SPECIAL REPORT: After Disaster Strikes
Property managers offer coping strategies for disasters

Insuring Disaster
Changing insurance industry often leaves property managers blowing in wind

Property Managers Convert
Property managers buy into condominium conversion craze

Cost of Compliance
Proposed changes to Americans with Disabilities Act impact industry

Common Interests
Tenancy-in-Common proves a viable option for managers and owners

Coming to terms
Property management agreements require scrutiny

In general, specialize
Property managers need niche

Evaluating the ethics toolbox
IREM assesses codes of ethics

NEXT ISSUE
Technology In Focus
It’s a big universe. Someone has to change the lightbulbs.

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We’ll make your business shine.
Collaboration leads to returns for all

One of the most rewarding aspects of belonging to a professional association is seeing collaborative ventures come to fruition. I have collaborated with other members on both business ventures and IREM initiatives over the years, and everyone has enjoyed the benefits.

For example, when a client approached me about resort management—an area where I had no prior experience—I turned to a fellow CPM with resort expertise, and we embarked on a joint enterprise. In the same vein, collaboration on a larger scale inevitably delivers big returns for all. By coming together as an organization and pooling our strength, we can achieve significant IREM milestones.

Our annual Capitol Hill visits epitomize the considerable influence we have as a collective association. In 2005, our persistent lobbying efforts led to the passing of new legislation pertaining to bankruptcy reform, tort reform and energy, which will help all IREM Members improve their bottom line and achieve long-term success. Legislation impacts our business in so many ways: I urge you to get involved in Capitol Hill Visit Day this year and make a difference.

Using our collective power, we have also identified four critical issues driving the industry's agenda: technology, workforce development, business competition and risk management. IREM engaged in a year-long scanning initiative in 2005, where members offered input on key trends affecting their businesses. The Governing Council has prioritized and defined these critical issues in hopes of addressing members' needs. Enclosed is a supplement examining these four issues and outlining the steps we can take to address these challenges head-on.

The fruits of collaboration extend far beyond the United States. Our ongoing alliances with international chapters and partners bring us closer to becoming a truly global association setting industry standards worldwide. We have worked closely with our Japan Chapter No. 110 to strengthen IREM's presence in Japan and as a result, our CPM membership there grows steadily year after year.

I know from personal experience that continually seeking out opportunities to collaborate with our fellow IREM Members, as well as those from other associations, inevitably leads to rewards for everyone. Let's work together and maximize these opportunities so we can all reap the returns.
After Disaster Strikes: New Orleans property managers share storm struggles, coping mechanisms and disaster plan strategies nearly six months after Hurricane Katrina hit the South. Emma Johnson

Insuring Disaster: While insurers cope with $44.5 billion in insured losses inflicted by some of history's most devastating storms, property managers brace for rate hikes and a sea of change in the way they guard against catastrophe. Michael Whiteley

Property Managers Convert: As more property managers get involved with today's condo conversion craze, they reap rewards and face challenges never experienced before. Diana Mirel

Cost of Compliance: As the Justice Department considers proposed changes to the Americans with Disabilities Act, real estate industry members voice concerns about potential cost and compliance. Darnell Little

Common Interests: Tenancy-in-Common investments create opportunities for property owners and managers. Amanda Kaschube
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2006 Capitol Hill Visit Day approaches; members prepare
IREM's Capitol Hill Visit Day will take place on April 26, 2006, in conjunction with the IREM Leadership and Legislative Summit.

On site, participants will receive an orientation manual and voting records and additional materials to leave with legislators.

To assist participants prior to meeting their legislators, IREM will host a federal issues briefing and orientation the day before the visit. IREM legislative staff will give participants essential information, including issue briefs on the agenda's five major issues. Staff will guide participants on how they can lobby most effectively. Participants will also have the opportunity to gather with members from their states and discuss who will present which issues to their legislators.

Judy Leiterman, CPM, Milwaukee, said her Capitol Hill Visit Day and summit experiences have been overwhelmingly positive and rewarding. She attended her first visit in 2001: "...not only did I learn a tremendous amount about the legislative process, but I became inspired to play a role," she said. "Participants were provided with excellent coaching and training, as well as tips for persuading legislators. I have participated every year since. I appreciate the role of every CPM and ARM in bringing our critical issues to lawmakers."

For more information visit the Capitol Hill Visit Day page on www.irem.org.

Fighting forced access
States have attempted telecomm reform since the signing of the Telecommunications Act of 1996—a major milestone in the continuing development of the United States communications infrastructure.

Because the FCC regulations regarding satellite dishes and inside wiring are very narrow, state legislatures and public utility commissions have focused their reform efforts on defining real property rights-of-way pertaining to open access and competition for telecomm providers.

IREM and the Real Access Alliance contest any measure jeopardizing property owners' rights. The alliance is fighting legislative and regulatory proposals related to inside wiring and cabling and forced access in states like Indiana, Mississippi and New York. The alliance successfully fought efforts in Arizona, Florida, Massachusetts, Mississippi, New Mexico and North Carolina last year.

Terrorism risk insurance is victorious
President Bush signed S. 467, the Terrorism Risk Insurance Extension Act of 2005 into law, extending the federal insurance backstop program through 2007. The act was set to expire at the end of 2005 but became law before lapsing. IREM lobbied Congress last year to extend the critical insurance backstop.

The amount of property and casualty losses needed to trigger federal involvement has been increased. The new law also provides for increases in insurance deductibles. Insurers will be required to continue offering terrorism coverage under the same terms and conditions as other lines of coverage at levels below the event triggers.
Proposed EPA rule to receive comments in April

IREM will jointly submit comments with the REALTORS® by April 2006, on a proposed rule by the Environmental Protection Agency, requiring renovation workers—including apartment building maintenance staff—be trained in the use of lead-safe work practices. IREM takes issue with the proposed rule.

Under the rule, renovation workers would be required to be trained and certified by the EPA or receive on-the-job training in lead-safe work practices from a certified renovator with additional stipulations. The proposed required training would be at least eight hours long. Recertification would be required every three years.

Other stipulations under the rule require posting warning signs, restricting occupants from work areas, arranging work areas to prevent dust and debris from spreading, conducting a thorough cleanup and verifying cleanup was effective.

The new requirements would apply to any housing constructed prior to 1978, except for housing for the elderly or disabled or any efficiency dwelling. Renovations would include most repair, renovation or painting activities where more than two square feet of lead-based paint is disturbed. The proposed rule would be phased in over two years.

Supreme Court rules in property company’s favor

The U.S. Supreme Court protected diversity jurisdiction, ruling unanimously in favor of Lincoln Property Company in Lincoln Property Co. v. Roche, in November 2005. As a result, property management firms sued out-of-state will continue to have the opportunity to move cases to federal court. Commercial real estate professionals are pleased with this victory.

The case was based on tenants in a Virginia apartment complex suing Texas-based Lincoln Property Company in state court for compensation of damages from exposure to toxic mold. Lincoln brought the case to a federal district court, invoking the court’s diversity-of-citizenship jurisdiction. The tenants motioned to move the case to state court, which was permitted by the circuit court.

Ultimately, the U.S. Supreme Court reversed the circuit court’s ruling, stating the court had no right to ask if someone else should be added as a defendant. Lincoln is only a citizen of Texas and the case should be heard in federal court.

IREM, REALTORS® oppose permitting banks in real estate

The Office of the Comptroller General’s recent legal rulings expand national banks’ abilities to engage in real estate development in violation of the Gramm-Leach-Bliley Act. Passed in 1999, the act explicitly prohibits banks from entering real estate development but is silent on real estate brokerage and property management.

IREM opposes changes or interpretations in current federal regulations permitting any banks or bank holding companies to enter the field of real estate brokerage and property management beyond properties owned by these institutions.

The office has permitted PNC Bank to develop a project involving a hotel, condos and retail and office space, using only a small amount of the office space and hotel rooms and selling 32 condo units to make the project sufficient. It also authorized Bank of America to develop and own a Ritz Carlton Hotel and use less than half of the total units.

Last year, keeping banks out of real estate was one of IREM's top legislative priorities. Due to the importance of this issue—and in light of recent developments—the REALTORS® and IREM will continue to lobby Congress.
**Affordable housing declines**

With steadily rising home prices across the country, overall housing affordability fell for the third consecutive quarter in December 2005, according to the National Association of Home Builders/Wells Fargo Housing Opportunity Index. This was its lowest level since the index was first reported in 1992.

Median-income families could afford just over 43 percent of all new and existing homes sold in the country during the third quarter. Indianapolis was named the nation’s most affordable housing market among major metros with populations of more than 500,000. The median price of the homes sold in Indianapolis during the third quarter of 2005 was $125,000. Meanwhile, Los Angeles-Long Beach-Glendale, Calif., was named the least affordable metro market with the median home sales price at $495,000.

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<th><strong>Most Affordable Metro Areas</strong> (populations of more than 500,000)</th>
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<td>2. Youngstown-Warren-Boardman, Ohio-Penn.</td>
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<td>4. Buffalo-Niagara Falls, N.Y.</td>
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<td>5. Oklahoma City</td>
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<td>2. Santa Ana-Anaheim-Irvine, Calif.</td>
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<td>4. Stockton, Calif.</td>
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**International travel costs climb**

As the price of fuel climbs, business travel costs continue to rise. Runzheimer International predicts overall business travel costs will increase by 12 percent in 2006.

International travel rates have been most affected, according to the Business Travel Monitor, released by American Express Business Travel. The average international airfare paid in the third quarter of 2005 increased from one year ago by 10 percent to $1,633, with first class and business class also increasing by 5 percent to $5,782 and $3,882 respectively. Additionally, international hotel rates in the third quarter of 2005 jumped to $217 from $204 during the same time one year before.

Domestic business travel, however, has been less affected. Hotel rates raised only $1 to $131 from $132 last year. The domestic average airfare paid has steadily declined since year end 2000.

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**Canadian space invaded**

Our neighbors to the north can expect strong demand for commercial space in 2006 in most major Canadian cities, according to Cushman & Wakefield LePage’s Annual Office Market Forecast. Calgary’s office towers are already feeling the space crunch, with the city’s central area office vacancy expected to bottom out at 1.8 percent in 2006. The city’s vacancy rate plummeted by 50 percent from 4.8 million square feet to 2.4 million square feet from the third quarter of 2004 to the third quarter of 2005.

Toronto, the country’s largest office market, will feel strong demand for office space through 2006, according to the forecast. In the third quarter of 2005, vacancy rates in the central downtown area were down to 7.6 percent from 8.9 percent just one year earlier.

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**Domestic average airfare on decline since 2000**

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Source: American Express Business Travel
ecotalk

Going green for dummies

Think green building is just a fad? Think again. The U.S. Green Building Council reported more than 390 million square feet and 3,000 projects have registered with the council to become LEED certified.

LEED has begun enhancing documentation and certification processes to help encourage growth further. One key change is the addition of LEED Online, a new online interactive workspace, making the documentation process easily accessible and user-friendly. Other process changes include the option to split certification into the design and construction phases and streamline submittals. The council's goal is to reduce the total time and expense of LEED documentation and certification to help extend LEED to the broader building marketplace.

According to council information, 359 projects have achieved LEED certification, and the number of certified projects is expected to rise as building projects registered early on approach completion of construction.

Plant-based paint, sharp idea

Sharp Corporation and Kansai Paint Company Ltd. have planted the seed for developing more eco-friendly products. The companies developed a plant-based resin paint to coat white goods.

Researchers said chicken fat shows great promise, but it might be too early to say producing biodiesel fuel from chicken fat is economically feasible.

Running on chicken fat

Nothing clears up a cold like mom's chicken soup. And now, chicken fat may be the answer to the country's reliance on foreign oil.

Researchers at the University of Arkansas say they have developed an optimized method of converting chicken fat into biodiesel fuel—a development possibly leading to the use of chicken fat as an inexpensive supplement to petroleum-based diesel fuel.

Researchers created biodiesel fuel by subjecting each grade of chicken fat to a one-step and multiple-step conversion process. They found free fatty acid content is the most important factor to consider for producing biodiesel with single- or multiple-stage refinement processes. Researchers said chicken fat shows great promise, but it might be too early to say producing biodiesel fuel from chicken fat is economically feasible.

Quotables

"I have always tried to hide my efforts and wished my works to have the light joyousness of springtime which never lets anyone suspect the labors it has cost me."

Henri Matisse, French artist

"Be a yardstick of quality. Some people aren't used to an environment where excellence is expected."

Steve Jobs, CEO Apple, CEO Pixar

"Our lives begin to end the day we become silent about things that matter."

Martin Luther King, Jr., civil rights activist

"Spring is nature's way of saying, 'Let's party!'"

Robin Williams, actor/comedian

"I have developer's disease. I love to sit at a drafting table and draw plans for hotels, wrestling with problems of traffic and the flow of people. That's what turns me on."

Steve Wynn, President, CEO of Wynn Resorts Ltd.

"The future is something which everyone reaches at the rate of 60 minutes an hour, whatever he does, whoever he is."

C. S. Lewis, author

"Genius is 1 percent inspiration and 99 percent perspiration. Accordingly a genius is often merely a talented person who has done all of his or her homework."

Thomas Edison, inventor

"You can never plan the future by the past."

Edmund Burke, political philosopher
Famous Properties
On solid ground
Cleveland’s landmark maintains vitality for more than 75 years
by Diana Mirel

Tall and majestic, and built atop the nation’s first underground rail station, Terminal Tower represented Cleveland’s vitality when built in the 1930s.

More than 75 years later, the building still embodies the city’s history and culture and serves as a vibrant city within a city—one of the largest mixed-use developments in the nation—just like its developers, the Van Sweringen brothers, intended.

Terminal Tower—part of Tower City Center—boasts 580,000 square feet of retail shops, cafes and restaurants, as well as office space housing law firms, investment firms, and major corporations. It is located on the city’s public square, which serves as downtown Cleveland’s business, transportation and retail hub.

Since the 1890s, Cleveland has been a major port on the Great Lakes, and railroads have served the city and the port. Well ahead of their time, the Van Sweringen brothers built the tower above two commuter rail lines to accommodate the many trains the railroad lines brought into the city.

The commuter lines are in use today, and the tower serves as a prominent transportation center and a gateway to the city. While the Van Sweringen brothers are credited with transforming the face of downtown Cleveland, they are also famous for developing elegant eastern suburban areas like Shaker Heights.

“The Van Sweringen brothers developed the Terminal Tower as the city of the future in keeping with the luxury found in the Pullman train cars,” said Stephen Bir, a Terminal Tower property manager from Forest City Commercial Management Inc.

“The amenities of the entire complex were developed to impress and attract home buyers to the Van Sweringen brothers’ Shaker Heights and country estate developments through a direct rapid transit connection.”

Terminal Tower stood as the tallest building in the United States outside of New York City until 1967. It was the tallest building in Cleveland until the early 1990s, and it remains one of the most recognizable buildings in the city. It was placed on the National Register of Historic Places in 1976.

Managing a high-profile building is not something Bir takes lightly. He said it requires a level of management extending beyond the building’s tenancy and into the public.

“The Terminal Tower is the identity of the city, and people want to know what is going on in and around the building,” Bir said. “I must get a couple calls or e-mails a week from people who visit the building and see something that they would like to know more about.”

A certain prestige and pride comes with managing a building representing the city, Bir said. He said Terminal Tower has no problems attracting tenants, and it is in line with the Cleveland market’s average vacancy rate of 20 percent.

“I take this building to heart,” Bir said. “I was raised here in Cleveland, and the Terminal Tower represents Cleveland to me. Managing the Terminal Tower is a privilege and an honor.”

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

- On average, a person takes about 21.5 million steps in a year.
- Nearly 31 percent of affluent investors—those with $500,000 or more in invested assets—used full-service brokers as primary advisers in 2005, an increase from 24 percent in 2004, according to Spectrem Group's Affluent Study 2005.
- Butterflies' and moths' wings are actually transparent. Their iridescent scales, which overlap like shingles on a roof, give the wings the colors we see.
- Ireland now has more annual tourists than residents. Visitors are now running over 5 million a year, compared to a population of about 3.8 million, according to the Irish Culture and Customs Web site.
- Attendance at first- and second-round and regional sites for the NCAA men's basketball tournament in 2005 was at 98.4 percent of the facilities' capacity, an all-time record. Arenas other than domes were filled to 99.9 percent of capacity, also a record.
- March is frozen food month. Clarence Birdseye is credited with inventing—in 1924—the quick freezing method, which produces the type of frozen foods we know today.
- The 2005 hurricane season was the worst on record, with 14 hurricanes causing $46 billion in insured losses and 3 million claims, all record highs.
- Women-owned firms employ 19.1 million people and generate $2.5 trillion in sales, according to the Center for Women's Business Research.

Search Me

www.energystar.com
ENERGY STAR is a government-backed program helping businesses and individuals protect the environment through superior energy efficiency. The Web site offers information on tools and resources to help businesses save money on energy costs, guidelines for energy management, advice on finding expert help and suggestions on how to benchmark your building.

www.fiabci.com
The FIABCI International Real Estate Federation Web site offers resources for international real estate professionals including the international guide to commercial leases, international news, publications, original papers and international economic data by country. The FIABCI Real Estate Panorama also allows users to make comparisons among market sectors all around the world.

www.allbusiness.com
Allbusiness.com is touted as one of the premier business sites on the Web. It is geared toward entrepreneurs, small and growing businesses, consultants and business professionals. It offers time- and money-saving tips and addresses real-world business questions, presenting practical solutions. Business advice, standard forms and agreements, directories, lists of business periodicals and guides, business blogs and news and information are all available on the site.

Pulse Points

Log on to www.irem.org/pm 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
Based on your experiences or observations of the disasters hitting the Gulf Coast in 2005, do you think your properties have adequate property insurance coverage?

✓ yes
✓ no

The results are in from last issue's poll
As the use of the illegal drug methamphetamine increases in popularity, have any of your properties been touched by meth lab production?

Yes 29.76 percent (75 responses)
No 70.23 percent (177 responses)
Vote Total 252
Aloha Hawaii

Hawaii’s real estate market outlook is as appealing as its weather

by Amanda Kaschube

Hawaii sits about 2,400 miles from the West Coast of the continental United States. And while most of the country endures much cooler temperatures during winter months, Hawaiians enjoy 78-degree weather on average from November through March. This alone would prompt many to move to one of Hawaii’s eight major islands.

But with cheaper real estate available—the average cost for office space per square foot is less expensive than New York, Washington D.C. and San Francisco—the 50th state is becoming even more appealing in all real estate market types.

The state of Hawaii did a survey finding Hawaiians are expected to live longer than their U.S. mainland counterparts: Hawaiians’ median life span was 75.9 years long versus 72.6 years long—giving them more time to conduct business.

Also aiding the business boom is Hawaii’s location: The island is a short flight from Asia as well as the United States. Its time zone—Hawaiian standard time—allows business to be conducted nationally and internationally with New York, which is five hours behind; Chicago, which is four hours behind; Los Angeles, which is two hours behind; Sydney, which is four hours ahead and Tokyo, which is five hours ahead.

The boom is also being helped by Hawaii’s leading employer Honolulu County, which offers many business incentives to attract and keep new clients.

Several incentives include:
- Government taxation only at the state and local levels
- No personal property taxes
- No unincorporated business tax

Honolulu also offers the Enterprise Zones Program, offering state and county tax reductions for up to seven years for certain business types, and the High Technology Incentives, offering 100 percent return on cash investments over five years for qualified businesses. See www.honolulu.gov/menu/ecodev/tools/taxes.htm for more information.

Those incentives lead to the need for space, which is going fast, according to a study by Colliers International in 2005. The 163,962 square feet of space consumed by mid-year is the fastest six-month pace of occupancy growth in more than a decade.

The island of Oahu and the city of Honolulu posted retail vacancy rates of 4.46 percent, and as a result, rental rates jumped from $2.35 per square foot per month to $2.59. Colliers also noted Honolulu posted a $2 billion increase in retail sales in 2004, reflecting a healthy economic environment in the state.

Over the past six months, more than $600 million in retail shopping centers have been sold. One of the
larger pieces was sold by Colliers Monroe Friedlander in downtown Honolulu. The 1.82-acre block—dubbed the Honolulu superbloc—is bounded by S. King, Bethel, Hotel and Fort streets and includes Macy's, Macy's parking garage, the Empire Building and 1042 Fort Street Mall.

The four buildings total 300,000 square feet of space and can be used for high-rise condominiums, office, retail, multifamily and hotel space. Colliers estimated the net operating income generated by the properties is $1.6 million annually.

The office market continued to improve during 2005, resulting in more than 52,000 square feet of absorption posted at mid-year 2005, according to Colliers International information. The overall Oahu office vacancy rate fell to 9.92 percent—the lowest level in more than 10 years.

As a result, market conditions are now favoring landlords, evident in the number of reduced landlord concessions; the number of larger tenants starting negotiations for early renewals, in hopes of securing fixed rents for longer terms; and an increase in occupancy growth among lower priced Class C buildings.

Given the many attractive redevelopment sites in the Honolulu central business districts and the Kapiolani Corridor, residential high-rise developers have been flocking to the area, according to Colliers information.

The thriving residential condominium market may result in available downtown locations being used for residential, rather than office developments. A good number of condominium developments are more than 80 percent pre-sold, even with median unit prices in excess of $600,000.

The industrial market is also reporting positive trends, according to Colliers. The Oahu industrial average asking rent reached $1 per square foot per month—the highest ever recorded by Colliers in its 20-year consulting history.

A severe space shortage is the driving force behind the record rates. Despite the shortage, many of Hawaii's businesses are increasing their efficiencies and productivity rather than expanding rapidly to create more space. The need for additional space will continue for quite some time as the market in other sectors expands and while construction is slow to take place for industrial properties.

Hawaii's new office, condominium and retail developments, coupled with strong tax incentives and an ever-increasing overall economy and job market, make the state ripe for real estate investments. Honolulu's economy will continue to be bolstered by tourism with annual growth rates for the next few years from 4.9 percent to 6.1 percent, according to Colliers International information. With those numbers, Hawaii will have more to offer than just great weather.

Amanda Kaschube is a contributing writer for JPM. Questions regarding this article can be sent to kgunderson@irem.org.
Coming to terms
Agreement provisions beg managers' scrutiny

by Pamela V. Rothenberg

Property management agreements define the essential business processes to be pursued by managers on behalf of owners. While every paragraph of a management agreement is important, the following provisions are at the heart of risk allocation issues faced by managers.

Standard of care: Management agreements should include a "standard of care" clause defining the benchmark to which the manager must manage the property. Be wary of clauses setting this benchmark with terms like "first class" unless the project is unquestionably "first class."

The indemnification provision is probably the most critical clause in a management agreement. Managers' indemnity of owners should be limited to only those losses suffered by owners, directly resulting from intentional misconduct or gross negligence by managers.

Conversely, owners should indemnify managers in the same manner. Owners should be obligated to reimburse managers upon demand for expenses managers pay in defense of any claim, action or proceeding instituted by third parties relating to the property. Finally, owners—at their expense—should be required to defend any claims brought against managers relating to the property.

Insurance: Agreements should define responsibilities for obtaining and maintaining insurance for the property. The required insurance should be similar to comparable projects in a property's geographic vicinity. Include a list of minimum insurance coverages maintained for the property.

Liability insurance policies should recognize owners' insurance polices as the primary insurance, with the management companies' insurance as excess, over the owner's insurance.

Pamela V. Rothenberg (prothenberg@wcsr.com) is a member of the Real Estate Development and Real Estate Technology Groups at Womble Carlyle Sandridge & Rice, PLLC. She is also the managing member of the firm's Washington, D.C. office.
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IREM Institute of Real Estate Management
In general, specialize
Property managers with niche prove invaluable

By Jeff Williford, CPM, CCIM

Years ago, I interviewed with a national real estate company. The interviewer inquired about my strengths as a property manager. We all know property management requires someone with skills in everything from financial analysis to marketing to building systems, and on and on.

So I told the interviewer I was a generalist—competent in the many disciplines required for property management. It seemed like a great response. But after a few weeks, and no follow up calls, it dawned on me I made a critical mistake. I was unremarkable and unmemorable, leaving the interviewer to wonder, "Who was that guy?"

That interview was a point that changed my thinking. If you want to be of real value to your employer or client, become the go-to-guy for something. Become someone people seek out for a key skill or experience you and no one else brings to the table.

I once worked with a property manager who had a sincere curiosity for the mechanical side of the business. If the engineers had a ceiling open to work on the HVAC system, he undoubtedly would be in the thick of things, learning what they knew. When an electrical contractor came to the building to perform annual maintenance on the electrical systems, he was there.

I soon realized this individual had developed skills benefiting our organization. He became my go-to-guy on due diligence and engineering inspections, freeing me up to concentrate on what I care about most—providing superior customer service.

Identifying a specialized niche is not always easy. You must discover your talents and interests and develop the underlying skill sets. This takes thought and personal insight.

Disciplines required for property management. It seemed like a great response. But after a few weeks, and no follow up calls, it dawned on me I made a critical mistake. I was unremarkable and unmemorable, leaving the interviewer to wonder, "Who was that guy?"

That interview was a point that changed my thinking. If you want to be of real value to your employer or client, become the go-to-guy for something. Become someone people seek out for a key skill or experience you and no one else brings to the table.

I once worked with a property manager who had a sincere curiosity for the mechanical side of the business. If the engineers had a ceiling open to work on the HVAC system, he undoubtedly would be in the thick of things, learning what they knew. When an electrical contractor came to the building to perform annual maintenance on the electrical systems, he was there.

I soon realized this individual had developed skills benefiting our organization. He became my go-to-guy on due diligence and engineering inspections, freeing me up to concentrate on what I care about most—providing superior customer service.

Identifying a specialized niche is not always easy. You must discover your talents and interests and develop the underlying skill sets. This takes thought and personal insight.

Do you love a particular aspect of the business? Do you know someone in the field who possesses a skill you desire? Are classes available to teach the skills you want to learn? Are you willing to join organizations offering you a safe place to learn and practice? Are there books, magazines or Web sites with information you need?

After investing the time and effort learning your area of expertise, continue honing these skills. Seek out opportunities to practice your new edge—then teach others what you know. Teaching others what you know helps sharpen skills and enables you to better articulate what you bring to the table.

A word of caution...you still need to be more than competent in all areas of the property management business. Focusing solely on one area puts you in the dangerous position of having one or more blind spots.

Still, having a niche on top of being more than competent in all other areas will make you uniquely valuable to the profession. Are you ready to make that critical change in your career that will affect your future in a positive and lasting way? 

Jeff Williford, CPM, CCIM (jeff@williford-group.com), is president of Williford Property Group and a senior investment adviser at Sperry Van Ness.
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In 2004, it was Charley, Francis, Ivan and Jeanne. In 2005, it was Dennis, Katrina, Rita and Wilma.

All these hurricanes caused damage and destruction to the United States, but for the first time since Hurricane Andrew in 1992, Katrina and Wilma caused serious damage to major commercial real estate in central business districts.

Property managers in New Orleans and South Florida now face a major dilemma as a result of sustaining so much damage to their properties and changes to how windstorm deductibles are calculated: They must determine whether the high deductible imposed by insurance companies is an operating expense passed through to tenants or a capital improvement expense paid for out of their own pockets?

Years prior to and including Hurricane Andrew, property insurance policies protected property owners with nominal deductible amounts for each loss event. Deductibles of $500, $1,000 or even $5,000 were normal. After Hurricane Andrew, insurance companies began calculating deductibles by using a percentage of the insurable value per property.

Three of my properties sustained $2 million in damage during Hurricane Andrew. The deductible was $5,000 per loss occurrence, so the insurance company paid $1,995,000 for the losses. We passed the remaining $5,000 through to the three buildings’ tenants as an operating expense incurred during normal operation of the properties.

But with changes to the windstorm policies, the impact of the deductibles is much more significant. For example, one 235,000 square-foot office building in Miami’s financial district, heavily damaged during Hurricane Wilma, lost hundreds of windows at a cost of $2.35 million dollars, an incredibly high amount compared to deductibles in place for Andrew.

The deductible in this instance is equal to $10 per square foot. With operating expenses ranging from $11 to $15 per square foot, tenants could face operating expenses increasing as much as $10 per square foot, pushing their rental rates from around $30 per square foot to about $40 per square foot for 2006.

Under many lease forms used in Florida, the definition of operating expenses includes “insurance deductible amounts.” Even where the lease is silent in defining operating expenses, real estate managers will consider the deductible amount as a normal operating expense incurred by commercial properties during the normal course of business.

Some property managers may choose to not pass through the insurance deductible, but the impact on their rate of return will be dramatic. Some tenants will surely fight the pass through, and courts may ultimately determine the legality of passing through such expenses. But for now, decision time comes in the first quarter of 2006 when property managers must decide how to handle their cash outlays to cover the deductibles.

Decision time comes in the first quarter of 2006 when property managers must decide how to handle their cash outlays to cover the deductibles.

Paul L. White, CPM, (paulwhite@plwa.biz) is president of Paul L. White and Associates Inc., Miami, and regional director for SCI Real Estate Investments.
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IREM Institute of Real Estate Management
Evaluating the ethics toolbox
Institute combines CPM and ARM codes of ethics, holding all members to same ethical standards

by Eileen Lynch

Have you checked your ethics lately? Do they reflect you in the best possible light to your clients, your employer, your employees? Should they be evaluated? Should they be re-tooled?

Professional real estate management ethics—specifically the IREM codes of ethics—provide a foundation for members’ business practices.

In 2005, a workgroup from IREM’s ethics and discipline committee performed an in-depth evaluation of the CPM and ARM codes. The ten-member group, chaired by Cher Zucker-Maltese, CPM, tried to determine if the codes needed some fine tuning or if they were already up-to-date, all-encompassing, viable and if they sent the right message—IREM members are held to the highest possible ethical standards—to the marketplace.

The group used the following questions as a framework for its research and evaluation:

- Do the codes protect the public?
- Do the codes promote competition?
- Do the codes reflect current business practices?
- Do the codes require revision?

The group reviewed ethics codes from the National Association of REALTORS® and its affiliates, other associations like the National Association of Building Owners and Managers and the International Facility Management Association and financial institutions like Goldman Sachs and Morgan Stanley.

Ethics officers from Prudential, other corporations and Rutgers University were interviewed. The group also drew upon its experiences as members of the three IREM ethics boards—the inquiry, hearing and appeal boards.

The findings showed existing CPM and ARM codes were as good as or better than other codes. More importantly, the ethical concepts in the codes are relevant to today’s business conditions. The evaluation also brought to light the CPM and ARM codes are similar in content: In fact, the group concluded the two codes should be combined into a single code.

The findings showed existing CPM and ARM codes were as good as or better than other codes.

When combine codes already proven to be effective?

“As an organization committed to high ethical standards, it only makes sense to combine the CPM and ARM codes and hold our members to the same ethical standards,” said Ann Reisch, CPM.

Furthermore, potential clients might question why members of the same organization adhere to different codes.

“Clients and employers expect IREM members to act in an ethical manner regardless of their credential,” Zucker-Maltese said. “One code of ethics makes a powerful statement in the marketplace. One code will make the concepts more clear for members to understand and for the ethics boards to consistently and fairly enforce.”

The Governing Council approved the ethics and discipline committee’s recommendation to move forward with the development of a single code at its November 2005 meeting.

Adopting a new ethics code is an important step, needing input from you, the IREM member. Please participate in the process by reviewing the draft of the proposed IREM Code of Professional Ethics and providing your comments by April 1, 2006. You can review the proposed code at www.irem.org/JoinIREM/Ethics. Please send your comments to Eileen Lynch at IREM headquarters. Eileen Lynch (elych@irem.org) is the Institute’s ethics administrator.
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As more property managers get involved with today's condo conversion craze, they reap rewards and face challenges never experienced before by Diana Mirel

Above: The Cité condo in Miami, developed by MCZ/Centrum, is a 15-story development featuring converted condos and townhomes overlooking Biscayne Bay and showcasing views of the Miami skyline. The conversion was completed in 2005.
No one denies the strength of the condominium market in the past few years. The number of existing condo and coop units sold has risen 37 percent since 2002, and the median price of condos has risen 53 percent.

Leading the way within the condominium market are the increasingly popular condominium conversions — accounting for 33 percent of all condo market activity in 2005, according to Real Capital Analytics, a national, commercial real estate-focused research and consulting firm based in New York.

"I call condominium conversions the soup du jour," said Nick Xiros, a Chicago consultant with Aon insurance company's Construction Services Group. "It is one of those crazes that started in earnest about three or four years ago and has gone haywire."

And it's a craze real estate managers have decided to explore as numbers show the trend is here to stay, at least for the immediate future.

Crazy for condos
Condo conversions hit a two-year high in September 2005. During 2004, condo converters invested $11.7 billion in apartment communities, representing a little more than 76,000 units.

"When a developer buys a piece of land now, between the cost of the land, approval and permit process and materials and labor, it is virtually impossible to provide affordable housing." Dan Fasulo, director of market analysis for Real Capital Analytics

In comparison, around $26 billion worth of conversion activity took place in 2005, representing 168,000 units, according to Real Capital Analytics. Those numbers include apartments converted to condos — not industrial, hotel or office building conversions, which would increase those numbers.

One circumstance initially driving the surge in condo conversions was the lack of affordable housing throughout the country. Developers recognized a demand in the market for entry-level housing units costing less than $500,000. They began buying existing infrastructures and renovating them to meet the demand, said Dan Fasulo, director of market analysis for Real Capital Analytics.

"When a developer buys a piece of land now, between the cost of the land, approval and permit process and materials and labor, it is virtually impossible to provide affordable housing," Fasulo said. "When you add up all those different factors, the only thing you can build and get return on is luxury housing."

Financing the new frontier
With the return on luxury housing in mind, conversions originally focused primarily on converting existing apartment buildings into condominium buildings, and developers put up a significant amount of money themselves.

"The original conversions were driven by the tremendous amount of profit that could be derived from buying an apartment building and converting it into condos and spending very little money in the conversion effort," Xiros said.

Now, conversions have spread into the industrial, office and hotel markets as well. Profit is still a driving force, but profit margins are getting thinner because less institutional money is available from banks and lenders.

"Banks are tightening up in terms of lending to condominium conversions," said Howard Jacobson, manager for the Jacobson Brothers in Birmingham, Mich. "There has been an increasing number of people who have defaulted, so financing is an issue. Lenders want to know that this is not just an opportunity to play for someone, but that they have the ability to handle some of the problems that can occur in a condo conversion."

While apartment-to-condominium projects often have rental income to subsidize the loan, risks still exist. If a mass exodus occurs directly after residents are informed of the pending conversion, building owners and developers can go into a cash negative situation. If rental income subsides in spite of the higher mortgage payment taken on, Jacobson said owners and developers face big exposure.

"That can be a very traumatic situation," Jacobson said. "The underlying success of a condo conversion [from
apartments] is the rental income. That is very different from a new construction where you have a very large debt [existing] from the start."

The office-condo market also faces hurdles in the financing and lending arena. Office-condos are spaces still used for offices, but allow companies to own their separate space in a building. Because many buildings support more than one office-condo, lenders face single property exposure.

To support the office-condo market, some financial institutions offer borrow-based lending. And as long as the borrower has strong financing, lenders are often happy to strike a deal, said David Ertel, chief executive officer of Bayview Financial.

"As a large lender specializing in small loans, we're happy to make a lot of small loans even when they add up to large exposure in one building," Ertel said. "Our underwriting focuses on the strengths of our borrower."

Conversion key when land locked

While certain financing options aren't as available to converters, no property-type is off limits. With an influx of new developments diminishing the amount of land available for development, developers set their sights on existing properties to stay in the game. From warehouses to dilapidated apartment buildings, any property has possibility.

Apartment-to-condominium conversions are favorable because they are often affordable; require less construction; and are located in established areas. Because apartments were originally built as residential properties, converting them to condos typically requires cosmetic—rather than structural—changes.

Converting hotels to condos—where developers and hotel owners convert a traditional hotel property into an unconventional condo building—is another popular trend in tourist and urban areas.

According to Lodging Econometrics, 32 projects with 4,831 condo-hotel units are expected to open in 2006, and 27

Altged Court is a 44-unit loft and townhome development in the DePaul area of Chicago. It was warehouse space before it was converted by MCZ. One of its unique features is its interior courtyard.
Hotel-to-condo conversions receive four stars

Hotel-to-condominium conversions have taken off in the past several years, especially in tourist areas, like Florida. Forty-six percent of the condo-hotels in the construction pipeline are being developed in Florida, according to Lodging Econometrics.

After hotel owners convert their hotels into condos, buyers and investors can purchase individual units within the hotel and share the overhead, burden and profit with the hotel. Post conversion, many of these projects still operate as hotels with four-star amenities. However, individuals and investors own the individual units and have a homeowners association. Many unit owners do not live in these hotels full time, though.

In Daytona Beach, Fla., Ocean Waters Development recently converted the 100-year-old Plaza Resort & Spa to condos for $60 million. The company acts as developer, property manager and hotel manager of the property.

Ocean Waters Development recognized the benefits of converting a historic property in a destination ripe for repositioning. The growing popularity of hotel-to-condo conversions and higher real estate prices further encouraged development.

"If [unit owners] wish to get an income stream from the property, they have the option of putting it in our rental management program, and then their units will be offered to the public as hotel suites," said Mark Geier, former vice president of sales and marketing for Ocean Waters. "It is a one-room hotel business within a 322-room property, and unit owners share the income [with the hotel owner]."

Waccamaw Management LLC in Pawleys Island, S.C., is expanding its property management portfolio by embracing the hotel-to-condo conversion trend as well.

"To expand the market, [developers and hotel owners] are going into hotel-condo conversions, and it is a natural step for us to be involved in that," said W. Press Courtney, president of Waccamaw Management. "We can provide a lot of knowledge from an operational standpoint."

Waccamaw has a history of condo building management and is well-versed in managing homeowner’s associations, resident concerns, budgets, assessments, maintenance and repairs.

Thus, Waccamaw coupled with the developer on a new conversion project by determining the property’s operating budget; setting assessments; and establishing best operation practices. When the conversion is complete, Waccamaw will manage the homeowners association, maintenance, insurance and assessments and will work with the hotel owners who manage the rental program.

The Plaza Resort and Spa is a hotel-to-condo conversion in Daytona Beach, Fla. The property is still run like a hotel with four-star amenities, but many of the units are owned by individuals wanting to share the overhead and burden with the hotel.
projects with 5,025 units are expected to open in 2007.

Loft conversions within old warehouses, mill buildings and other industrial properties are also increasingly popular. With their distinctiveness and typically urban locales, adaptive reuse projects focus on both living spaces and lifestyles.

Renovation realities

Just like the management experience at the various converted property types is unique, the renovation experience for the different conversions is also unique.

Because converted commercial or industrial spaces were originally designed for non-residential purposes, it is critical property managers understand the internal systems and exterior of the building.

"Construction in renovated buildings can be very different from today's standards, so you need to have a significant understanding of construction, mechanical systems and how the building operates," said Tom Taylor, vice president of Draper and Kramer's condominium group in Chicago.

Some buildings managed by Kathleen Corbett, vice president of Hammond Property Management Inc. in Cambridge, Mass. were built around 1910, and many require tuck-pointing—the repair of a building's masonry, bricks and mortar and façade and a common concern for property managers. Most buildings need tuck-pointing after about 25 to 30 years of exposure. The cost is often unavoidable because of national and local government standards.

Corbett said tuck-pointing the exterior of one of her buildings right now is going to cost $1.5 million, and owners will be assessed an extra $60,000.

In spite of the extensive expenses often attached to renovating buildings, Corbett said increasing the value of a building and its surrounding area can be a rewarding experience for any property manager.

When Corbett took over two neglected converted apartment buildings, she worked with the condo boards to landscape, paint, decorate common areas and wash the windows to position the property properly.

"When a building is really neglected, it is glorious for me to help raise the
value of the common area by doing really simple improvements," she said. "Once you start taking care of the property, all the unit owners start having the same vested interest and get pumped up. I tell my staff to treat our properties like they're our own homes."

Converting residents' mindsets proves challenging
While having residents on board and excited about a converted property is gratifying, experiencing resistance from residents who now own instead of rent might be more common and challenging.

"When a building is really neglected, it is glorious for me to help raise the value of the common area by doing really simple improvements. Once you start taking care of the property, all the unit owners start having the same vested interest and get pumped up. I tell my staff to treat our properties like they're our own homes."

Kathleen Corbett, vice president of Hammond Property Management Inc.

"There is a mindset inherent in people who used to be [renters] and are now owners," Corbett said. "As [renters], when they would get toilet leaks, they'd make a phone call [to the landlord or manager] to get it fixed. It is very hard to teach people everything within their four walls is now their responsibility."

Residents transitioning from renting apartments to owning condos in the same building aren't the only people struggling with boundaries and understanding their roles and responsibilities relating to the property. Residents living in former warehouses and industrial properties converted to condos must also recognize some differences.

"It is very different to live in a building that was built in 1910 as a warehouse than it is living in a new condominium," Taylor said. "Owners who move into converted buildings need to understand that there are going to be ongoing repairs and capital projects."

The unconventional arrangement hotel-condos provide—operating as four-star resorts catering to guests as well as operating as condominiums dealing with owners—also presents challenges.

"When you're managing a straight condominium building, the owners are either part- or full-time residents, but you're not treating them as guests," said Mark Geier, former vice president for sales and marketing for Ocean Waters Development. "Management in that case makes sure the lawn is cut, the building gets painted, the pool is clean, necessary repairs are done and keeps track of condominium association dues and the budget. Managers of [a hotel-condo] not only do that, but also have another infrastructure to treat owners like guests."

Communicating the challenges
With so many challenges and potential problems, communication is vital to succeeding in the conversion business. Corbett said she relies on constant communication with the condo boards and residents of her converted apartment buildings.

Every week, each of her residents receives a written update about happenings in the building and how they will be affected.

"Communicating anything that could go south every single week will eliminate a lot of people's frustration," she said. "The property manager has to do some hand-holding with residents. Hand-holding is probably 50 percent of my job."

Paul Bettano, chief financial officer and head of property management for Symes Associates LLC in Beverly, Mass., said educating residents on the differences between living in new construction and rehabbed buildings, particularly modified industrial spaces, is important.

"The issue that comes up with condo conversions is that the building is not perfect," Bettano said. "You may have a chunk of masonry that will fall out of the window arch; that doesn't mean the windows are going to cave in. It just means it's a 100-year-old building. You need to educate people and let them know it isn't like living in a house with plaster walls and wallpaper. Once they understand that and appreciate the nuances, people are pretty happy with it."

W. Press Courtney, president of Waccamaw Management—a company managing converted hotels—said communication and education aren't huge issues for him because the property's initial design already catered to what he called creature comforts and had the original intent of housing people.
However, any time real estate managers have to work with 20-year-old or 30-year-old-plus structures, or structures not initially intended for residential living, they’re going to face challenges, he said.

"You’re dealing with structures that were built for different purposes, so there will always be things from budget constraints to structural problems that cannot be changed and would lend themselves better to whatever the structure may have been before," Courtney said.

He said in truth, most property managers would probably rather work with new construction than conversions in order to eliminate some of the maintenance headaches.

"Property managers can’t always manage a new construction," he said.

"There just isn’t enough of it out there to pay our bills."

At the end of the day, though, Courtney said managing properly converted properties is a fine way to make a living.

"Urban renewal is a fantastic thing," Courtney said. "[Conversions] are great when developers make the numbers work and anytime they can keep an old building from falling by the wayside: They’re refurbished, they look fresh again and they’re provided with new life." ☐

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

New Orleans property managers share storm struggles, coping mechanisms and disaster plan strategies nearly six months after Hurricane Katrina hit the South by Emma Johnson
Creeping through one of his properties with a flashlight—surveying the mold growing up the wall, the dirt and grime caked on the water-damaged floor and the enormous holes where windows once hung—Michael Hilferty, CPM, and director of property management for SRSA Gulf South Management in New Orleans, saw more than just cleanup challenges ahead.

"It was very eerie," he said of his experience touring one of his New Orleans properties in September 2005, about a week after Hurricane Katrina slammed the city. "There was no telling when people would be able to return to the building. I've never seen destruction like that. I've never seen anything like that."

Natural disasters can blindside a community and its businesses. Nearly six months after the Category 4 hurricane hit New Orleans and other Gulf Coast areas, New Orleans property managers are still trying to clean up the mess, retool their companies and rebuild the city.

Although property managers can hope Katrina's voracity is an exception—it was the most costly and third deadliest Atlantic hurricane ever recorded—they said preparation and timely responses are key to their businesses surviving after disaster strikes.

First things first

The solution to successfully recovering after a disaster is preparing and laying out a plan beforehand, said Bob Chavez, director of property management for Colliers Abood Wood-Fay in Ft. Lauderdale, Fla.

"A plan, no matter how simple, is key," he said. "The disaster is going to happen no matter what. Your plan has to concern itself with what to do once [the storm is] gone."

He said the written plan should identify a remote meeting place for employees, ways to protect buildings, alternate power sources—including fuel to maintain them—and the assumption electronic communication will be down.
Long before disaster hits, key personnel should receive the plan in triplicate—copies for the office, car and home. Property managers should file the plan with emergency responders, the local building department and the power company—agencies that will help with evacuations and the speedy return to occupancy following the ordeal.

Plan on being flexible

While emergency plans are vital, unknown and unpredictable variables come attached with almost every disaster, requiring property managers to be flexible and creative in the throws of a crisis—plan or no plan.

“You have to be [very] fluid to react to everything as it happens,” Chavez said.

Hilferty said his initial plan included property managers taking pertinent files—like tenant leases, insurance information and an emergency call list with employees’ and tenants’ phone numbers—so they wouldn’t be destroyed. He said the plan wasn’t enough, though. Although the hard copy leases were protected, he said downloading them on computers would have been better.

He also said the contact lists should have been more extensive: They should have included tenants’ and employees’ cell phone numbers and emergency contact numbers because power outages made contacting people on their usual landlines impossible. Insurance brokers’ emergency contact information, along with the insurance companies’ toll free numbers would have been helpful, he said, because their local brokers also had to evacuate.

Contact names and phone numbers at local agencies are also critical to staying abreast of the situation as it develops, as well as learning when water, power and phone services will be restored and when roadblocks will be enforced or eased.

“The key is to know who to go to before we really need them,” said Gregg Popkin, CPM, and senior managing director of asset services for CB Richard Ellis in New York. “As far as the government goes, we’d all like to think they’re omnipresent and will be there when we need them, but we know that it takes time.”

Backup plans for ineffective initial plans are also important. Hilferty said he had planned on his engineers evacuating to a nearby parish so they could easily return to the properties to assess the damage. The plan went amok when the storm damaged the bridges connecting their assigned locations and the properties. Most employees, then, decamped to a temporary office in Baton Rouge.

NAME: David Abbenante, CPM, director of property management for HRI Properties, an architecture, construction, development and management firm with 2,000 apartments and three hotels in New Orleans.

SITUATION: Hurricane Katrina displaced most of HRI’s 130 employees and damaged most of its properties.

PROBLEMS: Looting threatened several properties because the security firm couldn’t house employees in the flooded city. Staff struggled to contact residents.

ACTIONS: HRI immediately relocated to Houma, La.—about 60 miles away—leased 10,000 square feet and bought computers and furniture from the outgoing company. Days later, they opened for business, setting up emergency call-in lines and a Web site providing tenants and clients with updates. Abbenante’s local apartment association contacts helped locate corporate employee housing around Houma. Abbenante established Lafayette and Shreveport offices near relocated corporate employees.

OUTCOME: Damaged buildings are repaired or under repair. HRI is struggling to collect insurance claims. Of the $12 million in claims filed prior to publication, it had received $2 million.

HINDSIGHT IS 20/20: “When everyone is pulled to the extreme, money doesn’t mean anything...I’ve found in times of crisis...getting rebuilt is all about relationships. We have vendors we’ve been working with for 10 years. [In times like these] they could charge three times the normal rate. When I call and [the vendor] pushes back that new phone call and takes mine and charges the normal rate—that’s why we were able to get stuff done that no one else did.”

IN THE FUTURE: HRI promises residents a viable emergency phone number and a frequently updated Web site for crises. “It was real important for our residents to hear our voice and to talk to someone,” he said. “Without a doubt we found something magic for the residents.”

HRI will also move data to remote servers.

LESSON LEARNED: “We felt...it was very important to send the message that ‘Hey—we’re alive and making things happen’ so investors know we’re keeping an eye on their property.”
"[Our plan] wasn’t helpful," he said. "We weren’t prepared for something of that magnitude. Some things are really out of your control."

**Back to life, back to reality**

One element out of property managers' control in the aftermath of Hurricane Katrina was the government order restricting residents from returning to the city and, therefore, property managers from their properties.

But CPMs who saw law enforcement officials as their allies in dealing with the disaster and not hurdles they had to breach, said they were successful in gaining property access and securing their properties—critical steps in assessing damage, sharing information with clients and tenants and filing timely insurance claims.

Hilferty evacuated to Baton Rouge before the storm and could not return to New Orleans until a week after the hurricane passed. He was granted a four-day window and special credentials to check on his property after proving the property's security and operating condition were critical to the masses: The medical office building he manages was providing needed supplies to one of the few hospitals capable of operating right after the storm. Hilferty said the closer managers stay to their properties, the faster they can return.

"That first week after the hurricane was really chaotic—it's hard to fathom how chaotic it was," Hilferty said. "It was surreal."

Huge limbs from oak trees blocked side streets; military vehicles occupied most main streets; intersection stoplights were void of power. Curtains and blinds in blown-out windows flapped in the wind. Enormous solid steel posts jutted from roofs where they lodged after flying through the air like missiles during the storm.

While Hilferty's medical office building was fairly intact, with the exception of considerable debris surrounding the property, not all the properties he managed were so fortunate.

One shopping center he manages had 18 truckloads of debris hauled away. His company lost two accounts when property owners decided not to reopen because of extensive damage. He said those properties would probably be bulldozed.

"It was terrible what we came back to," he said. "It was far worse than anyone expected. It changed the complexion of everything."

**Establishing communication**

But change is constant in disastrous situations, Hilferty said. Staying up to speed with what is going on and keeping colleagues, employees and tenants informed is essential.

Disaster plans need to consider the possibility of electronic communication totally failing—even in a less catastrophic situation. Reestablishing communication lines as soon as possible is imperative so managers can direct employees, coordinate with tenants and reassure clients.

"You have to make sure you can speak [to your employees]—whether it's across town or from one building to the next," Popkin, of CB Richard Ellis, said. "If the phones are down, you'll need alternative methods."

Following the storm, property managers desperate to speak with colleagues, tenants and loved ones said they carried three cell phones with different providers in an effort to manage frequently failing signals.

Text messaging and walkie-talkie features on cell phones proved successful even though land and mobile lines were down. Popkin said Blackberries and blast e-mails helped keep people in touch. Other solutions included telephone trees and emergency access numbers tenants could call for recorded information.

The key was establishing several alternatives to land and cell numbers and making sure all parties involved had the latest phone numbers at all times, Popkin said.

New Orleans employees from Hilferty’s company, SRSA, were scattered from Dallas to Florida, and having emergency contact information for everyone was necessary. He said because of the strenuous situation, numerous questions and concerns arose, and employees needed considerable guidance. They wanted to know if they still had jobs, whether they should file for unemployment and how and when they would be paid.

"A lot of employees had concerns whether the company would survive," Hilferty said. "[As far as they knew] the city was gone; there was no home to go back to, and that was frightening."

He said establishing specific guidelines in the disaster plan regarding payment and expectations about returning to work is a good idea—especially for lesser disasters. Hilferty said managers should remain sensitive to specific situations, though, and take into account their employees' personal struggles.

Communicating with tenants is as important as keeping in contact with employees when trying to keep a business afloat. Accessibility heightens the company’s appearance as a viable business. It also opens opportunities for man-
agers and tenants who are closer to the devastated areas to report information back to superiors.

"It's critical to impress upon the owners the extent of the devastation so they can cut some slack and allow some time for things to get back to normal," Hilferty said. "Educating owners from out of town—what's taking place, why there is a labor shortage and why costs have risen—is a challenge. As a property manager, evaluate the news daily and pass that information along to owners."

**Info central**

Although effective communication depends strongly on personal communication, it also relies heavily on company technology—Web sites with pertinent information and databases with information possibly locked in a hard drive bobbing in floodwaters or scattered in pieces.

Hilferty said a Web site serving as information central and providing frequent updates would have been effective, although updating it would have been a challenge for his small company of about 25 people.

David Abbenante, director of property management for HRI Properties, suffered strained quad muscles after hoofing up and down 17 flights of stairs three times to retrieve computer servers from his company's New Orleans high-rise headquarters.

Many ways now exist, however, to avoid such scenarios, including Web-based databases and backup servers stored in remote data fields, far from harm's way.

"Electronically scanning leases and documents has become really important," Popkin said. "If things are maintained properly, you'll never be more than 24 hours behind, and at most might lose a day's worth of data."

**Keep on (pay)rolling**

Making sure the business is never more than 24 hours behind includes making sure employees' paychecks don't get behind. Prompt payment is instrumental to keeping the company up and running.

In spite of their best efforts to communicate with all parties, real estate managers interviewed for this story said some employees inevitably did not return to work. For those who did return, help from employers who found nearby housing and kept people's paychecks rolling often made their return possible.

Hilferty's payroll department made sure not to miss issuing a single biweekly paycheck. In some cases, workers had direct-deposit arrangements with local New

**Lessons Learned**

**NAME:** Joseph Pappalardo, CPM, and president of Latter & Blum Property Management in Louisiana, which oversees diverse properties in the New Orleans area, including about 1,500 multifamily units.

**SITUATION:** Hurricane Katrina's short notice made company drills moot. The company's six New Orleans managers were scattered—without a plan.

**PROBLEMS:** Landlines were down for a month; cell phone service was dead for weeks. Army and National Guard troops restricted managers' efforts to access properties to assess damage. Activists fought lifting government bans on evictions. Tenants in uninhabitable properties hindered cleanup and repair.

**ACTIONS:** Although some managers left, most migrated to the Baton Rouge office—de facto company headquarters. For identification purposes, managers donned baseball caps, shirts and slickers with the company logo. Pappalardo bought magnetic signs for vehicle identification to ease passage through military roadblocks. Managers took digital photos of properties, documented damage, e-mailed information to owners and filed insurance claims for all properties.

**OUTCOME:** Pappalardo didn't anticipate the huge rental demand Katrina created in Baton Rouge, but his staff met the challenge and brokered rental units there—finding developments not on the market and individuals willing to live with relatives to create space for evacuees.

**IN THE FUTURE:** Pappalardo will maintain e-mail addresses and phone numbers for all tenants and residents in his company's Web database.

**HINDSIGHT IS 20/20:** "We did not anticipate the ripple effect a long-term evacuation would have....We always knew we were in a hurricane-prone area, and we all assumed that once the water was out, people would come back....But people left, put their kids in schools in other cities; and it appears those people are just not coming back. That's going to impact occupancies. We haven't solved that."

**LESSON LEARNED:** "You have to have a plan...[with] a clear outline of where and how you're going to operate your business."
Orleans banks—initially defunct from the floods. Payroll transferred those accounts to banks in areas where workers relocated. Hilferty said his company learned to maintain checking accounts with statewide branches.

Many property managers relocated their employees to nearby cities by finding vacancies in their own properties or by connecting with other hotel and apartment companies to find housing. The alternative was to lose valuable workers to the hospitality of far-flung relatives.

Part of the manager’s job, Hilferty said, is taking care of employees—caring for their emotional, physical and financial well-being. Hilferty said communication through the ordeal kept spirits above the devastating floodwaters—something critical to the survival of the business.

“We needed to talk to each other to keep morale up, so we could make sure we had a company after this was over,” he said. “Many employees were so happy just to have jobs.”

**Big storm, big lessons**

Although disasters can strike anywhere at any time, Hilferty said remembering Hurricane Katrina was one of the worst storms in the history of the United States is important.

“This was a really unusual situation,” he said. “This affected everyone in some way. We are learning from it now, but we weren’t prepared. We will know more for the next time.”

But while all the preparation in the world and the most detailed disaster plans might not have saved New Orleans’ property managers from extensive losses, being prepared is still essential, he said.

In many ways, New Orleans property managers incurred many times the burdens of those experienced by the city’s average citizens. While hundreds of thousands of people struggled to evacuate to higher ground, protect their possessions, relocate their families and contend with unemployment, insurance claims, loss of property and life—property managers dealt with those issues for their own families as well as for scores of tenants and clients.

“This is a really tough time,” Hilferty said, “and you have to respect property managers. We’re burning the candle at both ends. There are a lot of tired, worn-out managers right now. We have a long road ahead of us.”

For more insight on coping with disasters, read *Insuring Disaster in this issue of JPM.*

Emma Johnson is a contributing writer for *JPM.* Questions regarding this article can be forwarded to kgunderson@irem.org

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

RESTORATION HAS GALLATIN

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 responds 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 106,000 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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THANK YOU FOR MAKING US A LEADER IN CLEANUP AND RESTORATION.
As the Gulf Coast shook off the effects of two killer storms in September 2005, an estimated 15,000 insurance adjusters descended on the nine states deluged by hurricanes Katrina and Rita. The devastation they found may forever change the way they underwrite catastrophe.

Beyond the unprecedented failure of the New Orleans levee system, adjusters discovered a profound destruction of the regional infrastructure. The results stretched well beyond the physical damage and business-interruption costs most insurance policies cover.

Losses like decreasing manufacturing capabilities and skyrocketing commodity prices were not anticipated, yet still need to be recovered, said Glenn Pomerantz, national director of insurance claims services for BDO Seidman LLP in New York.

“A lot of the business interruption losses are coming from the general conditions in New Orleans as opposed to direct physical damage,” Pomerantz said. “They may just not have anticipated those losses in the underwriting.”
With Katrina and other catastrophe models pricing at $400 billion—a repeat of the 1906 San Francisco earthquake's estimated price tag—regulators said the insurance industry and existing state and federal disaster funds may be reaching their limits.

If insurance policies and disaster relief funds tap out, real estate managers and the commercial sector in general will have to shoulder the lion's share of the cost in the form of higher premiums, steeper deductibles and lower coverage.

**UGLY SITUATION COSTS PRETTY PENNY**

In all, the damage from four hurricanes, a tropical storm and a pair of Midwestern tornado systems pushed insured claims for the third quarter of 2005 to an all-time high of $44.5 billion, according to ISO Property Claim Services, which tracks claims and losses for the nation's property-and-casualty companies.

On top of the recent storms' devastation, insurers are still dealing with the impacts of 2004's stormy season. Four of the 10 most expensive hurricanes in U.S. history—with losses of $22.9 billion—occurred in 2004, according to a draft of the National Association of Insurance Commissioners' national catastrophe plan, approved for comment in 2005.

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Louisiana $26.7 billion
Mississippi $12.1 billion
Texas $2.2 billion
Florida $1.5 billion
Alabama $1.3 billion
Minnesota $245 million
Georgia $197 million
Wisconsin $110 million
Tennessee $69 million
Ohio $40 million
North Carolina $35 million
Arkansas $6.5 million
Illinois $5 million
Indiana $5 million
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Source: ISO Property Claim Services

"All of this devastation has been handled to date either by the insurance industry or by states and the federal government in the case of the uninsured," according to the draft. "Insurers and their regulators wonder if the industry has the capacity to deal with the next major natural disaster."

With such a heavy burden on the insurance industry, property managers are concerned about hiked rates and decreased coverage. Managers and insurance industry leaders said rates for insurance covering commercial properties are likely to increase between 20 and 30 percent beginning in early 2006.

Aside from a general rate increase, real estate managers and insurance providers also said they expect Katrina and Rita will price many commercial properties out of the traditional policies private insurers provide. More will be forced to apply to the high-risk pools created by the nation's coastal states and funded by a combination of fees paid by insurers, policyholder premiums and state subsidies, instead.

"Clearly hurricanes have caused a general tightening in the overall commercial property market," said Peter Breitstone, president of Breitstone & Co. Ltd., an environmental risk and insurance management house in Cedarhurst, N.Y.

**WINDS OF CHANGE IN LEGISLATION**

That general tightening has already spurred legislative action—a near necessity to relieve the burden on insurers and lessen the loss for real estate managers.

Pomerantz said the hurricanes of 2005 will change the regulatory land-
scaipe like no other storm since 1992, when Hurricane Andrew helped rewrite Florida's building codes.

"Insurance policies may be changing as a result of Katrina because of the order of magnitude," he said. "And I think they did change as a result of Andrew."

Citing repeated failures by Congress to act on disaster plans and criticism over FEMA's handling of the national flood program, the National Association of Insurance Commissioners' proposal sets up several layers of national protection.

When Texas lawmakers convene in a special session this spring, the Texas Insurance Council, which represents 500 of the nation's insurance companies, will be lobbying for a new bond package to finance two major new funds—the first would finance pre-event coverage and the second would help pay claims after a major storm.

On a national level, the proposal drafted by the National Association of Insurance Commissioners partially mirrors the 42-year-old National Flood Insurance Program and extends it to an array of catastrophes—both natural and manmade.

Citing repeated failures by Congress to act on disaster plans and criticism over FEMA's handling of the national flood program, the proposal sets up several layers of national protection.

Pushed by regulators in Florida and California, the proposal's recommendations are based in part on the National Association of Insurance Commissioners' version of House Resolution 2668, filed as "The Policyholder Disaster Protection Act of 2005" by U.S. Rep. Mark Foley (R-Fla.).

Foley's bill would amend the Internal Revenue Code to allow insurance companies to establish tax-deductible reserve funds for catastrophic events. It would require insurers provide coverage for all catastrophes, with the exception of acts of war.

The bill would also require state or regional catastrophe funds to cover costs expected for a one-in-50-year catastrophic loss level. It would require states revamp building codes and create a National Catastrophe Insurance Commission outside the purview of any current federal agency.

State or regional groups would collect premiums for the new national commission, which in turn would provide them to the U.S. Treasury. The Treasury would then reimburse the commission and the states for claims covered by the funds.

SKIRTING DISASTER

While legislators try to straighten out policy coverage requirements and real estate managers learn from recent experiences, some managers are touring success—getting reimbursed or maintaining lower policy rates.

By negotiating a multiyear insurance package with some unique provisions in 2004—about a year before the hurricanes hit—Randy Kostroske, vice president of internal audit and risk management for Crescent Real Estate Equities Company in Fort Worth, Texas, avoided a major rate hike: The company's primary insurer guaranteed no rate increases in the four-year contract, as long as Crescent's losses didn't exceed 60 percent of its insured value.

With 76 office buildings encompassing 31.2 million square feet in seven states and 40 percent of Crescent's portfolio in Houston's office icons, Kostroske was able to renew the company's property-and-casualty policies with an increase of less than 5 percent and no change in deductibles in November 2005—scarcely more than a month after Rita triggered $2.2 billion in losses in Texas.
“This is unheard of,” Kostroske said. “It just wasn’t done. It was an effort we made with our insurance broker. We’re really big on our relationships with our carriers.”

Kostroske said he has devoted much of his time to building relationships with his company’s primary carrier and other carriers. After Crescent sustained $45 million in losses to its headquarters in 2000, when a deadly twister swept through downtown Fort Worth, the company learned the importance of relationships and good deals, he said. This time, the relationship paid off, he said.

“We’re proud of the fact we have a pretty good selling point to our customers in that we’re able to maintain our pricing and the terms and conditions,” Kostroske said. “They fully expected to be hit hard by our next renewal...We feel really good about how we came out of it.”

Also reporting success in getting claims paid and renewing coverage is Los Angeles developer and manager Judah Hertz, who acquired one quarter of New Orleans’ Class A downtown office space during the past 40 months.

By late December, two of his downtown office properties—the Dominion Tower and the adjoining New Orleans Shopping Centre—remained closed. The two had about $30 million in losses and one million square feet of idle office and retail space.

But good relationships with top-rated carriers meant quick action on claims without the delays other businesses reported, said Gary Horwitz, chief financial officer at Hertz Investment Group.

He said immediately contacting tenants, adjusters and others to head off concerns about mold and other long-term threats was vital. Horwitz said all the work is manageable, and it’s work property managers typically must do—except under much stricter time constraints and in a more pressured atmosphere.

“It’s property management 101,” he said, “just with a lot more to do in a very short period of time.”

Michael Whiteley is a contributing writer for JPM. Questions regarding this article can be sent to kgunderson@irem.org.
As the Justice Department considers proposed changes to the Americans with Disabilities Act, real estate industry members voice concerns about potential cost and compliance

by Darnell Little

As the Americans with Disabilities Act of 1990 reaches its 15th anniversary, the United States Justice Department is working on the first major overhaul of the act, which requires public facilities be built or altered to provide easier access for the physically disabled.

The act initially mandated owners of commercial buildings to design and develop restrooms, lobbies and public entrances and exits, among other things, with the physically disabled in mind. But proposed changes will affect everything from the width of entranceways and the height of support rails to the amount of wheelchair space required in assembly areas.

Although the Justice Department may not finalize the proposed changes for a few more years, property owners are already feeling their impact. Building owners embarking on new construction or renovation projects must decide if they want to apply the new standards now, before they are finalized, or use the existing rules until the proposed changes become law.

"[Property owners] have a legal obligation to observe the current standard," said Lois Thibault, coordinator of research for the Access Board, the federal agency responsible for drafting the updated Americans with Disabilities Act rules. "The new guidelines could be called a best practice, and one would encourage them to look to the future and perhaps begin implementing them now."

EMBRACE the future now

Many property managers have already taken Thibault’s suggestion to heart and have begun implementing the proposed standards.

“I think if we’re going to be spending the money today, the prudent thing to do would be anticipate these regulations will come into play and start making those adjustments,” said Linda Aronson, vice president of property management services at Dallas-based Trammell Crow Company, AMO. “It’s prudent to start budgeting for them so there are no surprises down the road."

Steven W. Nourse, an Americans with Disabilities Act consultant in Washington state, said he advises his clients to address the new proposals now instead of waiting for finalization. A proactive approach will serve them better in the end, he said.
"If you only build to the existing code, it seems to me you're always running behind," Nourse said. "You're always going to be chasing something; you're always going to be remodeling something. It seems to me that the proactive way of doing it is [to] build to a little stricter design. Build to a more accessible design, and I think you're going to have [fewer] problems down the road."

However, updating existing design and construction projects is not easy. Many real estate industry members are concerned about how much time the Justice Department will allow to revise development plans and implement the proposed changes once they are finalized.

The Justice Department is currently proposing the possible changes be made within 18 months of officially being adopted. But to many industry leaders, 18 months is not a reasonable time period, said Chuck Achilles, vice president of legislation and research for the Institute of Real Estate Management.

He said a 24- to 36-month adoption period is much more reasonable considering lengthy permit processes, construction costs and other factors going into designing new buildings or revamping old ones.

"The Department of Justice needs to be cognizant there is a time period when adapting properties [to these standards]," Achilles said. "It's very costly and not something you can do easily. This isn't sewing buttons on a shirt. Twenty-four to 36 months is more realistic."

**Existing buildings face CHANGE**

In addition to potential tight deadlines, property managers and owners must consider cost. The Access Board estimates the proposed regulations will add $26.7 million a year to the cost of new construction. Whether the new regulations will apply only to new construction or whether they will one day apply to all existing buildings is a consideration still before the Justice Department.

Kurt Padavano, chief operating officer of New Jersey-based Advance Realty Management, is one of many industry members calling for the government department to exempt existing buildings from any new standards until those buildings undergo major alterations or renovations.

"This is a huge issue for the industry in terms of cost and in terms of implementation and compliance," he said. "There needs to be a grandfathering or a safe harbor exception for all of the buildings [for which owners] have taken the steps to comply with the current act's rulings. They have invested the time and invested the money to go through the process of surveying their buildings, developing a plan and implementing changes to the access and features of the building under the old rules, so they shouldn't now have to re-spend that time and money to bring them to some new standard."

Property owners are concerned about retroactivity and the scope of the proposed changes when it comes to buying existing housing right now, said Mike Beirne, executive vice president of New Jersey-based management and investment firm, the Kamson Corporation.

**Americans with Disabilities Act Background**

The Americans with Disabilities Act, a major civil rights law prohibiting discrimination on the basis of disability, establishes design requirements for the construction or alteration of facilities. It covers facilities in the private sector and the public sector.

Under the act, the Access Board is responsible for accessibility guidelines covering newly built and altered facilities. In 1991, the board published the act's Accessibility Guidelines which serve as the basis for standards used to enforce the law. The new guidelines overhaul the original guidelines.

"We would hope the Department of Justice understands the enormous expense that would be thrust upon [owners] who otherwise purchased totally compliant buildings in good faith," he said.

Beirne said retrofitting an existing building is far more complicated than applying changes to new construction. He said mass retrofitting or mass modifying existing structures requires considering all other existing regulatory pressures like code and environmental issues—lead-based paint and asbestos, among others—as they apply to housing. These other issues are extremely costly in and of themselves, he said.

"If you imagine an existing building akin to a used car, once you start working on it, one repair leads to another," Beirne said. "The chain reaction that could be set off is wide ranging and extremely expensive."

**Adoption likely, in spite of PROTESTS**

Because of the costs and implications being considered, it could be a couple of years before the Justice Department rules on these issues, said the Access Board's Thibault.

"There are a whole range of cost and administrative issues that the Justice Department is investigating, and the Justice Department has indicated that it may be a few years before their work is done," Thibault said.

While the department is dealing with administrative issues, another hurdle facing the new rules has arisen in the form of a lawsuit.
Special needs met
Wisconsin development caters to hearing- and visually-impaired senior community
by Joseph Thomae, CPM, ARM

While many real estate owners and managers struggle to address special needs met
suggested new provisions to the Americans with Disabilities Act, other industry professionals have begun catering exclusively to residents and tenants with disabilities. In September 2005, Cardinal Capital Management opened Water Tower View, a multi-family facility in Wisconsin, meeting the needs of deaf and hard-of-hearing residents, as well as visually impaired residents. The first residents have moved in, occupying 100 percent of the 43-unit development.

Particularly noteworthy are the building's design features and technology—features not available in any other multi-family buildings in Wisconsin. The exclusive design features and technology include:

Videophones
In each apartment, videophones—camera/microphone/Internet devices using a high bandwidth pipeline and a standard television to communicate with other videophones—allow residents to connect with one another and show both parties conversing.

They also let residents talk to and admit visitors contacting the apartments. A traditional teletypewriter supplements the video link for entry. The resident triggers a door release to admit visitors.

Loop hearing aid system
Meeting rooms employ a built-in hearing aid loop system: A wire embedded in the ceiling transmits sound from a microphone to a hearing aid without additional receivers or equipment. The system can tie into a television's audio so hearing-impaired individuals can enjoy watching movies with sound.

Lighted switches
Lighted switches for garbage disposals and bathroom fans indicate the devices are on. A single switch in the stove hood turns on both the fan and light.

Within each apartment, interconnected smoke detectors activate simultaneously if one is triggered. Bright strobe lights supplement smoke detector horns and fire alarms.

Light panels
No commercially available signaling device exists to tell a hearing-impaired person the front door, videophone or unit doorbell is ringing. Water Tower View's construction manager and Simplex Grinnell Corporation invented and are patenting a visual signaling device.

Tactile and visual navigation references
In public areas, color differentiation of carpet aids those with limited sight in detecting building levels and determining location.

Apartment doors are recessed about 12 inches. The recessed area is a different, darker color than the hallway walls. The tonal variation helps a person with limited sight locate a doorway and navigate safely.

Handrails on both sides of hallways and Braille supplements on apartment numbers and signage assist visually impaired individuals.

Line of sight communications
Open apartment designs allow a person in the kitchen to communicate with another in the living room. Low-hanging lights over counters provide low-intensity, diffused light sources and reduce glare. □

This is a follow-up to the Special Needs Met article in the May/June 2005 issue.

Joseph Thomae, CPM, ARM and 2006 JPM advisory board member (jthomae@cardinalcapital.us) is an asset manager for Cardinal Capital Management.
Filed by the National Federation of Independent Business in July 2005, the suit claims the Access Board violated the Regulatory Flexibility Act, a federal law requiring agencies to look for less burdensome alternatives when proposing rules posing potentially significant economic impacts on small businesses. The government has responded to the suit, and it is in a holding pattern right now, waiting on the court's ruling.

"Congress passed the [act] to require agencies to consider in a meaningful way the impact of regulations on small entities and to consider less burdensome alternatives," said Elizabeth Gaudio, senior attorney for the federation. "And we are just contending that in passing these new [Americans with Disabilities Act] rules... the Access Board did not comply with the Regulatory Flexibility Act."

The federation's suit notwithstanding, Thibault said the new proposals will prevail and be law in the near future.

"Our work at the Access Board is completed, and the United States Department of Justice and the United States Department of Transportation, which are the two rule-making agencies under the Americans with Disabilities Act, are considering and in fact have given notice of their intent to adopt," she said.

**Using NEW standards makes good sense**

Lawsuits and timetables aside, disabilities act consultant Nourse said the real estate industry would be wise to embrace the new standards because the elderly population, often in need of special access, will soon dominate residential building owners' customer market.

"If you start looking at some of the demographics in the United States, and if you look at who's moving into condominiums, it's the elderly," Nourse said. "Disability comes with age, and there are a lot more folks out there that are living into their seventies, eighties and nineties that have money and can buy these condominiums, if they can find some that are accessible. So I think that it is good business for the condo owners to look a little ahead and be a little proactive on some of the laws."

In the long run, property owners will only benefit from the regulations being brought into the 21st century, said Charlie Edwards, a partner at law firm Womble Carlyle Sandridge & Rice, which has represented property owners involved in disabilities act litigation.

"I think anything that is 15 years old is technologically obsolete," he said. "Construction methods keep changing, what the public wants keeps changing, and so that which might have been acceptable ten or 15 years ago, may not be enough to satisfy the public today." "

Darnell Little is a contributing writer for *JPM*. Questions regarding this article can be sent to kgunderson@irem.org.
common interests

Tenancy-in-Common investments create opportunities for property owners and managers by Amanda Kaschube
The idea seems simple: Pool money together, and purchase a bigger and better piece of the proverbial pie.

Such a simple idea in the form of a property ownership arrangement—tenancy-in-common—has resulted in great rewards for many property owners.

Tenancy-in-Common (TIC) allows two or more persons to have an undivided, fractional interest in a property asset. Ownership shares do not have to be equal, and beneficiaries can inherit the interests. Owners receive their proportional share of income, tax benefits and the property's appreciation.

"It allows small investors to acquire an interest in an institutional quality asset that is professionally managed on their behalf," said Christian Mirner, executive vice president of real estate for 1031 Exchange Options in California. "Being able to segue from sole ownership and defer the taxes and acquire a generally higher quality, institutional, more high-profile asset is a very logical progression for a real estate investor."

The progression and growth of TICs has been both stunted and helped by the U.S. government. Initially, the Internal Revenue Service recognized a TIC as a partnership, meaning all tax rules applied. Namely, when TIC owners wanted to sell their property, they were taxed heavily.

But the advent of Revenue Procedure 2002-22 by the IRS in 2002 changed the face of TICs, said Paul White, CPM, and regional manager for SCI Real Estate Investment in Miami.

"It's how the industry got kicked off: Now it makes sense to take the risk," he said. "Now we understand what we need to do to prevent the IRS from coming in and saying you're a partnership."

2002-22 qualifies a TIC for a 1031 Exchange, a section of the tax code allowing investors to exchange "like-kind" property. Basically, investors can buy and sell property without being taxed on their returns.

"The government wants to tax you, but as long as you change from like-kind property, they won't," said Eric Odum, president of Navigar Advisors, an independent TIC advisory, clearing through GunnAllen Financial Inc., in Tampa, Fla.

Odum said the 1031 Exchange would have a catastrophic effect on the small-end market for investors.

"You'd have to pay taxes every time you sold a property," he said.

The minimum investment for a TIC is $100,000, but Odum said investing between $350,000 and $500,000 provides the best shot at a good deal. A high-end TIC property will be a Class A property featuring an investment-grade tenant with a B-plus or better on the Standard & Poor rating.

"It's like the difference between a mom-and-pop tire company and Goodyear Tires," Odum said.

Most TIC properties are held for four to ten years before investors sell. According to the 1031 Exchange, a replacement property—the new property being acquired by the investor—must be located within 45 days. The 45-day period begins with the close of escrow of the previous property.

Since the previous and replacement properties are considered "like-kind" properties, investors are not taxed on their capital gains. With the tax risk gone, Mirner said the volume of TIC business has increased each year.
IRS establishes tenancy-in-common guidelines


1. Each of the co-owners must hold a tenant-in-common title, either directly or through a disregarded entity.

2. No more than 35 people can co-own a 1031 property.

3. Co-owners cannot be treated as an entity.

4. Co-owners may enter into a limited co-ownership agreement that may run with the land.

5. Co-owners must approve the hiring of any manager, the sale or other disposition of the property, any leases of a portion or all of the property or the creation or modification of a blanket lien. A co-owner's unanimous approval is required for several actions. Co-owners may agree to be bound by the vote of those holding more than 50 percent of the undivided interests in the property.

6. In general, each co-owner must have the rights to transfer, partition and encumber a co-owner's undivided interest in the property without the agreement or approval of any person.

7. If the property is sold, any debt secured by a blanket lien must be satisfied, and the remaining sales proceeds must be distributed to co-owners.

8. Each co-owner must share in all revenues generated by the property and all costs associated with the property in proportion to the co-owner's undivided interest.

9. Co-owners must share in any indebtedness secured by a blanket lien in proportion to their undivided interests.

10. A co-owner may issue an option to purchase the co-owner's undivided interest (call option), provided the exercise price for the call option reflects the fair market value of the property determined at the time the option is exercised.

11. The co-owners' activities must be limited to those customarily performed in connection with the maintenance and repair of rental real property.

12. Co-owners may enter into management or brokerage agreements, which must be at least annually renewable, with an agent, who may be the sponsor or a co-owner, but who may not be a lessee.

13. All leasing arrangements must be bona fide leases for federal tax purposes.

14. The lender with respect to any debt encumbering the property or with respect to any debt incurred to acquire an undivided interest in the property may not be a related person to any co-owner, the sponsor, the manager or any lessee of the property.

15. The amount of any payment to the sponsor for the acquisition of the co-ownership interest and the amount of any fees paid to the sponsor for services must reflect the fair market value of the acquired co-ownership interest or the services rendered and may not depend, in whole or in part, on the income or profits derived by any person from the property.
"It's become a notable force in the overall real estate market," he said. "TICs are competing with trusts, institutional investors and opportunity funds for the gamete of real estate products that are traded across the country on an annual basis."

While property owners are benefiting from TICs, the arrangements are also presenting advantages for property managers, Odum said.

"It creates another vehicle and another whole set of individuals to manage," he said. "There's a whole new set of players."

White, of SCI, said larger TICs will source out the day-to-day activities, like the leasing and asset management to local companies: TICs need qualified people to handle that, he said.

"It's more cost-effective to find the best in that market," he said. "It boosts CPMs."

Since TICs sometimes involve investors spread all over the country, hiring a local property manager to conduct local business on behalf of the co-ownership group makes sense, Miner said. His company has business dealings in California, Tennessee, Georgia, Illinois and Nevada.

"Wherever there's potential opportunity and attention is being paid by institutional investors, those are markets where you'll see co-ownership groups acquiring assets," he said.

Dealing with and communicating with up to 35 co-owners is a major struggle for many property managers working with TIC investors, Odum said.

"It's not a simple ownership where you have one owner," Odum said. "So with major issues, you're essentially dealing with multiple owners and that can create a challenge."

But the challenge is necessary in the TIC arena.

"From the IRS standpoint, co-owners need to be involved at the real estate level in order to maintain the integrity of like-kind property for 1031 Exchange," Miner said.

From an economic standpoint, the growing real estate market will create a steady and growing flow of cash, and TICs will keep its profits circulating thanks to the 1031 Exchange.

"In a social context, there's an aging baby boomer population that's trying to figure out how to pass their wealth on to the next generation," Mirner said. "If they sold it outright, there would be a large tax liability that would negatively impact their net worth."

But with the TIC and 1031 Exchange, White said real estate could be converted into an annuity-type income that is a "great vehicle for passing real estate wealth on to children."

More pie anyone? □

Amanda Kaschube is a contributing writer for JPM. Questions regarding this article can be sent to kgundersen@irem.org.
Landing the deals

- Trammell Crow Company, AMO, announced several recent deals:
  - Great Fit Staffing Solutions leased 6,126 square feet in the Southfield Town Center, a high-rise office tower in Southfield, Mich.
  - Greenfield Investments LLC, of Southfield, Mich., sold a 2,200 square-foot medical building.
  - Balance Fitness leased a 7,453 square-foot site in the Walled Lake Commons shopping center, in Walled Lake, Mich.
  - GM Planworks has expanded its space by 12,405 square feet at 150 West Jefferson in Detroit. It now occupies 74,678 square feet of the downtown high-rise.

- Divaris Real Estate Inc., which comprises Divaris Property Management Inc., AMO, announced several recent deals:
  - Hirschler Fleischer leased 67,334 square feet of office space in the Edgeworth Building in Richmond, Va.
  - Asset Capital Partners LP bought Pinewood Plaza from Berman Kappler Properties LLC, for more than $8.5 million, in Hampton, Va.

- Charles Dunn Company, AMO, announced the following deal:
  - The company sold a multifamily property, consisting of two 14-unit buildings, to YHB Oxford LLC, for about $4.8 million, in Los Angeles.

On the Road Again

IREM Officers will be making stops at the following chapters:

- **March 8**
  - Delaware Valley Chapter No. 3 and Southern New Jersey Chapter No. 101
  - Location: Atlantic City, NJ
  - Visiting Officer: Fred Prassas

- **March 15**
  - Western North Carolina Chapter No. 40
  - Location: Charlotte, NC
  - Visiting Officer: Randy Woodbury

- **March 16**
  - Boston Metropolitan Chapter No. 4
  - Location: Boston, MA
  - Visiting Officer: Gail Duke

- **March 16**
  - Greater Nashville Chapter No. 71
  - Location: Nashville, TN
  - Visiting Officer: Fred Prassas

- **March 22**
  - Sacramento Chapter No. 22
  - Location: Sacramento, CA
  - Visiting Officer: Robert Toothaker

- **March 23**
  - Western Pennsylvania Chapter No. 7
  - Location: Pittsburgh, PA
  - Visiting Officer: Fred Prassas

- **April 11**
  - El Paso Chapter No. 84
  - Location: El Paso, TX
  - Visiting Officer: Fred Prassas

- **April 13**
  - Kentucky-West Virginia Chapter No. 104
  - Location: Lexington, KY
  - Visiting Officer: Fred Prassas
Career Moves

- **Craig Garrison, CPM**, was named the director of property management for Keystone Partners’ newest service division, Keystone Property Management LLC. Craig brings 20 years of experience to compliment Keystone Partners existing office and industrial tenant representation and brokerage services, as well as project management services through Keystone Project Services.

- **Misty Fisher, CPM Candidate**, was named Irvine district manager for Pacific West Management Inc. Her duties include overseeing property operations throughout Southern California. Prior to joining Pacific West, she was area manager for Village Green Companies and a leasing consultant with Partnership Concepts Realty Management Company, both located in Chicago.

- **Ken Weaver, CPM Candidate**, was named Sacramento district manager for Pacific West Management Inc. His responsibilities include overseeing property operations throughout Northern California. Before joining Pacific West, he was regional manager for WASTCH Property Management in Rancho Cordova, Calif., senior regional manager for the CBM Group in Auburn, Calif., and regional manager for with Preferred Realty Advisors, out of Stockton, Calif.

Membership Figures

Here are the year-end membership numbers (as of 12/31/05), including all statuses for U.S. and international members.

- CPM Members: 8,503
- CPM Candidates: 2,727
- ARM Members: 3,641
- Associate Members: 1,784
- Student Members*: 20
- Academic Members*: 2
- Total Members: 16,677

AMO Firms: 516

*A The student and academic membership programs were established in August, 2005.

Awards and Recognition

Western National Property Management, AMO, was recently ranked for having the number one housing client program out of 189 property management firms in a third-quarter research report by Corporate Research International. This is the second consecutive quarter the company has ranked first on the list.

"Western National Property Management’s dedication to extensive employee training programs and proactive customer service methods were further validated through this top ranking," said Laura Khouri, senior vice president of Western National Group, the parent company of Western National Property Management.

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
- MNT402-Property Maintenance and Risk Management
- MPSA01-Management Plan Skills Assessment
- RES201-Successful Site Management
### Course Listings

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**MAY**

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| CPM001  | May 5  | Raleigh, NC |
| RES201  | May 5-21 | Honolulu, HI |
| CPMEXM  | May 6  | Nashville, TN |
| ETH800  | May 8  | Denver, CO |
| ASM603  | May 8-9 | Denver, CO |
| ASM603  | May 8-9 | Memphis, TN |
| ASM603  | May 8-9 | Atlanta, GA |
| BDM602  | May 8-9 | Los Angeles, CA |
| BDM602  | May 8-9 | Cincinnati, OH |
| BDM602  | May 8-9 | Milwaukee, WI |
| RES201  | May 8-13 | Pittsburgh, PA |
| RES201  | May 8-20 | New York, NY |
| FIN402  | May 9-10 | Indianapolis, IN |
| MKL405  | May 9-10 | Southfield, MI |
| ASM604  | May 10-11 | Denver, CO |
| ASM604  | May 10-11 | Memphis, TN |
| ASM604  | May 10-11 | Atlanta, GA |
| MPSA01  | May 10-11 | Los Angeles, CA |
| MPSA01  | May 10-11 | Cincinnati, OH |
| MPSA01  | May 10-11 | Milwaukee, WI |
| ETH800  | May 11 | Irvine, CA |
| HRS402  | May 11-12 | Southfield, MI |
| ETH800  | May 12 | Sacramento, CA |
| ASM605  | May 12 | Denver, CO |
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| RES201  | May 15-20 | Knoxville, TN |
| MKL406  | May 16-17 | Dallas, TX |
| MKL406  | May 16-17 | Honolulu, HI |
| MKL406  | May 16-17 | East Windsor, NJ |
| ETH800  | May 17 | Columbus, OH (Stoutsville) |
| ASM604  | May 17-18 | Boston, MA (Quincy) |
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| FIN402  | May 17-18 | Austin, TX |
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| HRS402  | May 17-18 | Minneapolis, MN |
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| HRS402  | May 18-19 | Dallas, TX |
| HRS402  | May 18-19 | Portland, OR |
| HRS402  | May 18-19 | Honolulu, HI |
| HRS402  | May 18-19 | East Windsor, NJ |
| ASM605  | May 19 | Boston, MA (Quincy) |
| CPM001  | May 19 | Houston, TX |
| CPMEXM  | May 20 | Houston, TX |
| ASM603  | May 22-23 | Seattle, WA (Bellevue) |
| ASM603  | May 22-23 | Miami, FL |
| CPM001  | May 23-23 | Indianapolis, IN |
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| ASM604  | May 24-25 | Miami, FL |
| ASM605  | May 26 | Seattle, WA (Bellevue) |
| ASM605  | May 26 | Miami, FL |

*For the most up-to-date course listings, please visit [www.iarem.org/eventschedule.cfm?eventType=Course]*
Floods don't discriminate. They can happen anywhere, at any time. And just one inch of water can cause costly damage to a property.

Protecting a property against flooding can be as simple as using sandbags as a shield or purchasing flood insurance. But for most property owners, it usually takes a large flood to change one's perspective.

"It's human nature," said Jason Smith, president of Presray, a company that designs flood protection products. "Most people do the prevention after they've been flooded."

High waters, high risk

Assuming a property won't flood is risky, considering everyone lives in varying degrees of a flood zone—ranging from less than 1 percent of flooding each year to a 26 percent chance of flooding over the life of a 30-year mortgage, according to information from the Federal Emergency Management Agency (FEMA).

Ron Davis, an Illinois state mitigation officer for FEMA, said an at-grade structure in a 100-year flood plain has a 30 percent chance of flooding during its 30-year mortgage. The chance of fire occurring during that same time period is 1 percent.

To combat flooding, property owners should first identify the level of flood zone in which they live. FEMA has separated the zones into four categories—low-to-moderate, high, high-coastal areas and undetermined risk areas. Knowing if a property is in a flood plain is also important. Flood plains border rivers and are mostly made up of river sediment deposited by floods.

"The number one thing I tell people is to avoid living in a flood plain: Those areas are more at risk," Davis said. "Avoid those areas and you'll be better off."

Being familiar with the property's flood history is also beneficial, said Phillip Letsinger, North Carolina's National Flood Insurance Program coordinator. He said the FEMA flood zone maps help determine the level of risk and how it corresponds to the level of flood proofing necessary for that structure.

Shield properties from damage

One level of flood proofing involves using shields—a viable action in protecting properties. Letsinger said during Hurricane Floyd in the Carolinas, many older buildings relied on sand bags and plastic covering for...
shields. Sealing openings like low windows, improving exterior walls and elevating buildings above projected flood levels also helps, according to FEMA information.

With new products available like water-tight doors and hatches and flood gates in the form of floor and wall panels, prevention is more about shielding than revamping an older structure or modifying how new structures are built, Smith of Presray said.

"When building a building, people are spending millions to elevate it above flood waters," Smith said. "Building it higher means more stairs which is a hardship for the older clients. What we're saying is don't build it up, build the building at grade. Those buildings can sell for higher prices, and all you have to do is just use flood barriers."

Presray designs reusable, dry flood-proofing products aimed at keeping water out and has recently started targeting smaller scale properties like houses. Smith said the company sends out engineers to walk the property and make recommendations specific to the needs of the facility.

Survival of the fittest
In addition to treating a property with the proper flood-prevention equipment, FEMA officials recommend purchasing flood insurance. Insurance costs are more affordable in low-risk flood plains and when owners use flood-proofing measures.

Need more information?
For more information, go to the National Flood Insurance Program's Web site at www.floodsmart.gov. This Web site will help you determine your flood risk, estimate your premium and find an agent, among other things.

Of all the natural disasters that have occurred in the last 5 years, floods caused 61 percent of all property damage.

High-risk areas, however, are not the only areas hurt by floods: Between 20 and 25 percent of flood insurance claims come from low- or medium-flood risk areas.

New land developments can also increase flood risk, especially if the construction changes natural runoff paths, according to FEMA information.

"If it's new construction, protect it way above the minimum," Letsinger said. "That will reduce your probability of loss and reduce your insurance rates."

The National Flood Insurance Program offers a lower-cost protection option for residential and non-residential properties called the Preferred Risk Policy. Through this policy, business owners can buy $50,000 of contents coverage per building for $500 a year; and business owners who lease their space can purchase $50,000 of contents coverage for $121 per year.

Because federal disaster assistance can't be guaranteed, Letsinger said a flood insurance claim check is the best recovery tool, and it's faster than disaster assistance. He said property owners should invest in flood insurance immediately upon acquiring a property because of a 30-day waiting period requirement for flood insurance.

If the natural disasters in 2005 taught property managers and owners anything, it was to be prepared for everything and to expect the worst.

"Floods and storms often exceed that [flood] probability, and sometimes maps are wrong or old or outdated," Davis of FEMA said. "Everyone has a responsibility to evaluate their own risk."

But again, as with most insurance, he said people don't realize they need it until it's too late.

"You might only have a flood once every ten years or not even be aware of flooding in the past, but it takes just one time," he said. "Couches and rugs can be replaced. What can't be [replaced] are photos and mementos. That's what's real heartbreaking. There's a piece of mind you get with insurance."
Make some noise

Soundscape™ acoustical canopies by Armstrong Ceilings are ideal for use in open spaces and over workstations and reception areas. They have sound absorbing properties, reducing reverberation time in the space below them. Use of multiple canopies should improve acoustics more.

Smooth and curved, the canopies measure at 47" by 76", and they are suspended from the building structure. They can be installed as hills or valleys, and special tools and techniques are not required for installation. All hardware, cables and other required installation components are packaged with each canopy.

The canopies have a high light reflectance value. Ninety percent of the light striking the canopy is reflected as a result of the canopy's Ultima™ DuraBrite membrane or scrim. Its DuraBrite surface also enhances durability and scratch resistance.

Made with highly recycled content, the canopies are also seismically approved. For more information, visit www.Armstrong.com/ceilings.

Scanning security

Barcode Automation's BA-200 is designed for controlled access areas like gated communities, private parking lots, schools and hospitals.

It reads barcode decals placed on side windows of vehicles before signaling gates to open and allowing access. The BA-200 can read decals from six feet away, and it is capable of denying access to cars without the decal.

The barcode reader can substitute for guards at gates and allows tenants or residents to access the facility faster. Visitors can be directed to a manned gate, where guards can focus on guests, rather than established tenants or residents.

An internal transaction log stores the last 2,000 vehicle identification numbers read by the unit, along with the time and date they passed through. For more information, visit www.barcode-automation.com/products.html.

'Quickening' time-heavy tasks

Quicken® Rental Property Manager 2.0, by Intuit, provides real estate owners and managers one central place to organize rental income and expenses and save hours of preparation at tax time. The software is geared toward managers who own up to 10 properties and a total of 25 units. It was introduced to retailers in November.

The enhanced 2.0 version includes all the features of version 1.0, as well as new features like a rent center for tracking rent payments and tenant information like payment history, contact information and lease terms.

Other features include the one-click tax report, income and expense reporting and integrated tenant and tracking information. The software's purchase price is deductible as a rental expense on tax returns. The suggested retail price is $99.99, which includes one year of free technical support. For more information, visit www.quickenrental.com.
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Major donors help IREM Foundation achieve mission

A 501(c)(3) non-profit organization, the IREM Foundation was created to support the real estate management industry through education and research. With the crisis created by Hurricane Katrina, it recently expanded its mission to include charitable activities.

The foundation's work is supported largely through tax-deductible contributions, including donations from IREM Members and others involved in the real estate management industry. Donors displayed enormous generosity in 2005: More than $304,000 was given by 2,814 individuals, companies and organizations to support the vital programs sponsored by the foundation. Worthy of special note are those donors contributing $1,000 or more:

**PRESIDENT'S CIRCLE**
*(donating $5,000 and above)*
- Amar Infinity Foundation
- Eugene J. Burger, CPM
- Leonard Pfeiffer and Company LLC

**BOARD ROOM**
*(donating $3,000 to $4,999)*
- IREM Northern Virginia Chapter 77
- IREM Virginia Tidewater Chapter 39
- Paige W. Woolwine, CPM

Another source of funding for the IREM Foundation is special events, and the auction conducted during the IREM Education Conference in Scottsdale, Ariz., in November was indeed special. For the first time the auction was conducted online. Items were also displayed for silent bidding throughout the conference. It generated over $21,000. Many of the items were donated by IREM Members and chapters and included exclusive vacation packages, fine art and sports memorabilia.

**ATRIUM CLUB**
*(donating $2,000 to $2,999)*
- Madeleine Abel, CPM
- Edward Boudreau, CPM
- Barbara Campbell, CPM
- CB Richard Ellis. AMO
- IREM Milwaukee Chapter 13

**MEZZANINE CLUB**
*(donating $1,000 to $1,999)*
- Robert Click, CPM
- Jo Anne Corbitt, CPM
- John Gallagher, CPM
- IREM Austin Chapter 61

**MEZZANINE CLUB continued**

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Yoshiko Meg Sakabe, CPM
Jeremy M. Sibler, CPM
Michael B. Simmons, CPM
Anthony W. Smith, CPM

Awarded scholarships hit new high

Scholarships were given to 34 individuals last year, pushing the total amount of scholarship money awarded to $102,000. As a result of the number of scholarships awarded in 2005, as well as those awarded in prior years, 35 scholarship recipients attended 92 IREM courses, and three minority students intending to pursue careers in property management advanced their education in undergraduate and graduate programs. Six scholarship recipients earned the CPM designation, and two earned the ARM certification.

**Paletou Award nominations due**

The highest honor given by the IREM Foundation is the J. Wallace Paletou Award. The award is presented to an individual, not necessarily a CPM, who has made significant contributions to the real estate management industry or contributed to the betterment of society as a whole through the role of a real estate manager.

Do you know someone who fits this description? Someone who has made truly outstanding contributions to the property management industry? Nominations for the Paletou Award for 2006 are due March 26. Information about the award and nomination forms can be found by visiting www.iremfoundation.org and clicking on Professional Recognition Awards.
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