial properties, along with residential buildings.

Sansone said his residents need a manager with good people skills—someone who can comfortably handle their personal conflicts and complaints. Meanwhile, his retail and industrial tenants require a more professional presence—a manager who is comfortable dealing with corporations and corporate-level financial transactions.

Regardless of the type of properties his managers supervise, Sansone said he always looks for candidates who pay attention...
to detail, speak effectively, understand a budget and operate with little supervision.

Charles Waldron, a senior vice president at Macerich Company in Santa Monica, Calif., said he emphasizes the entrepreneurial aspects of the property manager's job. Macerich owns and operates regional shopping malls across the nation. Waldron said the mall property manager is like a chief executive officer. He said a property manager needs a combination of analytical, communication and personnel management skills.

"The mall manager has a view and input in all areas," Waldron said. "The manager has a large company to support him, but he is also trained to pay specific attention to all aspects of the business. Our people need to know the numbers, they need to be able to communicate on a professional level, and then they have to lead people."

Where in the world

Rattling off a laundry list of ideal characteristics for ideal property managers might be easy, but finding qualified candidates can be more challenging. Bettano of Symes Associates said the industry is having a tough time attracting good people to the profession.

"On any given Sunday, you can find in the Boston Globe classifieds anywhere from four to eight property manager positions advertised," Bettano said. "That's a lot. I think it's a profession not a lot of people are familiar with, and I think it scares a lot of people because property managers need to have a pretty broad skill set."

CEL & Associates' Lee said the industry is facing a serious talent shortage. He said the turnover rate of about 17 percent among property managers shows the difficulty firms have retaining qualified, interested and dedicated workers.

"The depth of the pool is not as deep as it used to be, and firms are hiring from one another," Lee said. "The industry has not supplied the manpower to fill all the positions available. There is a tremendous shortage of talent, and people are

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<th>Employee Turnover Rate</th>
<th>Overall Rate</th>
<th>Senior Executive</th>
<th>Regional Executive</th>
<th>On-site Manager</th>
<th>Asset Manager</th>
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Source: CEL & Associates Inc.

**Professionals transition into transitioning profession**

After spending twenty years in the retail department store business, Greg Millsap decided to move into the property management field. In November 2004, he joined the Macerich Company, which operates regional shopping malls. Millsap spoke to the Journal of Property Management about the challenges of leaving the retail industry to join the world of property management.

Q: Why did you decide to make the change from department store management to property management?
A: I previously worked for Robinsons-May as a store manager. I had been in department stores for over twenty years and I wanted to do something different. I wanted to get into mall property management and use my retail experience, but expand it to do more than just manage department stores.

Q: What were your primary duties as a department store manager for Robinsons-May?
A: Increase sales. I did that by working on presentation, merchandising, in-store promotions, customer service, advertising, working on the product mix I carried and personnel. These are all factors that came into play. But the bottom line was of course bringing money to the company by increasing the sales and keeping expenses in line.

Q: What skills did you develop as a department store manager that are transferable to being a property manager?
A: Property management is about dealing with tenants, and I looked at the shopping mall as one big department
forced to go outside the industry and recruit."

Waldron recently went outside the industry and hired professionals from the retail sector for two senior positions at his company. Both new hires came from department stores.

"Our pool of managers is really relatively small because our industry is not necessarily growing," he said. "There is a limited number of new people coming into the industry. All the developers are fishing the same waters."

Clarke has also had success recruiting people from outside the real estate industry. She said successful property managers have come from the construction, building maintenance and banking industries.

"Over the years, I've actually hired quite a few people who really had no experience in real estate whatsoever," Clarke said. "But they just had fabulous customer service skills, acuity for math, a comfort level in multitasking and other common sense type skills that you can't necessarily get from training."

Even so, Waldron said managers can still find good, qualified people within the industry.

"Life in our industry is cyclical," he said. "If you asked me about six months ago, I'd have said I was having a real hard time, and I had a lot of openings. But within the last several weeks, I have had tremendous success in finding very talented people."

Growing talent within

During cycles when talent is not knocking on the door, firms can focus on developing the talent already sitting behind their desks. With demands on the profession constantly growing, continuing training and education are necessary to keep pace, property managers said.

"We're committed to growing our own," Waldron said. "We spend a lot of resources with our in-house training program. We'll hire people near the entry level and teach them the business. We find we get a longer-term, better product with that kind of investment."

Waldron said he usually hires people at the associate level and pairs them with senior property managers to learn the business.

At Norris, Beggs & Simpson, new hires go through a training program combining in-house education and classes at universities and organizations like the Institute of Real Estate Management, the Building Owners and Managers Institute and local real estate organizations, Clarke said.

"I think the most important part is mentoring—making sure anybody new is paired up with somebody that has been seasoned in different aspects of the commercial real estate industry so they've got somebody they can go to on a daily basis to ask questions," Clarke said.

Norris is also setting up a monthly seminar program to cover topics affecting property managers. Seminar topics will include understanding lease language and clauses, basic site engineering, collaboration with engineering teams, construction management and basic accounting. Norris offers reimbursement to employees who take outside classes after work.

Educating on the outside

In addition to in-house education, industry members are also putting an emphasis on outside education. Darryl Pitt,
Linda Granito, managing director of the EMLIN Group, a property management recruitment firm in Pennsylvania, said companies don't require candidates to have a specific major, but they do want candidates to complete a four-year degree program.

"Most of the students are already in the property management field, and they are returning to upgrade some of their skills," Pitt said. "Some are good in the technical areas, but need help with finance. Others, the reverse. It's hard for someone to be well versed in every aspect of this field."

Real estate firms are putting a greater emphasis on higher education, said Granito. "There are some companies that won't even look at a candidate absent a bachelor's degree," Granito said. "There are still some companies that won't even look at a candidate absent a bachelor's degree."

Ten years ago, you wouldn't see that much at all.

Several universities have started real estate programs on both the bachelor's and master's degree levels. DePaul University in Chicago created the Center for Real Estate four years ago. The center offers various degree and certificate programs related to the real estate industry. Its courses are in great demand from full-time students as well as older professionals who attend school part time to upgrade their skills, said Jonathan Dombrow, a professor at the center.

"It's really taking off," Dombrow said. "Our classes are always packed."

Clarke said while the evolution of the field has brought about challenges, she is enthusiastic about the profession's future. She said bright, talented people will continue to pursue careers in property management and push the profession forward.

"I think there is still a view out there that property management is just a custodial function, and it's not," Clarke said. "It's truly a career, and it can be incredibly challenging, rewarding and lucrative if you're successful at it."

Darnell Little is a contributing writer for JPM. Questions regarding this article can be sent to kgunderson@irem.org.
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When North Carolina authorities raided a 300-unit apartment complex in Charlotte, N.C., and arrested a resident for producing the highly noxious drug methamphetamine, the dwelling's fee manager was faced with a legal and health entanglement that months later still has not abated.

"We had no idea this was going on," said Adam Ford, vice president of operations at Crosland Inc., the raided property's fee manager. "Like a lot of issues, you don't pay particular attention to the details until you have to, and that was very true in this case. We didn't know how to deal with this right out of the gate."

As the use of methamphetamine—commonly referred to as meth—increases across the country, more property managers are faced with challenges relating to the drug, particularly the financial, legal and health implications stemming from meth labs being set up and dismantled on their properties.

An explosive problem
Apartment complexes, hotels and other sites attracting transients are havens for the growing meth problem: Half of all clandestine meth labs are found on rental properties, according to information from the National Multi Housing Council and National Apartment Association.

"Meth labs are portable and they can be small, so an apartment is an easy place to hide them," said Barbara Vassallo, the National Apartment Association's vice president for government affairs. "In an apartment, you're kind of unknown. There's a level of privacy involved."

Nationally, the number of meth labs seized by federal officials rose from 6,700 in 1999 to more than 9,900 in 2004, according to data from the U.S. Drug Enforcement Administration. The drug reaches far beyond the borders of its western, rural origins, and it knows few demographic or economic limitations.

"Anyone who has a recipe and some lab equipment can manufacture it, so there's the potential to make a lot of it," Vassallo said. "[Meth] is a hot drug on the streets, and it's addictive after the first use."

Meth users can snort, smoke, inject intravenously or orally ingest the drug for a hit.

Ford, the North Carolina property management executive, said he was surprised a meth lab was operating at one of his company's higher-end, more upscale apartment complexes. He declined to identify the property.

"This was one of our 'A' properties," Ford said. "In the media, I think the majority of reports have been out of rural areas. Our perception was that
this was a lower-income demographic issue. It's probably more our perception than perhaps reality that it's an issue for lower-income people.”

**Detecting meth**

Despite the speed with which meth has spread—and all the publicity surrounding it—many property managers are still unfamiliar and unprepared to detect and deal with the drug.

“Our members have not necessarily been instructed what to do,” Vasallo said. “It’s not as though there are drug dealers on the corner [with] bags of coke. It’s something that’s much more clandestine. There aren’t a lot of signs there is criminal activity going on, so it takes a property owner by surprise.”

Regardless of the concealed nature of cooking meth, property managers can look for signs of meth use on their properties. “Cooking” meth—also called crystal meth, ice and glass, among other names—involves the assembly of readily accessible household goods, like lithium batteries, coffee filters and aluminum foil.

Some of its ingredients—pseudoephedrine, ethyl and grain alcohol, paint thinner, vinegar and cooking oil and others—are just as common and seemingly innocent. But when cooked, the combination of ingredients creates volatile compounds that can explode.

Strong odors like the smell of ether, ammonia, acetone, other chemicals or the strong scent of fuel are clues meth production is taking place, according to information provided by the Boulder County, Colo., public health department.

Suspicious behaviors like blacking out windows, paying rent with cash and dumping excessive trash including items like beakers, neon-stained coffee filters, over-the-counter drug containers also imply meth is being produced on a property, according to the health department’s information.

Ford and residents at the Charlotte property didn’t recognize any signs of meth use until authorities arrived to make an arrest. He said property managers should be aware of signs indicating meth is being produced on their properties. Catching the problem sooner than later is important, he said. Crosland employees now receive detailed information on what to look for and how to respond.

“The more manufacturing or cooking that’s done within a unit, the more chemical residue is created and the more physical damage is done,” Ford said. “We’re in the business of providing a habitable place for people to live, and that’s compromised from an illicit drug operation taking place in one of our units. That’s not good for marketing our property, and that’s not good for our residents.”

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**Lessons Learned**

Situation: Cliff Hockley, CPM, was presented with a challenge when he discovered a meth lab on one of his properties. The lab was in a unit he rented to a friend’s daughter without completing a tenant screening. Hockley said tenant screenings are essential to averting problems, including meth labs.

Outcome: Hockley spent about $8,000 testing the unit for toxic residue, hiring professionals to clean the property and replacing carpet, the refrigerator, baseboard heaters and the cooking range. Hockley was reimbursed, however. He collected the money from the tenant’s father, the co-signer on the lease.

Lessons Learned: Hockley said he won’t rent without screening a tenant again: “It’s all about tenant screening. When we screen, we don’t have this problem.”
Cleaning house

While detecting meth may not be straightforward, the cleanup process can be just as challenging because—from hiring cleanup crews, to abiding by local statutes, to comprehending hazardous waste testing—so much must be considered, said Colleen Brisnehan, an environmental protection specialist with the Colorado Department of Public Health and Environment.

"It can be very confusing for the property managers," she said. "Understanding the cleanup requirements can be really overwhelming."

The environmental effects of meth cannot be easily contained. Its highly toxic byproducts, like phosphine gas, are prone to seep into carpeting, wallpaper and other porous surfaces. They can easily contaminate the hallways and other public spaces where unknowing residents can fall ill from fumes or burn their skin on chemical residues sticking to walls.

No national standards for remediation exist, and cleanup requirements differ from state to state and municipality to municipality. Checking in with the local health department or buildings department to determine if local programs exist for guidance or are in fact mandated is important, Brisnehan said.

Information from the Colorado Department of Public Health and Environment's meth lab guidance report suggests cleanup should include airing out the property, gross cleanup, removing visibly contaminated items like toilets and sinks, detergent-water washing, treating ventilation systems, encapsulating or sealing interior surfaces with oil-based paint, removing personal belongings and paying attention to plumbing.

Properly trained and equipped law enforcement and hazardous cleanup teams, not the property's typical maintenance crew, should handle the remediation, said David Ausiello, public affairs specialist with the U.S. Drug Enforcement Administration. He said having untrained people attempting to decontaminate the toxic area could be deadly.

Brisnehan said property owners are typically responsible for hiring contractors to decontaminate the unit or property. She said some states provide lists of contractors for hire or contractors certified particularly for meth lab cleanup.

Remediation expenses on average cost between $2,000 and $3,000, according to information from the Drug Enforcement Administration. Those costs don't include testing or losses in rent from being unable to rent out the unit. Cleanup expenses for the Crosland unit in Charlotte are likely to cost more than $5,000, Ford said.

He said he isn't optimistic the resident involved with cooking the meth will be able to foot the bill. Further, the cleanup and decontamination of the apartment is likely to take more than...
two months, he said, making the unit uninhabitable—and useless as a revenue generator—for the foreseeable future. He said he is concerned about the long-term implications of the situation.

"There are always questions about what continued liability the owner may have and what marketing issues or challenges may arise as a result of a cleanup," Ford said. "We haven't seen what the cleanup entails, but if there are people in Hazmat suits working in and around the unit, it raises questions from existing residents and from prospects of what exactly has gone on. They wonder if there is some continuing safety risk."

Clearing up confusion

The Crosland unit in Charlotte has already been unoccupied for nearly six months and has yet to be cleaned. Ford said the company has hired a contractor for the cleanup, and the unit is scheduled to be cleaned in the next couple months. He said the newness of the problem for property managers and public and health officials has contributed to the confusion.

"Quite honestly, depending on the municipality, the local health departments may be dealing with this for the first time or haven't dealt with it very often," Ford said. "People you potentially look to for guidance and experience may not have that yet."

Following the arrest at the Crosland property, Ford said the company was at odds with the health department over whether to immediately shutter the apartment with new locks for the decontamination process or to begin the 30- to 45-day eviction process, mandated by the state's housing laws. Crosland executives opted to begin the eviction process for fear of being held liable for violating the terms of the lease.

In 2004, North Carolina officials enacted legislation giving property managers guidance detailing the cleanup and decontamination process. But Ford said state legislators failed to ensure community safety and health standards coincide with landlord tenant laws—a major problem when deciding how to handle decontaminating a meth lab.

"The bottom line is we want to help, and we want to clean up," Ford said. "But we're stuck based on our lease obligations, and we won't violate those. Leases are the holy grail of property management."

Lacking legislation

Nationwide, inconsistent or nonexistent state and federal legislation guiding multi-family apartment owners and managers dealing with meth labs and the aftereffects on their properties leaves many property managers exposed to lawsuits, said the National Apartment Association's Vassallo.

"How clean is clean after there's been a meth lab in a unit?" she said. "That's the central issue because it's a liability issue for our members. If they don't make a unit clean enough, down the line there could be liability if someone becomes ill from exposure to the residual contaminants in meth. Property owners want standards. If you look at lead-based paint and asbestos—the two common ones—there are national standards."

By her last count, Vassallo said 40 states had either considered or adopted preventative laws aimed at regulating sales of over-the-counter

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Methamphetamine labs stink: Warning signs labs exist on property

- A large amount of cold tablet containers listing ephedrine or pseudoephedrine as ingredients
- Jars containing clear liquid with a white or red colored solid on the bottom
- Jars labeled as containing iodine or dark shiny metallic purple crystals inside jars
- Jars labeled as containing red phosphorus or fine dark red or purple powder
- Coffee filters containing a white pasty substance, dark red sludge or small amounts of shiny white crystals
- Bottles labeled as containing sulfuric, muriatic or hydrochloric acid
- Bottles or jars with rubber tubing attached
- Glass cookware or frying pans containing a powdery residue
- An unusually large number of cans of camp fuel, paint thinner, acetone, staring fluid, lye and drain cleaners containing sulfuric acid or bottles containing muriatic acid
- Large amounts of lithium batteries, especially ones that have been stripped
- Soft silver or gray metallic ribbon (in chunk form) stored in oil or kerosene
- Propane tanks with fittings that have turned blue
- Occupants of unit smoking outside
- Strong smell of urine, or unusual chemical smells like ether, ammonia or acetone

Source: U.S. Drug Enforcement Administration
pseudophedrine, while fewer than 20 states took up the cleanup-standards issue.

State laws help, but they also confuse the issue, said Eileen Lee, the National Multi Housing Council's vice president of environmental issues. For example, the post-cleanup acceptable contamination levels vary in different states. Some state standards address only the residual meth level while others set acceptable levels for meth-related chemicals like mercury, lead and corrosives.

"Well-informed people disagree as to what an acceptable level is," Lee said. "If you're a national management company and you develop a plan for dealing with this, you need to be informed what the state requirements are."

Some states have enacted laws mandating managers or owners to fully disclose a property's use as a meth lab to prospective buyers or renters. More states are mandating such disclosure after managers complete their deconta-
mination efforts. These mandates might stigmatize a property without offering any public health benefit, Vasallo and Lee said.

**The road ahead**
Ford said Crosland is taking matters into its own hands, and executives have met with officials to improve legislation and remedy the clash between health and safety concerns and landlord tenant laws.

"As you're going through [this experience] you hope people who are first through the door try to work for the larger cause," he said. "If it's an isolated incident or perceived as an isolated incident, there is not the energy to make some changes. If everybody [responds like] that, we'll never get anywhere. We feel it's important to invest the time to communicate what we've gone through so the process can get smoothed out because we might be the ones who go through it the next time."

Despite Crosland's arduous and time consuming experience with the meth lab on its property, Ford said the company and its executives have learned some valuable lessons.

"It's a time sink for the property management staff, but it is like any other issue," he said. "It's a steeper learning curve than we would have hoped. In dealing with it, though, I think it will be handled more quickly and less painlessly next time around." 

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**STREETWISE:**
Drug carries alternative street names

| Bikers Coffee | Glass | Shabu |
| Chalk | Go-Fast | Speed |
| Chicken Feed | Ice | Stove Top |
| Crank | Methlies Quick | Trash |
| Crystal Meth | Poor Man's Cocaine | Yellow Bam |

*Source: U.S. Drug Enforcement Agency*

Allan Richter is a contributing writer for *JPM.* Questions regarding this article can be sent to kgunderson@irem.org

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**Baseball has Cooperstown, Football has Canton...**

Founded in 1967, the Servpro Industries, Inc. Franchise System is a national leader of fire, water mold and other specialty cleanup and restoration services. SERVPRO's professional services network of more than 1,300 Franchises respond to property damage emergencies ranging from multi-million dollar disasters, such as the Pentagon, to those suffered by individual businesses and homes. Providing coverage in 48 states, SERVPRO has established relationships with major insurance companies and commercial clients, as well as individual homeowners.

In 1988, SERVPRO moved the corporate headquarters from Sacramento, CA to Gallatin, TN. This was a strategic move to place the new location within 600 miles of 50 percent of the U.S. population and many SERVPRO Franchises. Following tremendous growth in the late 1990's, Entrepreneur magazine named SERVPRO #1 in the restoration industry in 2004 and 2005. In April 2005, SERVPRO moved to a new 166,800 sq. ft. building in Gallatin. The state of the art building houses a newly designed training facility, National Call Center and much more to meet the increasing growth of the franchise system. SERVPRO's trained Franchise professionals are available 24-hours a day, 365 days a year to help you get your life back.

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Jan/Feb 2006
Property managers are as valuable as the properties they keep or rather, the knowledge they keep about their properties.

A panel of leading real estate executives discussed the valuable role property managers play in the acquisition and disposition process at the “Capital Markets” session offered during the 2005 IREM Education Conference in November.

They advised property managers to be informed not only about their individual properties but to be aware of the state of surrounding markets: Having such knowledge, panel members said, maximizes the value of properties as well as strengthens the relationship among property managers and other real estate team players, including owners, leasing agents, asset managers and vendors.

“As property managers, you have to almost take the bull by the horns and be the clearinghouse of all the disciplines that come to your property whether it’s leasing, whether it’s vendors coming to your building, whether it’s dealing with the ownership,” said Vince Ciavarella, CPM and president of commercial property services for Sares-Regis Group, AMO. “The property manager is that person in my opinion that pulls it all together, that takes responsibility and is challenged to not only know [his or her] property but to know the market and all the players in their market.”

The panelists specifically mentioned property managers’ abilities to raise rents and maximize their skill sets to add value to real estate transactions.

Raising the rent

With the market on an upswing, panelists said property managers should be prepared to raise rents: All property types’ occupancy rates are improving year over year; rents are improving for some property types year over year; and all signs are positive for leasing with moderate growth and rising interest rates, according to information from CB Richard Ellis.

“You don’t have to give away as much as you did,” said Darla Longo, executive vice president for CB Richard Ellis’ institutional group. “It’s becoming a landlord market and not a tenant market, so when those tenant rep brokers come in, and they ask for their full pop, you can push back now and save your owners a lot of money. It’s a shift.”

Jim Walsh, managing director of the JPMorgan Fleming real estate asset management group, said it’s important for property managers to follow the market and understand the prime times to raise rents—a key component to their job, making them important to the rest of the real estate team.

“Life in our industry is cyclical,” Walsh said. “We believe you make money on the way up and the way down,
positioning yourself to outperform the market. You can’t outperform when things are flat and you are making market deals. The most important thing for property managers and leasing agents is to try and figure out when to raise rental rates—when they can push those rental rates so we can maximize the values of the properties.”

Longo said the time to raise rent is now, when the market is transitioning from a recovering market to an expanding market.

"Rents are improving," Longo said. "I think the message is don’t be afraid to raise the rent. We notice when it’s in a transition phase, ownerships that have gone through a lot of pain in leasing are maybe a little reluctant to push the rents as much as they could."

Walsh said property managers need to be proactive when it comes to raising the rent, enhancing the value of the property and the value of the property manager to the owners or investors.

“This is where we need property managers to push the rates,” he said, “and one of the best strategies we have had is to keep pushing those rates until we start losing deals. Until you start losing deals, you don’t know you’re at the top rental rate in the market.”

**Maximizing skill sets**
Because property managers can have a direct effect on property values, finding qualified and knowledgeable property managers is important to owners and asset managers, the panelists said.

“"To get good property managers—they’re like gold to me," said Jean Murphy, vice president of acquisitions for Argus Realty.

She said the insightful information property managers can provide regarding a property is invaluable: They can best demonstrate a property’s true worth and relay whether a property is an asset or how it can become an asset.

“I talk to the property managers when I’m underwriting deals,” Murphy said. “They can help you in a lot of ways, and they understand the expenses. The property managers are there on a day-to-day basis with the tenants, with the properties: They have the most knowledge of anybody, including the asset managers.”

Walsh said accurate and complete information from property managers gives investors the competitive edge

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**Darla Longo, executive vice president, CB Richard Ellis institutional group**

During her 26 years as a real estate professional, Darla Longo has been involved in more than $9.2 billion in real estate transactions, including $5.2 billion in investment sales. In 2001, Longo was the top producing sales professional in Southern California and among the top ten sales professionals in the nation, making her eligible to be in the Colbert Coldwell Circle, an elite group comprised of the top 3 percent of producers nationally. Longo was the first woman elected to serve on CB Richard Ellis’ board of directors in 1993. She served on the board until 1995. In 2002 she became an executive vice president. Only 14 sales professionals were awarded this title worldwide. She is also leader of the CB Richard Ellis national industrial team and the Southern California industrial regional team.
they seek. He said property managers also benefit from gathering quality information—often getting hired by the new investor.

"What we’re looking for is that little nugget of information that is going to give us a pricing advantage," Walsh said. "Maybe they know something about the lease structure. We need to know what new construction is going on in the market—what buildings compete with that particular building: Those are the things—when we make our first call to our property manager—we expect them to know. We usually hire the property manager and leasing agent who helped us with our due diligence."

Investors welcome continuity and keeping existing property managers on board if they prove valuable. They said property managers should market themselves by being resourceful and knowledgeable when investors come to them with questions.

"I would love to recommend the existing property managers," Murphy said. "It's just much easier for us if we keep the existing property manager. I like when I meet property managers and they can tell me all about the expenses and all about the tenants and all about the spaces and what's gone on. If you switch property man-

"What we’re looking for is that little nugget of information that is going to give us a pricing advantage." Jim Walsh, managing director, JPMorgan Fleming real estate asset management group

agers, there's something that gets lost. It's really important to have a good property manager and not all this turnover."

Panelists said property managers need to pay attention to all aspects of their properties and the surrounding markets to be a noticeable asset to investors. They said knowledgeable property managers who seek out and absorb information and understand investors' needs are irreplaceable.

"You can form your own opinions by gathering information," Ciavarella said. "What happens when you begin to do that is you really do form the partnership we all talk about. You need to have a good partnership among the owner, property manager, your leasing agents, your construction team, your vendors. We rely on the entire team to provide us with that information." □

Jim Walsh, managing director, JPMorgan Fleming real estate asset management group

Jim Walsh is responsible for the management, leasing and ongoing development of real estate assets for JPMorgan Fleming, a division within JPMorgan with more than $25 billion of office, retail, multi-family and industrial assets under management. He was formerly the portfolio manager for the TREET/L-TIT core and opportunity fund investments. Walsh was a senior asset manager for ten years—responsible for various assets in the commingled funds and non-Erisa separate accounts. He joined JPMorgan in 1984 as the chief financial officer for two foreign owned U.S. real estate portfolios. Prior to joining JPMorgan, he was the vice president of finance and accounting for a foreign owned real estate investment advisor and a CPA with Coopers & Lybrand.

Jean Murphy, vice president of acquisitions, Argus Realty

Jean Murphy has more than 12 years of commercial real estate experience in insurance, property management, asset management, debt and equity financing, joint ventures, client relations and acquisitions. She has coordinated due diligence, disposition of assets and managed the underwriting of more than $4.5 billion of property. Murphy has held senior positions in both public and private companies. Most recently she served as West Coast acquisition officer for Cabot Industrial Trust, a national industrial public REIT. She acquired more than $285 million of institutional quality properties totaling 4.6 million square feet in 24 separate transactions in less than three years. When sold, these acquired assets contributed to more than $50 million in profit to Cabot Investors.
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Yielding
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Removing the human factor from pricing may boost revenue
by Emma Johnson

The human touch is irreplaceable in some areas of property management. Rental pricing is not one of those areas, said industry insiders who see yield-management software as the future of the multifamily housing market.

"Previous to going with the technology, pricing was decentralized, and a lot of it was based on intuition and gut feelings," said Bryan Hilton, vice president of revenue management for Denver-based Simpson Property Group, which currently uses the software. "Because of the complexity in pricing, you really need a tool tailored to help make [pricing] decisions."

Yield-management programs calculate historical lease data and current market force information to determine pricing on a daily basis. Two software programs designed for the real estate rental industry are on the market today, and a few large property management companies are using the programs.
REVELATION TAKES FLIGHT

While using yield management software is not currently the industry standard, some say the buzz around the pricing tool may be the beginning of an industry revolution—much like the revolution in the airline, hotel and car rental world, years ago.

In the 1980s and 1990s, large hotel chains and air carriers began using the software to price out rooms and seats. In the 1990s, they started posting their prices online. Soon, third-party sites were collecting the data from various companies and publishing the information on a single site. The technology evolved into automated, Internet-based, real-time pricing sites like Hotels.com and Travelocity.

The software not only allowed hotels and airlines to fill rooms and flights, but it allowed them to book the spaces on an individual basis, at rates maximizing their profitability. Capable of measuring actual demand and forecasting future demand by considering buyer behavior, competitors' prices, seasonal patterns and other factors affecting sales, the software calculates the best and most accurate price point to deliver to consumers.

American Airlines saved $1.4 billion over a three-year period when it started using revenue management software.

"Pricing requires a mathematical framework: You need to put it into software so you can calculate rapidly, explore a lot of possibilities and come up with the one most likely to increase revenue," said Paul Davis, professor of mathematical sciences at Worcester Polytechnic Institute in Worcester, Mass. "Math guides the computer's ability to crunch a lot of numbers and [come to conclusions] that would be intuitively obvious to a human if the human had the time to go through everything."

OLD ISSUE, NEW TECHNOLOGY

While the real estate industry doesn't rely on yield management to the extent the travel industry does, the concept is a powerful tool, and its time has come for rental properties, said Donald Davidoff, group vice president of pricing and revenue management for Archstone-Smith, a publicly held apartment investment firm based in Denver.

Archstone has assets of nearly 90,000 units and owns the license for three-year-old Lease Rent Optimizer, the first of two yield management programs available for rental properties. Davidoff also oversees sales for Lease Rent Optimizer.

"Over the last five-plus years there's been a growing sensitivity to the notion that the old-school, gut-level, rule-of-thumb pricing may not give optimal results," Davidoff said. "[We started asking ourselves] 'Can we use price as a lever to get the right customer into the right property at the right price?'

Looking to sophisticated technology to drive up profits was a natural progression, Davidoff said. He said thoughts about rental properties began to shift with the proliferation of publicly held real estate investment trusts (REITs) and their fiduciary responsibility to prove quarterly profits.

"It used to be that everyone made money on real estate deals, and operations were sort of the necessary evil," Davidoff said. "Now operating services are designed to make a profit on a day-to-day basis—not just in the buying and selling of real estate."
RealPage, a software company based in Carrollton, Texas, launched YieldStar—the second yield-management product to become available for the multifamily housing industry—in May of last year. The product is marketed to properties with at least 100 units.

Jeffery Roper, YieldStar president, said yield-management technology for apartments is still in the early adoption phase. He said he expects the technology to take five years to hit a 50-percent market penetration.

Lease Rent Optimizer and YieldStar presently have about three clients each. All are large management companies. Yield-management software costs up to $3 per unit per month, or $2,400 per year, depending on the product.

**PROPERTY MANAGEMENT MEETS YIELD MANAGEMENT**

Simpson Property Group invested in Lease Rent Optimizer two years ago, when it hired Hilton, a travel industry veteran. Hilton said he saw the power of yield management software while working for Budget Group car rental company for 16 years. The travel industry’s success, he said, influenced Simpson’s decision to invest.

“We knew revenue management was successful in other industries,” Hilton said. “We are fairly forward-thinking when thinking about technology and increasing our revenues. Coming up with consistency throughout our entire portfolio and basing pricing upon facts and not feelings, we felt like we could come up with some more pricing revenue.”

Hilton said the software is a valuable tool in the multifamily housing industry, as well as the travel industry, because it can consider so much data and so many factors more efficiently than a human.

The software is working 24 hours a day, seven days a week, monitoring current market trends and forecasting future market trends. It culls historical lease data up to five years back and factors in criteria like the competition’s rates and the unit’s location within the property to suggest unit pricing.

He said as the technology becomes more affordable and evolves, it will envelope all property sizes and its use will proliferate.

“You need the assistance of a software product to take everything into account that you should be taking into account—from expiration management and different unit types to competitors and seasonality,” he said.

**GROWING PAINS**

Like with any other major change, investing in yield-management software is not without a painful learning curve. Property managers may become resentful when the power to price is no longer in their grasp. However, companies like Simpson Property Group report on-site managers eventually warm to the concept.

“We’ve taken a lot of stress off the frontline level,” Hilton said. “In the future I don’t see how anyone is going to function without it.”

Tom Shuler, chief executive officer of Atlanta-based Berkshire Properties Advisors, is more conservative in his outlook for the trend. He forecasts that although economies of scale will make the technology more affordable in the future, it will still be practical only for large property owners.

> "You need the assistance of a software product to take everything into account that you should be taking into account—from expiration management and different unit types to competitors and seasonality." —Bryan Hilton, vice president of revenue management, Simpson Property Group

The current programs require frequent, thorough manual updates to ensure optimal results. Such a commitment requires training front office staff to use the software and designating employees to update it weekly, which is critical to ensuring accurate pricing.
"The smaller guy starts losing economies of scale," Shuler said. "There are owners out there who are only interested in occupancy and are happy to give residents a $5 rent increase per year. They're forgoing revenue to have a simpler way of life. A professional management company needs to balance revenue with occupancy. You really need to be big enough to be [immersed] in the idea of profitability to embrace and use [yield-management software] to its true potential."

"...the beautiful thing about software is that it's not emotional." —Donald Davidoff, group vice president of pricing and revenue management for Archstone-Smith.

For now, most multifamily housing managers continue to use the tried-and-true method of pricing: A property manager looks at supply and demand, factors in market forces, shops competitors and prices rental units according to comparable floor plans.

**NUMBERS SPEAK**

Proponents of yield-management technology believe the potential returns justify the investment. Updating prices daily can have real advantages. Rental prices can vary as much as $20 overnight, 6 percent per month and 18 percent over a year, according to Lease Rent Optimizer's Davidoff. He said good market conditions are necessary for that to occur.

Davidoff cites two cases in which the software paid off. At a Washington, D.C., property with 99 percent occupancy, the software picked up subtle market changes undetectable by most humans, and then projected a dip in demand and suggested slashing prices. Similarly, when an Austin property experienced a tough rental market, despite its trepidation, management raised rents at the prompting of the yield-management software. In both cases, the counter-intuitive price changes were profitable, Davidoff said.

"A lot of people started getting nervous," he said, "but the beautiful thing about software is that it's not emotional."

Hilton said some of Simpson's properties have been using the software between one and two years. He said the company has seen between 2 and 4 percent pickups above what the market has been doing.

Roper of YieldStar saw his yield-management product kick in immediately after Hurricane Katrina hit the Gulf Coast. His company's software instructed Houston properties to hike prices by 10 percent. The property managers, however, ignored the proposed higher prices.

"It responded aggressively to spikes in demand that were unprecedented," he said. "[Hiking the prices] would have been an uncharitable response to that crisis."

**THINKING OUTSIDE THE SOFTWARE BOX**

In spite of yield-management success stories, not everyone accepts the technology. Len Frenkil, CPM, executive vice president of Washington Place Management in Baltimore, is not convinced the latest software is worth the investment for a smaller company like his, which oversees about 5,000 units.

He chose to employ a software developer in hopes of cre-
ating a more affordable, customized product. While the larger REITs are plunging into the new technology, Frenkil said among his peers at smaller properties, he hears very little discussion about yield management.

"The industry is clearly behind the curve as it relates to technology and other management advances used in other fields," he said. "We're a bit parochial: In the last couple of years people are happy to have e-mail at their properties."

Representatives from Tarragon Management, based in New York, said they saw a jump in net operating income from 2003 to 2004, after hiring a yield-management expert—not a software program.

Tarragon, which manages about 18,000 units, made changes like training frontline staff on basic investment theory, implementing lease-expiration management and bumping up vacate notices to 60 days in some states. The company also created spreadsheets allowing property managers to more thoroughly scrutinize pricing.

Eileen Swenson, Tarragon president, said her company chose a consultant over software when it looked at yield management in 2002 because the technology seemed immature at the time. She is unsure whether the company will seek yield-management software in the future.

"We feel the programs we have in place work very well, but you never know," Swenson said. "You do have to keep up with technology."

**LOOKING AHEAD**

As the technology advances and prices decline, some sources believe more properties will be motivated to invest in yield-management software. Simpson's Hilton is optimistic about the trend and anticipates Internet-based, real-time pricing consolidated on a single Web portal—much the way travel giants Expedia, Travelocity and Orbitz consolidate real-time price data for hotel rooms and airline seats.

Similar sites could allow renters to view floor plans and photos, submit information for credit checks and sign a lease online—bringing the yield-management information full circle with a purchase reflecting the market value.

Shuler of Berkshire Properties Advisors has a more cautious view of the future. He doesn't see apartment buildings going the way of the hotel industry, in which small inns can compete with mega-chain hotels on travel Internet sites. Shuler expects such technology will remain the province of large properties and property managers. He believes small properties will continue to find and secure renters through traditional methods.

"People still physically go out and shop units. I don't think they're going to buy it like they would a sweater," said Roper of YieldStar. "This is a quality-of-life decision."

However, Roper said he foresees technology allowing those in-person shoppers to return home, apply for and sign a lease via the Internet. He also said more individualized pricing—like tying prices to credit scores—is likely. He said investor pressure means larger properties will have no choice but to seek more sophisticated methods of generating revenue.

"I always marvel that we'll have $50 million in assets and manage it on the back of a napkin," Roper said. "As the industry continues to grow up, it needs tools."

Emma Johnson is a contributing writer for *JPM*. Questions regarding this article should be sent to kgunderson@rem.org.
Education conference wrap-up
2006 officers installed in Scottsdale

President
Fred W. Prassas, CPM, was elected IREM national president during the IREM Education Conference in Scottsdale, Ariz. in November 2005. Prassas is a principal in the PMC Management Group, which specializes in residential property management throughout western Wisconsin and eastern Minnesota. He has been in the real estate business since 1973 and is a licensed broker in Wisconsin, Illinois and Minnesota. He is an Institute faculty member and experienced in residential property management and consultation.

Prassas has volunteered for leadership positions with IREM as well as the National Association of REALTORS® (NAR®). He helped develop the Commercial Alliance Advisory Board, bringing together leadership from the 16 largest national commercial real estate firms and NAR and all its specialty affiliates to formulate a national policy of importance for commercial practitioners.

Prassas is a trustee of the Center for Urban Land Economic Research at the University of Wisconsin, Madison. He was president of the La Crosse Area Realtors Association in 1985 and the Wisconsin Realtors Association in 1992. He was named REALTOR® of the Year by both organizations.

Prassas earned a bachelor's of science degree in communications at Southern Illinois University and a master of business administration degree at the University of Wisconsin, La Crosse.

President-elect
Robert Toothaker, CPM, of South Bend, Ind., was elected 2006 president-elect of the Institute. Toothaker is chairman of Real Estate Management Corporation, AMO, as well as CB Richard Ellis South Bend, AMO. In addition to his active involvement in IREM, he is a charter member of the Indiana Commercial Board of REALTORS® and has served as president of the local chapter of the Building Owners and Managers Association. He was named the 2004 "REALTOR of the Year."

Toothaker is also active in civic and community affairs. He serves as a board member for the Housing Authority of the City of South Bend, the Studebaker National Museum and the Indiana Historical Society. He also is immediate past chairman of the Northern Indiana Historical Foundation and the Business Development Corporation.

Toothaker is a licensed real estate broker in Indiana and Illinois and holds a bachelor's and master's degree from Illinois State University.

Secretary/Treasurer
Regina T. Mullins, CPM, senior portfolio manager in Cushman & Wakefield's (C&W) Asset Services Group, will serve as the Institute's 2006 secretary/treasurer. IREM's Northern Virginia Chapter No. 77 named Mullins "CPM of the Year" in 1995. She served as chapter president in 1997. She was an IREM senior vice president from 2003 to 2005, a regional vice president in 2001 and 2002 and has chaired and/or served on IREM's membership, management plan, legislative and education committees.

Mullins has more than 23 years of asset and property management experience. Prior to joining C&W in 1997, she was a senior property manager at two different Washington, D.C.-area property management firms, where she was responsible for 18 commercial properties totaling more than 2 million square feet.

Mullins earned her Certified Commercial Investment Member (CCIM) Institute designation in May 2003. She is a graduate of National Louis University with a bachelor's of science degree in management.
Meeting Highlights

More than 600 IREM members came together at the Westin Kierland Resort in beautiful Scottsdale, Ariz., in November 2005 to attend the IREM Education Conference. The conference offered learning labs, discussion panels, a property tour of Kierland Commons and many opportunities to network with peers over golf and other social outings. More than 20 education sessions were offered on topics from capital markets and international trade to motivating your staff and disaster planning.

Plan ahead and join in on the fun next year: IREM will partner with CCIM to produce a joint conference in Tampa, Fla., October 20-21, 2006.

Governing Council approves new programs for 2006

IREM’s governing body—Governing Council—approved many new initiatives for 2006, including the following:

- IREM will create a new credential—the Accredited Commercial Manager (ACM)—especially for commercial site managers who manage smaller portfolios of at least 20,000 square feet. Certification is slated to launch by late 2006.

- IREM will move forward in researching a new certification for international condominium managers, and a business plan will be presented at the IREM Leadership and Legislative Summit in April 2006.

- The CPM and ARM codes of ethics will be combined into one code to carry a clear and powerful message to the marketplace that IREM members uphold the highest ethical standards. A draft of the new code will be posted on www.irem.org for member review and feedback.

- Additional funding was approved so IREMFIRST (For Information, Resources, Solutions and Training) will continue to grow and evolve.
Meeting Highlights continued

Carl Greene, CPM, receives J. Wallace Paletou Award

The IREM Foundation named Carl Greene, CPM, the 2005 recipient of the J. Wallace Paletou Award—the highest honor given by IREM and its foundation. Greene is the executive director of the Philadelphia Housing Authority.

The award is given to an individual who has made significant contributions to the real estate management industry or who has contributed to the betterment of society as a whole through property management.

As executive director of the Philadelphia Housing Authority, Greene leads 2,000 staff members in developing, acquiring, leasing and operating affordable housing for 79,000 city residents with limited incomes. Greene believes the economic viability of Philadelphia Housing Authority residents is largely dependent on education and training.

He began the Pre-Apprenticeship Program, a first-of-its-kind model in the United States. It helps public housing residents complete their education and gain skills needed to join a building trade union and make their way into the middle class, stabilizing and improving their neighborhoods.

Other training programs have focused on serving at-risk teenage students living in public housing, training landlords taking part in the Housing Choice Voucher (Section 8) program in partnership with IREM and a “Public Housing 101” course taught at Temple University.

Before achieving great results in Philadelphia, Greene was executive director of the Detroit Housing Commission, where he more than doubled that agency’s housing approval score in just three years.

Michael Simmons, CPM and 2005 president of the IREM Foundation, commended Greene on his work while presenting the award at the education conference in Scottsdale.

“Under Carl Greene’s direction,” Simmons said, “the PHA has become more than a housing authority. It has been transformed into a top-caliber housing authority with an entrepreneurial spirit—the only housing authority ever to achieve IREM’s AMO accreditation.”

Technology identified as top item on industry agenda

Incoming 2006 IREM President Fred Prassas, CPM, highlighted IREM’s scanning initiatives in 2005 and recapped the top four business challenges cited by our members:

1) Technology
2) Workforce Development
3) Business Competition
4) Risk Management

Governing Councilors were asked to prioritize these issues.

IREM Foundation officers elected

E. Craig Suhrbier, CPM, of Bellevue, Wash., has been elected president of the board of directors of the IREM Foundation for 2006. Serving with him as vice president is Robert Click, CPM, of Columbus, Ohio. Suhrbier is president of SUHRCO Management Inc., and CEO of SUHRCO Residential Properties LLC, and served as IREM’s president in 2001. Click is the senior managing director for the Columbus, Ohio, office of CB Richard Ellis. He oversees the activities of all the business units, including brokerage, corporate services, property management, leasing and construction.
International News

Japan chapter plans February conference
IREM Japan Chapter 110 in Tokyo will host its annual conference in February. IREM President Fred Prassas, CPM, and Russell Salzman, executive vice president/CEO, will participate in the conference at the Shinagawa Prince Hotel in Tokyo. Property tours and other activities are scheduled. All IREM members are invited to attend the conference. For more information contact info@irem-japan.org.

International members participate in IREM Education Conference
Thirty international members representing Canada, Chile, Japan, Poland and South Korea attended the 2005 IREM Education Conference in Scottsdale, Ariz., in November. A full schedule of events was designed specifically for the international representatives. Thanks to CPM members Ed Boudreau and Tony Pusateri, vice chairman of the 2005 International Affairs Committee, international members visited the offices of Capital Consultants Management Corporation, AMO, and the Equity Residential's national call center.

Poland chapter partners with property management federation
IREM Poland Chapter 108 has joined with the Polish Federation of Property Management Associations, a network of associations working collectively to elevate the status of property management in Poland and provide continuing education to the industry.

The partnership was announced at the federation's congress in Warsaw, Poland, in October. Tony Smith, CPM and former IREM president, discussed trends in property management and the impact they are having on the property management profession at the congress' opening session.

While in Warsaw, Smith also met with members of IREM's Poland Chapter to discuss the following topics:
- The recent offering of MKL405-Marketing and Leasing: Multifamily Properties, which was offered in September in Poznan and taught by Mike Packard, CPM
- Promotion of CPM members as professionals who add value to real estate investments, particularly with respect to commercial properties
- Continued plans for introducing new IREM courses in Poland
- The upcoming publication of Before Disaster Strikes in Polish

IREM leaders and international members gathered at a reception at the education conference. Thirty international members attended the conference.
International News continued

IREM signs trilateral education agreement
IREM's education and designation program will be delivered in the Ukraine—the result of a trilateral agreement signed by IREM, the Central European Real Estate Associations Network and the Ukraine Realtors Association during the network's 11th annual conference held in Kyiv, Ukraine, in October 2005. This is the first of what is anticipated to be several trilateral agreements involving IREM and the network.

The conference brought together more than 400 real estate professionals from throughout Central Europe, the United States, Canada and other European countries. Tony Smith, CPM and former IREM president, was one of the keynote speakers.

IREM leaders visit ExpoReal
Tony Smith, CPM and former IREM president, and Nancye Kirk, IREM vice president, attended ExpoReal in Munich, Germany, in October. The event is one of Europe's major trade expositions for the commercial real estate industry, attracting more than 18,000 professionals and over 1,400 exhibitors from 35 countries. Smith said ExpoReal is an outstanding venue for introducing IREM education and certification programs to the European real estate community. The 2006 ExpoReal will be the ninth International Commercial Property Exposition and take place in October in Munich, Germany.

IREM Foundation News

Hurricane Katrina relief fund grows
IREM members and others have donated more than $55,000—a jump from just over $40,000—to the IREM Foundation's Hurricane Katrina relief fund. The IREM Foundation has contributed an additional $25,000, bringing the Institute's total donation amount thus far to about $80,000. Contributions to the Hurricane Katrina Disaster Relief Fund—or to support other worthwhile programs underwritten by the foundation—may be made online at www.iremfoundation.org.

In Memoriam

Long-serving CPM leaves legacy
Robert B. Bell, Sr., CPM, and former president of First Realty in Chicago, died in September 2005.

Bell developed and managed real estate throughout Chicago's metropolitan area. He was influential in developing, managing and leasing West Loop and Lincoln Park neighborhoods. His children established the Robert B. Bell Sr., Real Estate Chair at Marquette University's business school in 2001, as part of the school's developing real estate program.

The Bell Real Estate Center at the university is named in his honor and has a mission of reaching out to urban centers to foster responsible real estate professionals and to build a strong real estate academic program combining the disciplines of architecture, law and real estate.

Bell became a CPM in 1946 and was involved with the organization for nearly 60 years.
Career Moves

- Maria Pressley, CPM, joined Conrad Properties Corp., as general manager of the Metro Lofts apartments in St. Louis. Prior to joining Conrad, Pressley was a property manager for EICON Properties.

- Gerald (Jerry) Worley, CPM, joined Coldwell Banker Commercial CRA LLC as a senior property manager. Worley has more than 33 years of experience in the real estate industry.

- Trammell Crow Company, AMO, hired Donald J. Wloszek as facilities manager for St. Joseph Mercy Oakland. Wloszek formerly managed maintenance services for St. John Health in St. Clair Shores, Mich. His appointment follows the partnering of Trammell Crow Healthcare services with St. Joseph Mercy Oakland to provide engineering and facility management for the hospital’s 1 million square-foot campus.

Awards

The IREM Boston chapter gave out the following awards to members and companies making outstanding contributions to the advancement of the Institute in 2005:

- Doreen Donovan, Corcoran Jennison Management Company, CPM of the Year
- Rob Crowley, Peabody Properties, ARM of the Year
- Kevin Casey, Hobbs Management, CPM candidate of the Year
- Patricia Ivatts, Twinbrook Insurance Agency, Friend of the Year

Landing the Deals

- Divaris Real Estate Inc., which comprises Divaris Property Management Inc., AMO, announced several recent deals:
  - Capital Club of Shockoe Slip LLC leased 10,201 square feet of office space in the Bank of America Center office building in Richmond, Va.
  - Zaugg Financial leased 1,945 square feet of office space in the Huff, Poole and Mahoney office building in Virginia Beach, Va.
  - Terraforms Inc. leased 2,128 square feet of office warehouse space in Independence Business Center in Virginia Beach, Va.

- ContraVest Management Co., AMO, made several recent business transactions:
  - The company sold its 280-unit Courtney Oaks Apartment property in Charlotte, N.C. for $26,650,000 to Sagebrush.
  - It also sold its 192-unit Courtney Park Apartment community in Lake Worth, Fla., for $31,070,000 to CAPREIT.
  - The company completed its $14.7 million, 238-unit Colonial Grand at Silverado Apartment property in Austin, Texas.
  - It also completed its $6.1 million, 84-unit Legends at St. Johns condo project in St. Augustine, Fla.
  - It also completed its $14.7 million, 380-unit Williams Walk at Bartram Park Apartment project in Jacksonville, Fla.

- Trammell Crow Company, AMO, announced several recent deals:
  - Blue Rock Technologies Inc. leased 5,582 square feet at the Kirks Office Park in Troy, Mich.
  - Crossfire Group LLC leased 1,072 square feet at the Concorde Center in Auburn Hills, Mich. Hollywood Software also leased 1,203 square feet of office space at the center.
  - Top Flight Financial leased 2,264 square feet of space at the Mark Plaza in Southfield, Mich. Delta-T also leased 1,120 square feet of space at the center. TRC Health Care leased 1,238 square feet in the plaza as well.

- Charles Dunn Company, AMO, sold a Los Angeles multifamily property consisting of two 14-unit buildings for approximately $4.8 million to YHB Oxford LLC.
## Course Listings

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**COURSE CODES KEY**

- ASM603: Investment Real Estate Financing and Valuation - Part One
- ASM604: Investment Real Estate Financing and Valuation - Part Two
- ASM605: Investment Real Estate Financing and Valuation - Part Three
- BDM601: Maximizing Profit: Growth Strategies for Real Estate Management Companies
- BDM602: Property Management Plans: The iREM Model
- CPMEXM: CPM Certification Exam
- CPM001-CPM: Certification Exam Preparation Seminar
- ETH800: Ethics for the Real Estate Manager
- FIN402: Investment Real Estate: Financial Tools
- HRS402: Human Resource Essentials for Real Estate Managers
- MKL404: Marketing and Leasing: Retail Properties
- MKL406: Marketing and Leasing: Office Buildings
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Lead wars

Lead-based paint presents property managers with slew of problems

by Kristin Gunderson

More than 80 percent of all housing built in the United States before 1978 contains some lead-based paint on the interior or exterior—leaving property managers with cleanup, public health and litigation concerns.

Cause for concern

Since the 1980s, the Environmental Protection Agency has focused on removing lead from gasoline, reducing lead in drinking water and banning or limiting lead used in consumer products. The dangers of lead and the high number of lead-poisoned children—the demographic most susceptible to poisoning and its lethal effects—prompted the agency to take action.

"If there is one child with lead poisoning, that’s a concern,” said Enesta Jones, an agency spokeswoman. “It is our job to work with partners in reducing lead poisoning in children.”

Children with high levels of lead in their bodies can suffer from damage to the brain and nervous system, behavior and learning problems, slowed growth, hearing problems and headaches.

Jones said through education and outreach, the number of lead-poisoned children has decreased. Nearly 4 million children had elevated blood-lead levels in 1978. By 2002, the number of children with elevated blood-lead levels had decreased to 310,000, according to information from the agency.

“If you look at the numbers, the success speaks for itself,” Jones said. “And that number continues to drop. We’re not resting on our laurels: There is more we can and will do to further reduce that number.”

Law school

With the passing of the Residential Lead-Based Paint Hazard Reduction Act of 1992—Title X, lead legislation has greatly impacted the decrease in lead poisoning in children. At the same time it has drastically affected property managers.

A major purpose of the federal statute is to develop a national strategy to eliminate lead-based paint hazards. It requires owners and occupants of most pre-1978 housing be provided with information concerning potential hazards of lead-based paint exposure before certain renovations on the property begin, and it mandates disclosure of the possible presence of lead-based paint on a

Abatement Guidelines

Abatement is often a last resort because of its costly nature. If abatement becomes necessary, however, finding a good licensed contractor is key. Ensure the contractor is working safely and properly and following the guidelines below when performing the four types of structural abatement—replacement, encapsulation, enclosure and paint removal.

<table>
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<th>METHOD</th>
<th>WHERE IT IS BEST USED</th>
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<tbody>
<tr>
<td>Replacement</td>
<td>• Windows, doors and moldings</td>
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<tr>
<td></td>
<td>• Any other easily removed component</td>
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<tr>
<td>Encapsulation</td>
<td>• Walls, ceilings and trim</td>
</tr>
<tr>
<td></td>
<td>• Curved surfaces</td>
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<tr>
<td>Enclosure</td>
<td>• Floors, pipes, ceilings, exterior trim, etc.</td>
</tr>
<tr>
<td>Paint Removal</td>
<td>• Loose paint</td>
</tr>
<tr>
<td></td>
<td>• Should not be used as a removal method for large areas</td>
</tr>
<tr>
<td>Wet Scraping</td>
<td>• Restoration of historic pieces</td>
</tr>
<tr>
<td></td>
<td>• Doors, mantels, metal railings and trim</td>
</tr>
<tr>
<td>Off-Site Chemical Stripping</td>
<td>• Metal substrates</td>
</tr>
<tr>
<td></td>
<td>• To clean residue left by other methods</td>
</tr>
<tr>
<td>Solvents</td>
<td>• Flat surfaces</td>
</tr>
<tr>
<td></td>
<td>• To soften thick layers of paint (should not be operated above 1,100 degrees Fahrenheit)</td>
</tr>
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</table>

Source: Environmental Protection Agency
property when selling or renting residential property built before 1978.

The law also mandates people working at the ground level, like maintenance personnel, receive lead-safe work practices certification to remove lead-based paint through an eight-hour, HUD-authorized class. It also requires those who supervise the work to take a five-day, 40-hour class regarding lead-based paint removal. The Environmental Protection Agency established the course for contractors who abate, demolish or rehab residential buildings.

Even though the statute is aimed at properties receiving federal money for their properties, Marvin Fleschman, a property management consultant, said all property managers and owners are affected by the legislation and will more than likely be held accountable if one of their tenants or residents gets lead poisoning.

"I don't care whether you legally have to do it," Fleschman said. "If you have a kid who gets lead poisoning [in your building], you're going to get into one heck of a lawsuit. If you haven't [been using lead-safe work practices], you have no defense."

**Peeling away the problem**

With such serious implications, property managers need to take cleanup and removal seriously. Fleschman said being proactive and not letting a problem get out of control is important. He said the first line of defense is controlling any flaking or peeling.

"Keep the property in good condition," he said. "As soon as [property managers] have a problem, they have to get in there and take care of it immediately so that it doesn't become a huge problem."

To prevent accumulation or development of lead dust, avoid dry scraping or sanding most lead-painted surfaces. Wet scraping areas by misting the surface with water is suggested by Environmental Protection Agency information. Also, control dust while working on lead-painted surfaces.

To control dust on uncarpeted floors, mop with damp or wet sponges or string-type mops and an all purpose cleaner. Vacuum cleaners are effective if no visible dust or debris from chipping or flaking is present. Don't use mops with a scrubber strip or powered buffing or polishing machines.

Wet scubbing and steam cleaning are acceptable cleaning methods for carpeted surfaces. Vacuuming with a standard sweeper is ok if debris from chipping or flaking paint is not visible. Cleaning walls calls for wet soft cloths and all purpose cleaner or cleaner made specifically for lead. Do not use steel wool, scouring pads, abrasive cleaners or solvent cleaners that may dissolve paint.

Following simple guidelines and proper upkeep can help property managers avoid abatement—stripping everything down to the framework and permanently containing or removing lead hazards. Abatement is expensive and calls for a licensed contractor.

"The goal is to avoid abatement," Fleschman said. "It's a huge cost that would put most apartment owners out of business."

Lead-based paint in good condition is not usually hazardous, according to information from the Environmental Protection Agency. Jones reiterated cleanup and disposal are important.

"You don't want to put a Band-Aid on [the problem]," she said. "You want to be really careful that [cleanup] is done properly because there could be an outgrowth of other environmental issues."
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