EMERGENCY EXIT

PUBLIC DISTURBANCES

JUL. AUG 2016

THE OFFICIAL MAGAZINE OF THE INSTITUTE OF REAL ESTATE MANAGEMENT (IREM®) / www.irem.org
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DEALING WITH CIVIL DISTURBANCES

Now more than ever, the idea that unexpected violence can occur on a property is more than a distant reality. Are you equipped to respond without hesitation during a crisis and protect those who live-work-play on your properties? Make a Plan (P. 10) interviews IREM Members who have survived these crises—from protests in Baltimore to disturbances in the Globus Mall in Kiev, Ukraine—and came out with wisdom and advice on crisis management.

Budgeting for Building Operations (P. 15) is a short case study on how making small, quick maintenance decisions can completely change your property’s bottom line. Maintaining, rather than replacing, can drastically impact not only your budget, but your perceived value in being a steward for your property.

Keep Score: Using Internal Rate of Return to Score Investments (P. 18) demonstrates how IRR can be a powerful financial analysis tool—if fully understood and used properly. Brush up on IRR to avoid common misconceptions and misuses in real estate investment analysis.

> TURN TO PAGE 34 FOR A SPOTLIGHT ON IREM-AWARD-WINNERS SUSTAINABILITY STRATEGY.
The American Pet Products Association (APPA) announced at its recent annual trade show that overall spending in the pet industry last year topped a record $60.28 billion—a number that’s projected to grow to $62.75 billion this year. The apartment sector has recognized in recent years that more and more residents seek living spaces where pet amenities exist. According to the National Multifamily Housing Council, 33 percent of pet owners rent apartments. As a result, they are drawn to such amenities as dog washing stations, pet parks, and even dog treats in the lobby. Robert Poynter, executive vice president and chief investment officer at Monogram Residential Trust, said that a happy pet can also mean a happy resident. 

The growth in younger pet owners is coming at a time when Baby Boomers are showing waning interest in caring for furry companions. Boomers now make up only 37 percent of pet ownership. “We knew this was coming as the generation that started the humanization and pampering of pets is aging,” said APPA President and CEO Bob Vetere. “The growing incidence of pet owners among the younger generations is so encouraging, we are extremely optimistic about the future of pet ownership and the industry that stands to serve those pets and their owners.” The pet craze is even promoting social interaction among apartment residents. For instance, AvalonBay’s multifamily communities regularly host Doggie Paddle pool parties, Yappy Hours, and pet CPR classes to bring pet lovers together at their properties.
4 WAYS TO MAINTAIN FIRE PROTECTION SYSTEMS

Nearly all commercial facilities have fire sprinklers. But building owners and managers must make sure they are the right type. [1] A good rule of thumb is to check to see if the sprinklers in place are the same type as is indicated on the plans and hydraulic calculations. If the current system is different than what was specified, the calculations are no longer useful and property management must confirm that what is installed provides adequate protection for occupants and property. [2] In addition, maintaining exhaust fans is extremely important. Debris that builds up within a building’s HVAC system’s exhaust fans can quickly turn into a fire hazard, particularly during the warmer months of the year.

[3] Another tip is to make sure doors pass the test. Check to see where each fire door’s protection rating is. In particular, make sure each door has been tested per the NFPA 252: Standard Methods of Fire Tests of Door Assemblies standard. [4] Finally, keep all your building’s equipment safely stored and in working order. It is easy to think of HVAC systems or your building’s lighting when it comes to fire hazards. However, there are other risk sources as well. If not properly maintained, lawn mowers and other motorized equipment can also start a fire. “Make sure you’re following all recommended safety measures as well as ensuring that occupants and staff know how to avoid creating a dangerous situation.”

MALLS GET CREATIVE IN THEIR ATTEMPTS TO WIN BACK CUSTOMERS

Traditional shopping malls that have lost their anchor department stores and other tenants are undergoing multimillion-dollar facelifts and adding everything from libraries and health care facilities to multifamily housing and entertainment options. The goal is to woo back families, Millennials and tech-savvy shoppers who were once mall mainstays. The Burlington Town Center Mall in Vermont, for example, is proposing a $200 million renovation that will add 200 units of housing and space for the University of Vermont Medical Center alongside its shops. Westfield Century City in Los Angeles, meanwhile, is planning an expansion that includes an outdoor dining plaza and an Eataly, a popular Italian food emporium currently not on the West Coast. Moorestown Mall in New Jersey transformed itself a few years ago after local voters overturned more than a century-old ban on liquor sales. It added several high-profile eateries, including one run by Iron Chef Jose Garces. A state-of-the-art movie theater has also increased foot traffic.

“Shopping centers and the physical retail experience is becoming much more experiential,” said Tom McGee, president and CEO of the International Council of Shopping Centers. “People want to have experiences when they go out. They want to experience restaurants. They want movie theaters. They want that kind of all-in aspect.” But for every successful Moorestown or Westfield, there are numerous others that remain a work in progress—or worse, appear doomed to failure. Siteworks Retail President Nick Egelanian said there are about 1,000 traditional malls in the United States—down from a peak of 3,000—and as many as two-thirds of them could eventually close.
Driven by demand as well as a city mandate, New York building owners and developers are carving out bicycle rooms for residents to store what for some has become their transportation mode of choice. These state-of-the-art spaces often have their own entrances, saving wear-and-tear on the building’s lobby and passenger elevators. The best bike rooms also offer their own gear by way of pumps and repair stands and even hooks for hanging helmets. In the city’s fanciest buildings, porters and door attendants act as bike valets. “People come to an open house and ask, ‘Do you have a gym, a roof deck, a doorman?’” said David Maundrell III, executive vice president for Brooklyn and Queens of new development for Citi Habitats. “Now they also ask, ‘Do you have a bike room?’” The amenity has proven so popular that there are waiting lists for a number of the city’s bike rooms.

As for new buildings, a zoning amendment passed seven years ago requires the provision of one bike space for every two units in structures of 10 apartments or more. In addition, the law applies to substantially enlarged buildings and to those being converted to residential use. In Downtown Brooklyn, for instance, a new 378-unit rental/condo building created 190 bike spaces in three separate rooms in the basement—one space above its mandated quota. Many buildings located close to public parks or bike lanes exceed the minimum number of spots. In some cases, bike rooms are even muscling out other types of storage. Still other New York buildings are providing the bikes themselves, acquiring their own fleets—emblazoned with the buildings’ names—for residents’ use.
DOWNLOAD ME

TOGGL
You can’t manage what you don’t measure. The Toggl timer is a cloud-based tracking tool to help you easily track where your time is going. If you need to log billable hours or juggle multiple projects, Toggle is set up to track as many projects or clients as you want. As a bonus, your data can be organized into graphs and exportable timesheets.

Toggl is free for up to five users, while a Pro version allows unlimited users and adds billable rates, subprojects and other features for $5 per user per month.

→ iOS, Android
→ Free

SHYP
Let’s face it: mailing things is a hassle. Imagine never waiting in line at the post office again. With the Shyp mobile app, you simply snap a photo of whatever you want to ship, a courier comes to your door (typically within 20 minutes) and takes it to a nearby facility where it’s packaged and shipped. It’s basically the Uber of shipping.

→ iOS, Android
→ Free to download (prices vary based on shipment)

AWAYFIND
Get out of your inbox with the AwayFind app. According to AwayFind’s inventor, this app can save you at least two hours a day of searching through emails by simply sorting and organizing your priority emails. Depending on what filters and notifications you set up, AwayFind will notify via text message about emails that are important to you.

→ iOS, Android
→ Free for 30 days; $5 after that.

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→ Free for 15 days.

FAST FACTS

BOSTON was home to the first U.S. chocolate factory.

PORTLAND is the second-most bike-friendly city in the country, behind Minneapolis.

SAN DIEGO COUNTY produces more avocados than any other place in the United States.

DETROIT is the only city in the United States where you can look south toward Canada.

In NEW YORK’S Central Park, it can cost more than $289,000 for a one-year hot dog stand permit.
TOP 5 HIGHEST & LOWEST NET OPERATING INCOME > GARDEN CONVENTIONAL APARTMENTS

LOWEST NOI

<table>
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<th>METRO</th>
<th>NOI</th>
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HIGHEST NOI

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<td>San Francisco</td>
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<td>10</td>
</tr>
</tbody>
</table>

*Minimum sample of 10
NOI = Net Operating Income for Garden Conventional Apartments

In Median Dollars per Square Foot of Rentable Area
Beside garden apartments, high rise, low rise 12-24 units and low rise 25+ units property types are available in Metro, Regional and National reports.

Data from 2015 Income/Expense Analysis: Conventional Apartments

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In today's low return environment, smart budgeting makes all the difference. Providing investors the opportunity to better gauge their cash flow and project or predict their returns is crucial in maintaining a successful real estate investment relationship. But a budget, though generally presented, signed and approved well ahead of the operational year, is a living and breathing document that can change course over time. Sometimes, these changes can occur after the budget has been approved and present investors and managers with grief or uncertainty. As with many tough situations in business and in life, the key to success is proper planning and that starts with preparation and presentation.

**DETAIL MAKES THE DIFFERENCE**

It would be impossible to predict every issue that could arise at a property over the course of a year, but that's why it's so important to understand the potential costs and consequences of what could go wrong. Knowing the current condition and functionality of a building's systems is helpful, but knowing the potential costs for a contingency plan is better. Information is a manager's most valuable tool and taking the time to counsel clients on these conditions during budget presentation helps lay the groundwork for a future conversation about repairs. To borrow a boxing adage: "the worst punch to take is the one you don't see coming." Translation: no one likes to get blindsided, especially investors.

**PLOT THE MAP AND STAY THE COURSE**

Just like presenting the potential issues is important, so too is effectively navigating the fixed-expense climate. So after obtaining the necessary proposals and understanding the one-time and seasonal add-ons, use this to your advantage.

Many times, investors are focused strictly on the financial return generated by an asset, but being able to summarize the property's physical performance and appearance in discussing how pre-planned enhancements are impacting the customer experience on-site is powerful. What did you do to help improve circumstances onsite? All too often, a manager's victories go unnoticed or unappreciated simply because they go unidentified. You owe it to yourself, your team and your client to master the art of humbly articulating your successes. No need to brag or boast, but certainly important to explain the value that you add to the investment relationship and the difference that you and your team are making.

A budget is a living and breathing projection of an asset's financial performance over a fixed period of time. And while we plan for the best, if and when we get off track, just focus on the end-result of happy customers and happy clients. This way, the work gets done properly and your clients can rest comfortably with the personal care and attention that you have provided. Besides, it's rarely a budget issue. More often than not, it's the inability to predict the future. Anyone have a crystal ball? —
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- Compensation
- Training and development

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STEP ONE:

MAKE A PLAN

DEALING WITH CIVIL DISTURBANCES

BY JOSEPH DOBRIAN
NOW THAT THE SMOKE HAS CLEARED FROM VARIOUS CIVIL DISTURBANCES IN THE PAST COUPLE OF YEARS, IN THE U.S.—AND WHILE WE AWAIT THE NEXT ONES—IT HAS BECOME EVIDENT THAT MANY PROPERTY MANAGERS AREN’T PROPERLY EQUIPPED OR PREPARED TO PROTECT THEIR ASSETS WHEN THESE INCIDENTS OCCUR. While it’s unusual for a property manager to have to deal with the consequences of a riot or a violent revolution—very few managers will ever have to—having a plan in place is essential. Just as important, all concerned parties should know their roles and responsibilities and be trained to fulfill them.

The real estate industry is notorious for being consistently behind the curve, technologically, but property managers will find that crisis management and business continuity depend on staying current with the latest innovations and sharing them with team members and tenants. Communication, almost always, is key to weathering a disturbance.

PROTESTS IN BALTIMORE
Toni Harris, CPM, director of property management at Reistertown, Md.-based Oculus Realty, previously with Baltimore-based WPM real estate group, said that the various protests in Baltimore in the spring of 2015, related to the death of a man in police custody, forced property managers to acknowledge the need for written plans and training. When she was with WPM, she focused on residential properties, many of which were particularly vulnerable to damage. At the time of the demonstrations, she said, there were no written plans in place to mitigate resident and general public confusion.

“We did have plans in place to address weather-related emergencies, and our teams were able to utilize some of those protocols to address our client and resident concerns,” she said. “Those protocols included a call tree for first responders and contractors to address vandalism. All staff members were to remain on call to ensure assistance for our residents if necessary.

“While there was not a formally trained crisis management team in place, all of our team members were briefed on what to expect and how to respond to specific situations that may have come up as a result of the disturbances. The executive

I ENCOURAGE ALL ORGANIZATIONS TO INCLUDE A ‘PUBLIC DISTURBANCE/RIOTING’ PROTOCOL IN THEIR EMERGENCY PROCEDURES IF THEY DON’T ALREADY HAVE THEM. THIS WOULD ELIMINATE A LOT OF LAST-MINUTE GUESSING AND ANXIETY AROUND THE EFFECTIVENESS OF YOUR RESPONSE AS AN ORGANIZATION.” —Toni Harris, CPM
management team provided in-depth guidance and communicated frequently during with all line staff onsite during the protests. Our organization had a media policy in place that specified what to do in case there was news coverage at one of the communities.”

To ensure tenant safety and the security of the physical plant, Harris said, Oculus’ first step was to communicate with residents via email, text, social media and building notices to let them know that their communities were secure and appropriate measures were being taken to prevent property damage.

“Most businesses and offices in the immediate vicinity of the riots closed,” she said. “Our management teams sent personnel who would be affected by street closings and dangerous conditions home early. Our teams who lived onsite provided up-to-the-minute reports of any damage and were prepared to respond immediately should it occur.”

Harris reports that WPM’s communications systems worked well throughout the ordeal. She was able to keep communication open and current with all of teams and residents.

“The senior management teams held meetings to discuss what to expect prior to the riots, and met as needed to debrief as the situations progressed,” she said. “Our onsite teams made calls to our residents who didn’t have email, to update them on anything relevant to their homes. We did have an evacuation plan at every community. However, it was not necessary to implement any of them; we also had no water or power loss.”

An often overlooked part of crisis management is minimizing the effect of the crisis on future business, Harris warned. She advised property managers to work with leasing and sales staff to develop ways to improve the reputation of the community and stress the security of the individual property.

“Most of WPM Real Estate communities were located on the outskirts of the geographical area where rioting occurred,” Harris concluded. “However, a lot of our residents worked at businesses that were affected by the unrest. It was a tumultuous time for us, but a time where we discovered just how resilient we were as an organization and as a city. I would encourage all organizations to include a ‘public disturbance/rioting’ protocol in their emergency procedures if they don’t already have them. This would eliminate a lot of last-minute guessing and anxiety around the effectiveness of your response as an organization.”

**DISTURBANCES IN THE GLOBUS MALL, KIEV, UKRAINE**

Svetlana Obminyana, project manager for UTV Company, had to deal with months-long civil disturbances at the Globus Mall, in the heart of Kiev, Ukraine, during the “Revolution of Dignity” in the winter of 2013-14 and during the conflict over the Russian annexation of the Crimea. She said that Globus Mall was able to stay open during violent demonstrations and protests largely because it accommodated itself to the situation.

“There was no plan, as nobody could predict the scope of the problem and the pace of events,” she admitted. “Moreover, the responsible person was absent. Today we can easily say that the team is ready for crisis situations. When the situation escalated, the management company’s staff faced such problems for the first time and had to make sudden decisions.”

Since the unrest, Obminyana said, the mall has increased the number of security personnel and augmented its video monitoring. Evacuation procedures have been better defined; so have procedures for alerting visitors and tenants in any potentially dangerous situation. The mall is also giving closer scrutiny to marketing/entertainment events that could lead to disturbances.

Another positive development to come out of the unrest was that malls in the Ukraine generally have taken a look at how they can save energy, since a shortage or loss of energy was a constant threat during the revolutionary period. Malls are now finding ways to consume fewer resources and save on their utilities, without reducing the quality of light or heat in their facilities.

Kiev was the epicenter of the revolution, Obminyana explained, so Globus Mall had to work its way through a three-month period of unrest, without plans, policies or personnel in place. Terrorists threatened to interrupt communications and services via hand-held devices; temperatures were often well below zero Fahrenheit.

Nevertheless, Globus Mall stayed open, largely by cooperating with the revolutionaries. Security personnel allowed
access to lodging, meals and sanitary facilities, and while the mall’s entertainment facilities had to close and advertising was discontinued, 100 percent of rents were collected and employees remained loyal, disciplined and punctual.

In the long run, Obminyana said, the revolutionary period helped Globus Mall to improve its operations dramatically. Kiev’s central square has become an important national symbol for Ukrainian citizens, and this recognition has brought more domestic tourists to the mall. Globus Mall’s tenant mix reflects that newfound interest, with more traditional stores that focus on patriotic themes. (It must be admitted that most global chains left the market due to the attendant political and financial instability.) Vacancy has dropped from 45 percent, pre-revolution, to 25 percent; tenants are more likely to initiate and participate in charity events.

Globus Mall’s improvements in the security systems include:

- Increased number of security guards
- Increased number of video control systems
- Revised evacuation rules
- Revised text format of alert messages inside the shopping mall
- Increased speed of caller identification when threats are made

COMMUNICATION AND TRAINING IS KEY

“Property owners and managers tend to discount training,” said Wade Tucker, chief sales officer at Atlanta-based Preparis, a firm that specializes in business continuity and cybersecurity. “This is an across-the-board problem. Organizations often have good plans, but they haven’t trained on those plans, and individuals don’t know what their roles and responsibilities will be when a disruptive incident take place.”

Tucker said that there’s no such thing as a one-size-fits-all plan for crisis management and business continuity. The plan will depend on whether the property is residential, commercial or mixed-use; its location; number of entrances and exits; and many other factors.

“Communicate your process,” he urged. “How will you contact tenants, residents and security? Sometimes these disturbances can just pop up—for example, if you have an active shooter, or you have to go on lockdown because a shooting took place a block away. Make sure that everyone is aware that there’s a disturbance; keep tenants in constant communication, with frequent updates.

Christopher E. Mellen, CPM, vice president of the Simon Companies (Brantree, Mass.) and current president of IREM, reported that his company has assembled emergency response teams of employees and tenants. They’re responsible for ensuring orderly evacuations and updating management of the situation when a crisis occurs.

“The worst mistake a property manager can make is not having a plan that’s communicated to tenants, staff and other members of the emergency response team,” he said. “All tenants and staff receive an emergency procedure handbook with contact information for the fire department, police and key contractors, as well as floor plans of the building that show emergency exits.”

Other preventative measures include:

- Periodic walkarounds of the property, to ensure that entrances and exits are secure and that the machinery is working
- Knowing who your first call will be in the event of a disturbance
- Consulting with your contractors in advance to get a handle on their ability to respond to an emergency, control damage and clean up after
- Developing personal relationships with these contractors to ensure that they’ll respond to you promptly
- Promising your tenants only as much security as you’re actually providing: don’t overpromise, or you’ll face liability issues.

Mellen agreed with Harris that public relations is a big part of crisis management and business continuity. He warned that the media and the public will often look for a scapegoat; thus it’s important for a property manager to ensure that neither the property, occupants or management team can be blamed for making a problem worse. The media will often want to know whether a property had a crisis plan in place and whether it was adhered to—so be sure you can answer “yes” to both those questions.
Budgeting for building operations can be the more tedious aspect of real estate management. In our practice, we’ve seen many hundreds of buildings up close and personal, and have looked at thousands of buildings virtually; we’ve experienced the thrills of victory and the agonies of defeat in the budgeting process. What we’ve learned: Having a financial compass is imperative.

AVOID SHINY OBJECT SYNDROME

Technology is moving forward at such a rapid pace that too often we are more concerned with having the latest and neglect to make the most of what we currently have in our buildings. Certainly, it is easier to budget for a new gizmo than it is to do the homework and preparation required to rehabilitate, repair or recommission an existing system. It’s easy to buy a new gadget—but it takes ingenuity, patience, organization and planning to maintain an existing gadget.

LEAVE NO STONE UNTURRED

As an example, we were hired by a client to perform a property assessment on a multifamily community in Florida. Among other findings, we discovered that refrigerator freezers were being replaced on average every six years. The useful life should be between 15-20 years. Upon further investigation, we found that there was no protocol in place for regularly scheduled maintenance of these refrigerator freezers (and there were more than 300 units). The onsite property management team reported that the units stopped working after approximately five or six years, and were replaced as needed. We provided guidance to ownership and the onsite property management team to manually defrost them by simply unplugging the unit for 24 hours upon turnovers or annually, whichever came first. Additionally, we advised them to clean the condenser coils and inspect the door seals and replace when necessary.

BY IMPLEMENTING THIS EASY ANNUAL MAINTENANCE ROUTINE:

> An average of $60,000 per year was saved in unnecessary capex
> Complaints were reduced dramatically and the life expectancy of the refrigerator freezers increased from six years to 18 years
> Additional NOI at a 5 percent cap rate added an incremental $1.2 million in asset value
> The time commitment required for the above maintenance routine was less than 30 minutes per unit per year
> The units used less electricity, making the property more sustainable

As IREM members and real estate professionals, we are the stewards of our clients’ assets and their money. All too frequently, we have seen unnecessary expenditures because it’s easier—and some think it’s faster to have the quick fix. Use your best judgment and be cautious and deliberate when budgeting for building operations. Check to see if levels of acumen are driving decisions. Sometimes staff doesn’t want to be discovered about their lack of awareness or motivation, so they will make a hard case for the replacement of a device, when with proper attention and maintenance, the component had plenty of useful life remaining.
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Real-Time Flexible Reporting
Professional Websites

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FACT: Over 80 percent of current or prospective renters actively search for vacancies using mobile devices. People everywhere have begun to trade in their cable-bound electronics for the convenience and portability that mobile devices offer.

WHAT DOES THIS MEAN FOR PROPERTY MANAGERS?

Property managers need to market to potential renters and communicate with current residents in ways those people want and expect. Those who ignore the rise of handheld internet access are likely to struggle in the future; those who focus on mobile are likely to thrive.

When marketing to prospective renters, your website needs to be mobile-friendly to provide an optimal experience, and it should include quick ways for people to apply online or contact you via their device.

Your current residents want to be able to complete important actions—pay rent, submit maintenance requests and communicate with their property manager—from anywhere at any time. Modern technology tools allow property managers to provide this type of self service to their residents.

Send timely rent reminders, package delivery notices and general announcements to residents via their preferred communication channel.

You can collect rent online and renters can pay their rent at their convenience to avoid paper checks and late fees.

A renter can login online to make a service request as well as check the status at any time.

If you show you're a modern property manager with these mobile tools, you'll stay on top of the competition.
+ KEEP SCORE
If investment were considered a game, the Internal Rate of Return (IRR) calculation would be prominently displayed on the scoreboard as a measurement of victory. It's a way of "scoring" different investments to determine which one is the "winner" or best investment for our money.

IRR is widely used by financial specialists, investment officers and general business practitioners. Corporations use IRR to compare capital projects. Returns on private equity investments are measured using IRR. Business case scenarios can also be evaluated using IRR. Unfortunately, there are common misconceptions and misuses of IRR. To avoid this, it is important to understand how IRR is used for real estate investment analysis.

In the real estate investment arena, all measures of return are classified as income rates or yield/discount rates. An income rate expresses the relationship of income and the corresponding capital investment. Time value of money is not a consideration. Analysis of Income in one year is the norm. Examples are Overall Cap Rate, Return on Equity (ROE) and Return on Investment (ROI).

A yield/discount rate is a rate of return on invested capital. It is expressed as a compound annual percentage rate. The yield/discount rate considers all expected future cash flows (both positive and negative over time) including proceeds from disposition if any. Time value of money is a consideration. Examples are Effective Interest Rate, Internal Rate of Return (IRR), and the rate used to convert future payments into present value.
Income rates and yield/discount rates are not directly tied to each other and do not rise and fall together at exactly the same time.

**Internal Rate of Return (IRR)**

IRR accounts for the time value of money by providing an average annualized percentage return on the investment. There are several other ways to define IRR. Some of these basic definitions include:

- The rate that makes money coming out of an investment (cash flows and net sales proceeds) equal to the money that went into the investment (equity)
- The discount rate that will bring a series of future cash flows even with the initial investment
- The discount rate that makes the net present value (NPV) of all future cash flows from a particular investment (both positive and negative) equal to zero
- The annual percentage rate earned on each dollar invested for each period it is invested
- The average annual yield you make on your money while it is in the investment

IRR can be used to evaluate the desirability of different types of investments since it brings everything down to the annual return on the money used to acquire the investment. It can compare the purchase of an oil well versus the purchase of Apple stock—or putting money in a CD. In the real estate industry, it is used to compare the desirability of different properties—office vs. multifamily buildings, short-term vs. long-term investments on similar properties, etc.

IRR is analogous to the interest rate applied to a loan amortization schedule—only the calculation is done in reverse. For amortization you use the interest rate to calculate the payments whereas for IRR you use the payments to calculate the interest rate. In the amortization process you are given the interest rate, principle amount and length of the loan, which are used to calculate the loan payments (principal and interest) necessary to bring the loan balance to zero.

When you begin calculating IRR you don't know the rate of return. You know the amount of equity invested and know (or have estimated) the amount and timing of the future payments (cash flows and net sales proceeds) and length of the investment (holding period). You use the amount and timing of the cash flows to calculate the average annualized rate of return earned from the equity investment.

**How is IRR used to compare alternative real estate investments?**

Each real estate investment varies somewhat in several basic areas. Examples would be the amount of initial equity, variance and timing of cash flows and net sales proceeds, and duration of time. When all of these variables are considered, the IRR calculation indicates the yield on the invested equity while it was in the investment. IRR indicates which investment is the most profitable given the parameters associated with each investment.

**EXAMPLE 1**

<table>
<thead>
<tr>
<th>Initial Investment</th>
<th>(-$100,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow Year 1</td>
<td>$10,000</td>
</tr>
<tr>
<td>Cash Flow Year 2</td>
<td>$11,000</td>
</tr>
<tr>
<td>Cash Flow Year 3</td>
<td>$12,000</td>
</tr>
<tr>
<td>Cash Flow Year 4</td>
<td>$125,000</td>
</tr>
</tbody>
</table>

**INITIAL INVESTMENT** $100,000

**TOTAL CASH FLOW OUT** $158,000

**IRR** = 13.79%

**EXAMPLE 2**

<table>
<thead>
<tr>
<th>Initial Investment</th>
<th>(-$150,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow Year 1</td>
<td>$12,000</td>
</tr>
<tr>
<td>Cash Flow Year 2</td>
<td>$13,000</td>
</tr>
<tr>
<td>Cash Flow Year 3</td>
<td>$15,000</td>
</tr>
<tr>
<td>Cash Flow Year 4</td>
<td>$175,000</td>
</tr>
</tbody>
</table>

**INITIAL INVESTMENT** $150,000

**TOTAL CASH FLOW OUT** $215,000

**IRR** = 10.50%

(NOTE: Cash flows for year four include proceeds from sales of the properties)

**Caution:** When projecting cash flows for IRR calculations, remember they are projections. The old saying "Garbage in Garbage out" is applicable. Actual IRR can be calculated when an investment has been finalized or ended.
Limitations of IRR

IRR ignores the size of investment—cash flows are simply compared to the amount of capital outlay generating those cash flows. The actual IRR can be very high when the actual dollars are insignificant.

Example 1

<table>
<thead>
<tr>
<th>Period 0</th>
<th>-$10.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$1.00</td>
</tr>
<tr>
<td>Year 2</td>
<td>$5.00</td>
</tr>
<tr>
<td>Year 3</td>
<td>$20.00</td>
</tr>
</tbody>
</table>

**IRR = 42.91%**

YOU ONLY MADE $16.00

Example 2

<table>
<thead>
<tr>
<th>Period 0</th>
<th>-$1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$100</td>
</tr>
<tr>
<td>Year 2</td>
<td>$150</td>
</tr>
<tr>
<td>Year 3</td>
<td>$1,500</td>
</tr>
</tbody>
</table>

**IRR = 22.39%**

YOU MADE $750.00

The actual IRR calculation does not consider the “risk” associated with the investment. Risk considerations are only partially visible in calculating IRR. Is an investment in a hotel property riskier than an office building? IRR calculations do not account for risk of potential changes in cash flows or net sales proceeds from one property type to another.

Negative, multiple and impossible IRRs

By definition, if IRR signifies a rate of return, some suggest that there could be no such thing as a negative IRR. Others would argue that a negative IRR occurs when the present value of future cash flows and net sales proceeds do not equal the initial investment. This would also be described as a net loss. When more than one sign change occurs in an IRR calculation, it is possible to calculate multiple IRRs. There is no possible IRR solution when cash flows are only positive and no initial investment is made. A return on nothing invested is not measurable.

Conclusion

IRR is a popular financial metric. However, IRR is only one financial test that can be used to assess an investment and can be misleading if used alone. NPV, ROI, Payback Period, MIRR and other financial metrics also have their place in the investment analysis arena. IRR is a powerful financial analysis tool—if fully understood and used properly. While it is often a difficult concept to grasp, it helps to not think too much about the calculation process until you have a good handle on what IRR is trying to tell you—and why it is important.

ERIC B. STOREY, CPM, (ERIC.STOREY@ZIONS_BANK.COM) IS SENIOR VICE PRESIDENT OF CORPORATE REAL ESTATE FOR ZIONS BANK IN SALT LAKE CITY.

COMING SOON!

Look for IREM's whitepaper on IRR at www.irembooks.org.
Every day the local news team for Hearst-owned, ABC-affiliate KETV in Omaha reports on the community's stories—some sad, some hopeful, all Omaha. Therefore, it is no wonder that Hearst leadership was drawn to the vacant Burlington Station when they started looking for a new headquarters for KETV.

Ariel Roblin, KETV's President and General Manager, remembers walking into the station for the first time, struck by the graffiti covering the walls of the forgotten building.

"The train station was dingy and looked awful," she said. "But then we saw the stories [through the graffiti], and they were Omaha stories. As a local news station, we tell and honor these stories—so we felt a real calling to this property."

When the historic station first opened 1898, it was lauded throughout the country for its grand architecture. Al
TO CREATE AN OPEN LAYOUT FOR KETV'S STUDIO, STRUCTURAL ENGINEERS HAD TO SWAP OUT OLD COLUMNS WITH 14,000-POUND STEEL BEAMS AND A NEW FRAME, WHICH CAN SUPPORT 500,000 POUNDS.
though the station spent many decades as an influential Midwestern icon, it slipped into ill repair and became a vacant derelict.

In 2013, Heart purchased the dilapidated building, with a commitment to bring it back to life as the station's new headquarters. After a two-year, $22 million renovation, Burlington Station (now known as 7 Burlington Station) opened in October 2015 as a state-of-the-art media epicenter that honors its rich history—and the history of Omaha.

HONORING THE PAST
Throughout the restoration process, KETV maintained a fine balance between modernization and preservation.

“We kept parts of every stage of the building’s life—including the tough parts of it,” Roblin said.

That’s one of the reasons the station opted to keep some of the graffiti—namely a woman hanging prominently in the newly designed lunchroom and aptly named “The Lunch Lady.”

“For 42 years, this building was vacant,” Roblin said. “Part of the history of this building is the important role it played giving shelter [to the homeless]. As a broadcast station, we play a role in speaking for those who do not have a voice.”

Another point of preservation pride can be found in the station’s east lobby. While this part of the building was in particularly bad shape, it was the only area that had any plaster left to restore. KETV brought in two artisans who put up molds and restored the room to its former glory. At the end of the process, two painters spent a week painting the ceiling. Two local woodworkers created 1898 replica train benches for the lobby as well. Today, the east lobby is a common area for all employees and visitors to gather and enjoy.

READY FOR THE FUTURE
Of course, the former train depot required plenty of updates and reconfigurations to allow it to become a fully functioning, modern media center.

One of the biggest challenges was removing existing columns to create an open layout for KETV’s ever-important studio. Structural engineers had to swap out old columns with 14,000-pound steel beams and a new frame, which can support 500,000 pounds. Then they had to jack up the ceiling to take pressure off the existing columns and original beam system in order to remove the columns.

Another important part of the project was removing the parking deck—which obstructed the view of the front of the building and detracted from its stately design. Removing the large parking structure significantly improved the exterior view of the building and enhanced the interior space by allowing sunlight to flood into the southern side of the building.

One of the most dramatic renovation updates involved connecting the first and second floors in the center of the building. In 1898, the train station had two staircases entwined together at the center of the building, but they were removed and covered up in the 1930s. During the KETV restoration, a large hole was cut in the area where the stairways had been. This created a large, open space connecting the Great Hall, which is the entrance of the station, and the newsroom down below.

The bottom floor of the building has a tech core on one side, the studio on another and the newsroom in between. Access flooring was created throughout the property to pull the massive amount
A THOUGHTFUL WORKPLACE

The thoughtful restoration and design also extended into creating the workspaces for KETV employees. "We didn't plot out rooms, rather we plotted out workflow," Roblin said. "We wanted to connect people in ways that made sense, allowing them to collaborate."

Through state-of-the-art technology, employees are able to connect from anywhere in the building. Further, there are a number of inviting common spaces, such as the east lobby, grand hall and lunchroom.

"People understand it was a thoughtful process," said Roblin. "And we have the technology that allows them to use their space and their devices to collaborate easily and efficiently."

AN IMPETUS FOR GROWTH

The restoration of 7 Burlington Station has also made a significant impact on the community.

For many years, the vacant train station was a roadblock to southern expansion in the city. Today, there has been $150 million worth of development surrounding the station. This includes office and restaurant space, a community playhouse, a year-round farmer's market and a number of residential developments in the works.

"This part of Omaha was going downhill; it was a forgotten neighborhood," Roblin said. "But when we turned on the lights, people started investing in the area. Although we expected [growth in the area], we didn't know it would happen this quickly."

KETV has seen this whole experience as an opportunity to not only invest in its organization but also in its community. "Hearst believes in supporting local communities; what's important to us," Roblin said. "This was a project about doing the right thing, not the easy thing. We had to make the right choice for Omaha."
In 2013, HUD issued a final rule holding housing providers liable for policies that had a disparate impact on members of a protected class. Disparate treatment has been illegal since the passage of the Fair Housing Act (FHA). A disparate impact policy, however, does not have to be explicitly discriminatory to be in violation of the FHA. A policy that would affect any individual equally, but would have a disproportionate effect on a protected class, would be in violation of FHA. For example, having a blanket rule against renting to any convicted felon would not be disparate treatment as it would affect any felons equally regardless of their race. However, it would have a disparate impact on racial minorities who are disproportionately convicted of felonies.

When discussing disparate impact most people think of racial discrimination, but there are 12 federally protected classes: race, color, religion, national origin, age, sex, pregnancy, citizenship, familial status, disability status, veteran status and genetic information. State and local governments often have even more protected classes. For example, Madison, Wisconsin counts ancestry, source of income, arrest record, conviction record, credit history, military discharge status, physical appearance, sexual orientation, gender identity, political beliefs, familial, student and domestic partner status, receipt of rental assistance, Social Security number disclosure and atheists among its protected classes. Further complicating things, the discriminatory effect does not have to be intentional. A property manager could be held liable for discrimination without ever realizing it.

One of the most contentious points in the doctrine is the burden of proof. Deviating from the traditional “innocent until proven guilty” principal, HUD implemented a shifting burden test. First, the person bringing the charges must prove that the policy in question either did, or would, result in a disparate effect on a protected class. If successful, the burden shifts to the defendant to prove his/her own innocence. In order to do so, he/she must prove that the policy is necessary to achieve a substantial, legitimate, nondiscriminatory business practice. If the defendant is able to do so, the fight is not over. The burden shifts once more back to the plaintiff, who must then prove that the nondiscriminatory business practice could have been achieved with a different policy with a less discriminatory effect.

THE SUPREME COURT GETS INVOLVED

In January of 2015 the disparate impact rule finally had its day in court.
with the case *Texas Department of Housing and Community Affairs v. Inclusive Communities Project*. The Inclusive Communities Project claimed the Texas Department of Housing and Community Affairs had discriminated against a racial minority group by issuing more tax credits for building low income housing in the predominantly poorer black neighborhoods than in the more affluent white communities surrounding them. In a 5-4 decision, the court upheld the use of disparate impact as a basis for discrimination under the FHA, stating that the language of the FHA focuses on the results of actions and not on their intent.

**NEW GUIDANCE**

On April 4th, 2016 the Department of Housing and Urban Development (HUD) published the “Office of General Counsel Guidance on Application of Fair Housing Act Standards to the Use of Criminal Records by Providers of Housing and Real Estate-Related Transactions.” This new guidance marks a significant change in HUD’s expectations for compliance with the Fair Housing Act (FHA).

HUD pivots drastically in the newest guidance from requiring equal treatment for all, to opposing blanket rules when reviewing rental applications. They recommend reviewing each applicant on a case by case basis taking into account the nature of the crime and timeliness of when it was committed. The notion being that when renting your unit located next to a day care, someone convicted of embezzlement 15 years ago should be considered differently than an applicant convicted of sexual assault of a minor a couple months ago.

Having a policy that creates a disparate impact is not inherently a violation of FHA, as long as you can prove there is a substantial, legitimate, nondiscriminatory business interest motivating the policy. Having a more narrowly tailored policy regarding how criminal history will be viewed that is backed up by evidence will help make your decisions more easily defensible. Also, it is important to stick to those policies and treat the comparable criminal history uniformly, regardless of any protected classifications.

HUD has also prohibited the use of arrest records when screening tenants. Terry Clemans, Executive Director of the National Consumer Reporting Association, said of the new guidance: “It’s very clear that HUD and the Equal Employment Opportunity Commission (EEOC) are now on the same page. It has taken longer for HUD to get there, but the EEOC has been very clear for about a decade that using arrest records is unacceptable.”

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**STATEHOUSE VISITS**

We’re only halfway through the year and over 19,000 bills have been passed in state legislatures around the country. Compare that to the 150 passed by the U.S. Congress, and the importance of keeping tabs on your statehouse really becomes clear. State Legislatures typically do not have the same resources as the United States Congress, forcing them to rely on their constituents to help them better understand the real world impact of a bill. This provides an opportunity to protect the industry through effective advocacy. Real estate practitioners are experts in real estate management, and can help legislators better understand how policy decisions can impact the industry and the residents/tenants it serves. One of the best ways to start that relationship is by participating in the IREM Day at the Statehouse Program. These state level advocacy events can take many forms and can be effective in getting the industry’s message heard.

If you or your chapter would like more information, please contact the IREM Governments Affairs Coordinator, Andrew Lomo, at ALOMO@IREM.ORG.
he state of Russia’s economy continues to be front-page news with analysts unable to predict when the downturn will end. The dramatic reduction in the cost of crude oil and natural gas, economic sanctions imposed by Western governments and a decline in foreign investment have left the Russian economy in a deep recession. The Russian economy is very dependent on its energy sector, with earnings from oil and gas exports making up roughly half of the nation's revenues. As a result, the recent drop in energy commodities has left the Russian economy reeling. The ruble, which generally mirrors movements in the energy sector, has recently collapsed to its weakest level ever. As a result of this turmoil, credit markets have seized and capital for new construction projects has dried up. Consequently, development of new commercial real estate projects has come to a virtual halt.

However, some investors are seeing flickers of opportunity during this gloomy downturn. The ruble's slide in value, combined with widespread reductions in property values, has created a synergy that is providing opportunities for audacious investors with access to hard currency capital.

**A CLOSER LOOK AT RETAIL**

Starting in 2014, developers foresaw the upcoming recession on the horizon and began freezing new retail projects that were still in their infancy. The vast majority of properties that moved forward were the result of investments and developments made in 2013 or earlier. Many of these projects opened with abysmal occupancy rates of less than 60 percent, some with occupancy rates even hovering at less than 40 percent. For the purposes of comparison, the average level of under-utilization in high-quality shopping centers was approximately 3-4 percent through the end of 2013.

As a result of the economic turmoil, rental rates in rubles have fallen dramatically from their 2013 levels. Due to currency fluctuations and the strength of the dollar and euro, international retailers are no longer willing to pay rents in foreign currency and are converting leases to rubles.

Many international brands appear to have fled Russia in the last two years; however, major retailers are working to optimize costs by reducing their footprint rather than leaving the market completely. Starting in 2015, the market has seen the
active development of almost 50 new international brands from Europe, the Middle East, Korea, Japan and the U.S.

In the smaller markets outside of Moscow and St. Petersburg, development has slowed, but not halted. For example, Galaxy Shopping and Entertainment Center was built and launched in the city of Smolensk in 2012. In a city of 300,000 people, this massive 650,000 sq. ft. entertainment complex was the only professional trade center. Within six months, the project was 100-percent occupied. Based on the success of Galaxy, a second large-scale building was designed and built just a year later. Even in the midst of economic crisis, the occupancy rate of the second stage slowed to a still respectable 95 percent.

In the most undeveloped territories of the Russian Federation, the Far East and Siberia, the volume of quality supply is low. In the Far East there is an acute shortage of first-rate hotels, for which demand is growing every year, despite the economic woes of the rest of the nation. This region benefits from its close proximity to China and an ever-increasing volume of tourists. The lack of infrastructure in the region creates tremendous upside potential for investors who are bold enough to operate within emerging markets.

**A CLOSER LOOK AT OFFICE**

Office space has faced the same phenomenon as retail—an abundance of investment was poured into new development pre-2014, but when these projects opened, the level of occupancy was significantly lower than projected a few years prior.

Office space in Moscow and St. Petersburg has experienced an increase in vacancy of approximately 10 percent at the close of 2015. As occupancy rates have declined, rental rates have followed. Since the beginning of 2014 rental rates in office space decreased by up to 30 percent in Moscow.

The projects that moved forward and opened have not been as high quality as initially planned due to financial limitations during their development. As a result, there is a general lack of inventory for Class A office space. For example, a Class A office building in Vladivostok, built in 2009, is filled to 95 percent and has not lost any tenants during the economic crisis. The ability of this property to maintain stable occupancy is due to it being the lone Class A building in the Far Eastern Federal District.

Development of Class A office buildings present gateways for investors, who are willing to increase the value of existing lower class buildings, given that the demand is high and the supply is low.

**A CLOSER LOOK AT INDUSTRIAL**

Industrial properties have fared the best in the current economy. At the beginning of 2014 vacancy hovered around 6 percent. In 2015, the vacancy rate almost doubled reaching an average of 11.4 percent. Rental rates in the warehouse segment decreased throughout 2014 and 2015. In addition, rents that were traditionally denominated in U.S. dollars gave way to the ruble in almost all projects.

In general, the rate cut is less dramatic than in the retail segment, as the warehouse space market absorption rate in recent years is almost always higher than the level of demand. Today in Russia there are practically no investors, developers and management companies with expertise in creating and managing industrial parks, which opens up opportunities for the use of foreign experience.

**TAKING THE CALCULATED RISK**

While there is no doubt that getting into the Russian commercial real estate market at this moment has its risks, it also has potential for the right type of investor and asset manager.

As the price of commercial real estate stumbles along the bottom of the cycle, forward-thinking investors may purchase quality assets at rock bottom prices with the expectation that an economic recovery and a rise in oil prices are waiting around the corner.
GEAR 360

Seems like everywhere you look these days companies are touting 360-degree video. Everyone is gearing up for the VR Revolution, and why shouldn't they? With the tech costing less and less, virtual reality is becoming... well...a reality. Enter Samsung Gear 360, a tiny ball-shaped camera that packs two F/2.0 fish-eye lenses, each with a 15-megapixel sensor. The camera can shoot 3,840 x 1,920-resolution video and 30-megapixel still images, and comes with 128GB of storage, which you will likely not have a problem filling up with such high-resolution images.

Available now in select markets at www.samsung.com; U.S. pricing TBD.

EDELKRONE

Tired of fiddling with all the knobs and buttons on your camera tripod while the opportunity to take the perfect shot is lost? Try the Edelkrone on for size. While it sounds like something that would come from IKEA, it is just as practical and a great alternative to a tripod design. This folding apparatus sets up in seconds and lets you focus on your shot rather than the setup. The folding gizmo might not work everywhere (it does need an even surface, so hiking trips are a no-no), but the ease and flexibility of the 7.2in frame makes it compact enough to throw in with your camera gear.

Available later this year at https://fstoppers.com/gear; price not set.

SINGLECUE

Gesture control came out a few years back as part of some video game consoles. Now, the makers of Singlecue are betting on gamification in your life. With Singlecue, you can control your lights and electronics with just a few gestures of your hand. Just raise your finger and the system wakes up, letting you choose between multiple automation features. Smart home devices like Wi-Fi connected lightbulbs can also be controlled as your multimedia center.

Available at https://singlecue.com; $199.99.

SNAPPOWER GUIDELIGHT

For those of us hating the bulkiness and the ugliness of nightlights throughout our dark hallways, there is a new sheriff in town. SnapPower Guidelight outlet covers have built-in LED lights that illuminate your path without expensive canned lighting, dimmer switches or motion control. The outlet covers might be an economical way to light up your properties at night without adding additional fixtures.

Available at www.snappower.com; $15 each or 5 for $65.

ALEX LEVIN (ALEVIN@IREM.ORG) IS DIRECTOR OF IT FOR IREM HEADQUARTERS IN CHICAGO.
TOUCHLESS TOILET FLUSH KIT

Germaphobes can sigh with relief now that Kohler's Touchless Flush Kit is available to be installed on almost any single-flush toilet. The kit uses a proximity sensor, which projects an electromagnetic field. At the wave of a hand, the sensor relays a signal to a small battery-powered motor connected to the flush valve.

→ Get more information www.us.kohler.com; $99

Track your savings via a smartphone app. In addition to qualifying for a federal tax credit, Mistbox users can also recoup their cost in a single summer season.

MISTBOX

Beat the heat, and the rising energy bill with Mistbox. Using biomimicry that imitates the human perspiration-evaporation model of cooling down, Mistbox uses solar power to produce a mist around the condenser unit so that the air conditioning unit doesn't have to work as hard, and an estimated energy savings of 20-40 percent. Track your savings via a smartphone app. In addition to qualifying for a federal tax credit, Mistbox users can also recoup their cost in a single summer season.

→ Get more information at www.mistbox.com; $399

AS&E MINI Z

After the Boston Marathon bombing, American Science and Engineering (AS&E) developed a portable X-ray detection system that can peer through tires, walls and backpacks. Unlike traditional x-rays, the backscatter technology detects radiation that bounces off materials otherwise missed by typical X-ray systems. Best of all, the portable technology is handheld and can detect material such as drugs and explosives in real time, so law enforcement can react immediately.

Get more information at www.meetminiz.com.

WYND AIR PURIFIER

Developed by Wynd Technologies, the Wynd device is a portable (6.7-inch-tall) cylindrical air purifier. By sucking air into its side vents and through a medical-grade air filter, the Wynd creates a bubble of purified air around you—filtering out pollen, pet dander, allergens and other pollutants. Best of all, the Wynd is lighter than a water bottle and quiet—generating 45-50 decibels of noise.

Get more information at www.kickstarter.com; introductory price of $139, retails at $189.
The Appeal Board was established to hear appeals to decisions made by the Ethics Hearing and Discipline Board. An appeal can be requested by a Respondent or by a Complainant if he or she doesn't agree with the decision made by the Ethics Hearing and Discipline Board. The appeal is granted only if the party requesting the appeal demonstrates there are grounds for an appeal. Examples of grounds for an appeal include:

1. Allegations of misapplication or misinterpretation of ethical or other membership duties
2. Allegations of procedural deficiencies
3. Allegations of failures of due process

Appeal hearings are held in conjunction with national IREM meetings. The Appeal Board includes a chair, vice chair, and seven to nine members, including at least one ARM and one Executive CPM of an AMO Firm. In addition, the IREM ethics administrator and IREM legal counsel are present for all appeal hearings.

As we learned in previous Higher Ground articles, a member found in violation of the IREM and/or AMO Codes of Professional Ethics may receive one of the following disciplines imposed by the Hearing and Discipline Board:

1. A letter of censure—which may be published in the JPM®. A letter of censure does not affect the member's membership status.

2. Suspension of membership for a period of three months to three years—which is always published in JPM®. The member loses all benefits of membership during the suspension period but must stay current with dues and fees. The member's status is automatically reactivated at the end of the suspension period provided all conditions are met.

3. Termination of membership status—which is always published in JPM®. The member may reapply for membership after five years. The reapplication will be considered on its merits and under such policies as may then be in effect.

During the appeal the Appellant (the party who requested the appeal) is directed to state specifically why the hearing panel's decision should be reversed, remanded or modified. The Appellant is then subject to questions from the members of the Appeal Board and IREM legal counsel. The Appellee presents his or her case to the Board, stating specifically why the decision should not be reversed, remanded or modified, and is also questioned.

After final statements, the appeal hearing is adjourned, the parties are dismissed, and the Board reconvenes in executive session to render a decision on the case.

THE APPEAL BOARD MAY:

1. Adopt the decision of the Hearing Board.
2. Modify the decision of the Hearing Board.
3. Reject the decision of the Hearing Board.
4. Refer the case back to the Hearing Board for a rehearing.

The Appeal Board's decision is final and binding.
FEATURING A WIDE ARRAY OF VISIONARIES

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Our renowned speakers will lead insightful discussions about the direction of the industry, trends, and strategies for success.

Maria Maloney, CPM®
President of Asset Services
Cushman & Wakefield, AMO®

Tony Long
Global President of Asset Services
CBRE, AMO®

Mike Walsh
CEO of Tomorrow
Conference Keynote Speaker

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San Diego, CA | October 18-21 | Hilton San Diego Bayfront
Continental Management won a REME Award for Corporate Responsibility for its Summer Workforce Program, which was created for 14- to 18-year-old teens who live in the company’s low-income communities. It was designed to provide valuable work and educational experience to inner city youths who may not otherwise have this opportunity. The program started at four Detroit, Mich. properties and successfully expanded to six properties.

“Our goal is to enable young individuals to develop useful groundskeeping, maintenance or office skills, and to build a foundation for soft skills such as teamwork, timeliness, conflict resolution and professionalism,” said Gary Offenbacher, CPM, Executive Vice President, Continental Management, Bingham Farms, Michigan. “It is our hope these skills translate into extended opportunities for these young people in the future. At Continental Management, we prioritize community
industry training, career days and educational field trips. Outings include Michigan Science Center, Wayne State University Campus Tour and Planetarium, Garden Day, cooking class, Detroit Institute of Arts Museum, Detroit Tigers games and workshops on personal growth and responsibility, resume building, interview skills and financial literacy.

Corporate employees, property managers or maintenance supervisors attend program events and speak about workplace values and career paths. Ultimately, Continental Management wants to demonstrate the benefits of continuing education and starting a career. The program gives young individuals exposure to positive and safe community locations in an environment of teamwork, and an alternative to potentially harmful outside factors, such as drug or gang involvement.

"I’d like to congratulate the Summer Workforce Program on its success," said Van Fox, President. "Our young residents have exciting adventures and visit interesting and fun places. They get to know each other, learn how to use new tools, work with their hands, and most importantly, they get to know their neighbors."

**Remarkable Impact on Community and Corporate Culture**

The program has had a remarkable impact on communities. It has also transformed Continental Management into a company dedicated to giving back to its communities. Many employees are mentors—they guide young residents on their journeys through the program. "We’ve seen a great transformation with our kids," said Offenbacher. "They’re excited about property management and about their communities. It hits right on our core values. We believe in going beyond just providing housing and helping people with life skills and opportunities."

Three individuals have gone on to achieve full maintenance positions with Continental Management. When the program started in 2012, 16 youths were participating—and it has nearly tripled in size. Parents appreciate the opportunity to keep their kids occupied, while youths gain valuable work experience and a sense of pride and accomplishment. The program has also helped increase resident retention.

Continental Management plans to expand the Summer Workforce Program to a year-round mentorship program. "It’s a huge success and a rewarding experience for both young residents and employees," Offenbacher said. "We hope that others in the affordable housing industry will take on similar programs that have such a lasting impact on the communities we serve."
Advancing Your Career with the ARM Certification

AN INTERVIEW WITH DUANE KOMINE, ARM, REME AWARD WINNER FOR ARM OF THE YEAR

HOW HAS ACHIEVING THE ARM CERTIFICATION HELPED YOUR CAREER?
Komine, ARM: The ARM certification has advanced my career by providing me with the education and tools needed to be a successful manager. Property management is a perpetually changing industry. Boards rely on managers to maintain high standards and adapt to new technologies. As an ARM, I have access to IREM’s vast resources and employers recognize they can depend on me.

HAS THE ARM MADE YOUR CAREER MORE PROFITABLE?
Komine, ARM: Employers are confident I have the necessary skills and knowledge to manage high-end high rises, which is due—not only to years of experience—but by having the ARM certification. In return, I am able to negotiate a salary reflective of the time and effort I have invested in being an ARM and a member of IREM.

WHAT ADVICE WOULD YOU GIVE UP-AND-COMING PROFESSIONALS WHO ARE CONSIDERING APPLYING FOR AN ARM?
Komine, ARM: I would advise professionals intending to pursue a career in property management to obtain their ARM certification as soon as possible to give them more employment opportunities. Candidates should also consider shadowing an experienced manager and finding a mentor to assist them as they begin their careers.

HOW HAS IREM PLAYED A ROLE IN YOUR CAREER AND PERSONAL LIFE?
Duane Komine, ARM: IREM has played a huge role in my career and personal life for the past 28 years. First, I have served on the Hawaii Chapter’s Executive Committee and the IREM Executive Board, which has enabled me to build relationships with peers, vendors, and community leaders. These relationships foster the sharing of knowledge and build valuable connections that assist me in my daily responsibilities. This is especially true of an insulated community like Oahu where reputation and experience are valued. Having an ARM certification has enabled me to manage high-end condominiums that provide a residential apartment as part of the benefit package. Recently I was honored with the inaugural 2015 REME Award for ARM of the Year. The outpouring of support from my family, peers, and community has been tremendous. I hope to use this award to further the recognition of the ARM certification in Hawaii and to encourage managers to become certified and participate in IREM.

WHAT QUALITIES MAKE A SUCCESSFUL REAL ESTATE MANAGEMENT PROFESSIONAL?
Duane Komine, ARM: The ability to adapt to different situations and make quick decisions during emergencies. Also, the capacity to listen to people and address their needs in a timely and efficient manner—a strong leader who can effectively manage employees, residents, boards and vendors. The ARM professional needs to be able to make the difficult decisions while simultaneously dealing with many different personalities.

These relationships foster the sharing of knowledge and build valuable connections that assist me in my daily responsibilities.
Experts say that 70 percent of customers will do business with a company again if a complaint is resolved quickly. A stellar 96 percent will do business if it's resolved.

When it comes to restaurants, I have what I call a five-minute rule. Well, ok, I'm being generous: it's probably more like three minutes. After I'm seated, I love to be promptly greeted by a smiling server who's ready to invite me into the restaurant experience. Sometimes, I wait... and wait. I've even been known to wave my hands wildly, just to be acknowledged.

If there's no sign of service on the horizon, I fall out of love pretty quickly. I leave, and the restaurant has lost a customer. And these days, it's highly likely that I'll relate my less-than-happy experience to my friends and colleagues, both real and virtual. Perhaps you've had a similar experience. Unfortunately, so have many of our customers.

Don't let your customers fall out of love with you. When it comes to marketing your company or your property, it's all about inviting your customers into the experience. Everyone wants followers—treated right, they are wonderful flag-wavers. Try these top tactics to keep 'em coming:

**VIEW IT FROM THE OUTSIDE IN:**
What's it like to be your customer? Not long ago, I had the opportunity to chat with five different customers. All were contacting me to complain—primarily about service opportunities. They were each from different states and did not know each other, but their issues were exactly the same: clearly, their love was on the downslide.

The biggest issues they relayed were communication and response time, or lack thereof. One client explained that he had referred several new customers to us in the past, and wanted to do it again. If we could get it right.

It's true: a series of positive interactions with employees builds a higher willingness from your customers to recommend you. Satisfied customers are wonderful flag-wavers. Treated right, they are your best promoters.

When you're reviewing your marketing plan, think about what it's like to deal with your company: going in, going out and in the middle. Now's the time to take a good look, from the outside in.

**RECOVERY COUNTS:**
Getting back to that restaurant: Sometimes an order comes out wrong or there's a delay in the kitchen. Stuff happens. The same is true for us—a phone call isn't returned or a bill is incorrect. What matters is whether, and how, we recover from it.

Experts say that 70 percent of customers will do business with a company again if a complaint is resolved. A stellar 96 percent will do business if it's resolved quickly.

Recently, a leader was seeking advice on some consistent marketing issues. He said that once a problem was escalated to him, he worked to resolve it. Here's the real problem: when service recovery fails, customers believe nothing has changed. Great recovery does indeed count.

So, take five minutes (or three) to think about how you'll frame your customers' marketing experience. As for me, I'm going to go check out another restaurant.
How a CPM Makes You a Real Estate Management Champion

AN INTERVIEW WITH DEBBIE PHILLIPS, PH.D, CPM, REME AWARD WINNER FOR CPM OF THE YEAR

HOW HAS YOUR CPM CONTRIBUTED TO YOUR CAREER?
Dr. Phillips, CPM: Having my CPM has added tremendous value to my career. It has been the game changer for me personally and professionally. A person can have all the degrees in the world from top-tier universities, but a professional designation that represents the pinnacle of a person's profession demonstrates the extra effort and determination that one has given to the advancement of his or her career. Being an active member of IREM expands my circles of influence. It provides resources (education, tools, professional networks) that I would not otherwise have access to—and I have that access to use every day. It's like having premium fuel for your car. When you have to travel long distances, you want to make sure you can reach your destination. IREM is my professional fuel that helps me get to where I want to go.

HAS YOUR CPM BEEN A LUCRATIVE INVESTMENT?
Dr. Phillips, CPM: I can remember when I first became an IREM member and my employer paid my dues. When I started my own business and had to prioritize my expenses, there was never a question that I would drop my membership, because I knew without a shadow of a doubt that it would pay dividends in every way. It has not only added real dollars to my bank account, it has contributed so much more in my sense of gratitude and pride.

WHAT ADVICE DO YOU HAVE FOR OTHER PROFESSIONALS WHO ARE CONSIDERING A CPM?
Dr. Phillips, CPM: Start your candidacy today. Don't wait another minute. Why put off taking the single most important step in advancing your career? The single best investment a person can make is the one they make in themselves. IREM celebrates more than 80 years of being recognized as the preeminent source for real estate education. It was founded on ethics and integrity and has reached the far corners of the world to expand the body of knowledge and be a vanguard in real estate management. Why wouldn't a person want to leverage that prestige and value?

WHAT THREE THINGS MAKE YOU PROUD TO WIN THE 2015 REME AWARD FOR CPM OF THE YEAR?
Dr. Phillips, CPM: First and foremost, it gives me another reason to share the great news about IREM and all that it offers. I get to share with my students, my colleagues and everyone in my path about what IREM means to me. Secondly, it gives me an opportunity to expand on what IREM can do for a person's career. It also adds value as I promote multifamily housing and our textbook.

Don't wait another minute. Why put off taking the single most important step in advancing your career? The single best investment a person can make is the one they make in themselves.
The more accurate you think you are, the more apt you are to act and, even if things point to a different direction, to dig your heels in.

If given a choice, most people would rather be an expert than a novice. We listen to experts with rapture; after all, they are so confident in their beliefs. But what about experts’ accuracy in decisions and forecasts?

**THE BRAIN’S BIAS:**

Not having the benefits of computer processes, the brain has its own perception of reality, including biases, the fog of memory, fears, wishful thinking and more—they all weigh in to lessen accuracy, as does expertise. Wait...expertise lessens accuracy? It certainly can. The brain would rather pretend it knows something than admit it doesn’t. It feels good to “know,” but it creates a sense of false security and confidence in decisions. And it has a name: The Overconfidence Effect. When a person’s belief in his or her own knowledge, judgment and decisions is higher than their accuracy, the result is an unrealistic perception—and it’s due to self-confidence.

Unwarranted beliefs in decisions and predictions are a form of illusion. Miscalibration is the variance between how accurate predictions are and how accurate a person making them *thinks* they are. The more accurate you think you are, the more apt you are to act and, even if things point to a different direction, to dig your heels in and stay with your original thought, often to your detriment.

**THE DANGER IN OVERCONFIDENCE**

Confidence is mostly considered to be a positive attribute and many things seem impossible without it. Developing real estate, starting a business, even applying for a new job may seem insurmountable without confidence. Yet, the problems of overconfidence are evident in many areas—politics, the financial industry and our own real estate profession, to mention a few. And here’s the rub: experts are more apt to be overconfident. After all, they’ve done so well to date; it’s assumed they’re highly accurate.

Dr. Atul Gawande, in his book, *The Checklist Manifesto*, cites more of a need to use a checklist for work done by experts than novices. He proves how the life-critical work of expert doctors and pilots can be accomplished more accurately when, instead of relying solely on their expertise, they use something as simple as a checklist. Why? Overconfidence.

Expertise can be dangerous. What to do? Encourage self-doubt and produce smart questions, engaging your inner critic. Utilize critical thinking: How do you know this? What disproves your thinking? Separate the facts from assumptions. A dose of healthy cynicism will help.
“TERM LEASE” ALTERNATIVE

BY BILL JOHNSTON, CPM, CCIM

Whenever I assume responsibility for a multifamily property, one of the first things I look at is the lease structure of the units. In many cases, I find that they are, most of the time, set up on term leases. But does a term lease realize the property’s true potential?

What is a term lease?

The primary characteristic of a term lease is an initial term of more than one month. It also typically rents at the rate as others in its class. In the area of apartment management, term leases are typically found to last six to twelve months in length—then will either terminate or renew at the same term length or revert to month to month.

This is tantamount to saying that all the units of similar unit type are equal, when we in fact know that they are anything but equal. Therein lies the problem: For the sake of marketing and simplicity, units are shown to prospective renters—most of whom have a specific idea of what kind of living situation they want—and imply to them (via pricing) that they are all the same. This results in some units being grabbed up as great deals, while others are perpetually shunned. They will undoubtedly sit vacant for an extended period of time, until management reluctantly decides to reduce their rent, re-group them and begin the process again.
Why do people break leases?

One of the primary reasons people seem to be in favor of term leases is that they help guarantee the rent income of a unit for a specific period of time. This premise extends from the eminent threat of going after a tenant who breaks a term lease for the remaining balance of the lease term. Inject reality: In California, for instance, law requires the landlord to show “due diligence” in re-renting the unit “at the earliest opportunity” before the remaining rent may be justifiably collected. But (for the sake of argument) let’s assume that condition is met. Extensive data shows that the two main reasons for early termination of a multi-term lease are, 1) loss or relocation of work; or, 2) debilitating expenses related to a medical emergency.

An overriding majority of tenants who fall into these categories—realizing that providing notice of their desired termination will result in even more expense—will skip out, or leave without notice. This scenario typically occurs in the dead of night, and does not become obvious to management until the next rent payment is late (i.e., five to seven days into the following month). Next, management must endeavor to locate the tenant, so that they may be legally served with a “notice to pay or quit,” despite the fact that the resident has specifically taken measures to make their departure and (presumably) location a secret. If that cannot be done, proceeding through the “abandonment” legal process will take at least another month. Assuming the best-case scenario, in which the delinquent tenant is able to be located, properly served, tried, and a judgment acquired, management must still collect from someone that is most likely “judgment-proof” (because of their dire financial situation). The alternative to this scenario is that management grudgingly moves forward (after great delay), turning and re-renting the unit. Since the tenant was intent on hastily sneaking out, there is a good chance that the unit will have been left in a less-than-desirable condition, resulting in extra expense. Residents under a term lease who skip will not expect any security deposit return—because they will already owe a substantial amount of rent—and will, therefore, show little if any deference towards care or cleanliness of the unit. The owner will be out of pocket at minimum two months’ rent (from the previous tenant, and eviction trial period), turnover costs and whatever is left of the unfulfilled term before the unit can be re-rented.

All things considered, there is no more guarantee of rent in a multiple term lease than in any other alternative—as a matter of fact, there is dramatically more downside.

Every unit has its own inherent value, and therefore, each unit’s rent can—and should—be individually maximized on an ongoing basis. What I mean by inherent value is that every unit—regardless of its size or location, presents a perfect market for someone—and it is up to a good manager to find and attract that person, and match them to their perfect unit, at market value. Take for example, the following familiar scenarios:

**SCENARIO #1:**
The dark, secluded unit, in the back of the development that no one seems to want will be craved by “swing” or “graveyard” shifts workers, providing them a perfect place away from the bustle of the development, and allowing them to get welcome sleep.

**SCENARIO #2:**
The young, single person will probably pass on a unit next to the playground, in favor of the opportunity to rent a second-floor unit overlooking the pool (social heaven).

**SCENARIO #3:**
The couple with young children will typically not want the second-floor unit (climbing with infants) next to the pool (children’s safety), but would welcome a first-floor unit next to the parking lot (short walk carrying multiple grocery bags).

**EACH UNIT HAS AN INHERENT VALUE:**
rents can and should be maximized through matching prospect to unit amenity.
What is an alternative to term leases?

Month-to-month rental agreements, which provide the following reality-based advantages:

1) Rents and/or house rules may be modified with 30-days’ notice. Despite a predisposition not to raise rents more than once annually, management owes it to the owner to take advantage of dramatic market (upward) shifts, if they occur.

2) Desired termination of rental agreements may be accomplished with 30-days’ notice. A decision “not to renew” a lease is a viable way to avoid legal challenges of cause evictions.

3) Residents who need to get out of their rental agreement will not hesitate to provide proper notice because, unlike a term lease situation, there will be no obligations beyond the next 30 days.

4) Willful notices of intent to vacate by residents will facilitate a less expensive and more time-efficient unit turn (because tenants will want to maximize the return of their security deposit), as well as provide management advance opportunity to market the pending vacancy.

Why, you might ask, go to such lengths when term leases can fill up vacancies more quickly? FOR TWO SIMPLE REASONS:

1) To maximize the overall value of the development to the owner (in the event of a re-finance or sale); and,

2) to maximize cash flow.

Term lease unit types, by their very nature of being all priced the same—while making it easy to market (i.e., not having to constantly change ads due to varying prices)—cannot push the market, for the simple reason that all units are not the same; therefore, management must under price some, so that they will all rent “uniformly and quickly.” Elementary math demonstrates that a $1,200/month unit (under a one-year lease), renting for $25 less than what the market will allow, is comparable ($300) to a unit that is priced at the market maximum remaining vacant for up to an additional week (of potential showing). Taking that extra week to “effectively match” tenant and unit at the higher level can make up for the lost rent, and also creates a higher base rent when the next opportunity for a rent increase presents itself, multiplying the effect moving forward (i.e., compounding).

Are there any circumstances in which I feel term leases are beneficial?

Absolutely—corporate units are best rent-ed under term leases, for a number of reasons:

1) Corporate units are typically furnished, providing a different and separate market than unfurnished units.

2) Companies desire—and are willing to pay for—units to be immediately available for extended periods of time, and understand that some units may remain periodically unoccupied (yet still generate rent for the owner).

3) The need to match a unit to a prospective tenant does not exist.

4) Properly vetted companies will be more reliable and responsible about paying rent regularly.

5) Payment for damage to turned units will be more easily acquired, since the location of the tenant (i.e., the company) is known and easier to legally serve, if necessary.

Each unit has an inherent value; rents can and should be maximized through matching prospect to unit amenity. Month-to-month rental agreements provide many advantages to multi-term leases, and provide tenants—who may otherwise be tempted to skip out due to adverse circumstances—to provide proper notice and leave in a manner that minimizes impact to the development (and bottom line). Lastly, while not recommended for routine leasing situations, multi-term leases have a specific and appropriate place in the multifamily market.

BILL JOHNSTON, CPM, CCIM, (BILLJOHNSTON@EBMC.COM) IS DISTRICT MANAGER, SAN JOSE OFFICE, OF EUGENE BURGER MANAGEMENT CORP., AMO, IN SAN JOSE, CALIF.
Succession planning is one of those necessities that often remains a permanent resident of the to-do list. All business managers seem to know its importance to the efficient mid- and long-term operation of the business. And yet this critical aspect of a business strategy often fails to get the attention and care it deserves.

According to Christopher Lee, president and CEO of the Los Angeles-based CEL & Associates Inc., there are two aspects that most senior managers don’t understand about succession planning. “Number One is that it needs to be done, and it shouldn’t be put off,” he tells JPM®. Lee indicates that, “lenders, joint venture partners, investors, senior-level employees and recruits and anchor tenants are increasingly asking for or requiring it.”

The other aspect is how long a properly prepared succession plan takes to roll out. “It’s a process that takes a minimum of two or three years,” he says.

Lee states that while 82 percent of larger real estate firms—which he defines as employing at least 1,000 people—have plans in place, that number drops precipitously to 15 percent for smaller firms. These statistics, he says, generally hold true regardless of the type or focus of the real estate firm.

But even among the 82 percent, the majority of plans (85 percent) focus on the CEO only. In fact, Lee urges his clients to have in place succession plans for all “mission-critical” positions.

With good reason. “According to many analysts,” Lee writes in his firm’s Strategic Advantage newsletter, “only 30 percent of smaller firms survive into the second generation, only 12 percent survive into the third generation and only 3 percent of firms survive into the fourth generation. (For more on the Dos and Don’ts of Succession Planning, download CEL’s newsletter).

“Unfortunately, succession planning doesn’t typically happen as much in smaller to mid-size firms because of the personality and/or the dominance of their founders,” Lee says. Some, with good intentions, leave their businesses to their children, a long-term partner or a tenured executive, but have a hard time letting go of all they’ve created. “Some founders tend to hover around a lot longer and act as a surrogate or shadow CEO, creating a very challenging environment for the next-generation leader to assume control and responsibility.”

**PROPER PLANNING**

Obviously, a nearly bulletproof succession plan is totally dependent on available talent. Lee encourages his client companies to look within and hire beyond current openings. “We encourage firms to hire people who have aspirations to do more and a motivation and desire to be better than they are going in, rather than hiring just to satisfy the status quo or fill an empty chair,” he says. “Future leaders are hard to find, and when you do find an emerging talent, you need to bring that talent onboard as quickly as possible.” This is especially true if there appears to
be no one currently on staff displaying the potential to be a successor.

So what goes into a proper plan? At the very least, says Lee, all real estate firms, regardless of size, should have an interim succession plan in place until the board of directors can pick a successor. Large or small, though, the process must entail more than just tapping someone on the shoulder. Here are the four phases critical to proper succession planning:

**Decision & Profiling:** It all begins with the decision to move forward, to create a formal succession plan and the CEO’s decision to step down. (“Not, I need to find someone but don’t plan on stepping down,” warns Lee.)

Then comes defining the position going forward, based on a current strategic plan. Since the successor will probably hold that post for 10 years or more, the company’s partners, shareholders and/or board of directors must ask what that position will look like long-term. The present CEO “may have built their company around development,” says Lee, “but the future opportunities, and thus CEO capabilities, might call for more of a capital markets-based leader.” The eight or 10 characteristics needed for that successor CEO, whatever they end up being, will form the basis for the evaluation of high-potential candidates.

“The final step in Phase One is to develop the parameters of a compensation package that align with the outcomes identified in the strategic and future plans as well as shareholder expectations,” according to the newsletter.

**Diagnostic & Identification:** Here begins the basic evaluation process. “You’re looking at those high-potential candidates to evaluate where they are and if they have the potential to be a future leader,” says Lee. “Once these high-potentials are identified, you should begin to give them more responsibilities and determine how much additional training and experience they’ll need before they’re capable of taking over.” And, as indicated before, if no one in house fills the bill, it’s time to go outside.

“In Phase Two,” Lee writes, “it is not uncommon to use an independent advisor/consultant due to the sensitive nature of ‘going outside’ to identify potential successors. Remember that some internal successor hopefuls feel they are entitled, were promised or earned the right to be the successor. Anything short of that could be construed as a snub or broken promise, and those individuals could leave.”

**Development & Mentorship:** At this point, you’ve narrowed down your candidates from three or four to just two, and those who are so chosen now know they’re being groomed for greater things. The responsibility of the board and current CEO now turns to “making sure they get the additional necessary exposure and training,” says Lee. Certain key responsibilities start falling their way as well.

A word about mentorship, from the newsletter: “At the beginning, a mentor is driving the relationship and activities 100 percent of the time. However, as the potential successor mentee progresses, he or she will assume a greater role in driving the relationship. Studies have proven that there is 90 percent or greater perceived ‘better outcome’ with a mentorship program in place for potential successors.”

**Designation & Transition:** At last, the company has a person in place. But it’s not quite time to hand the keys over and walk away, and what follows could still be a two- or three-year process. “Typically you would lay out the transitional steps and then, incrementally, over time, implement the transfer of responsibilities,” Lee explains.

And still the process is not complete. “The candidate must accept the opportunity, agree to the compensation package and transition schedule and accept all the terms of the position (e.g., where he or she will live, the level of expected travel, reporting relationships, etc.),” says Lee. “It sounds easy, but it can be problematic. Sometimes the offer may have to be withdrawn if the details aren’t accepted.”

However you define your company and however you envision its fate, it’s clear that proper succession planning is a critical part of your strategic health. It’s not “an event,” says Lee. “It’s an ongoing process that takes place over several years. It’s a recurring process that defines, shapes and ultimately determines an organization’s future. Without a formal succession planning process, an organization is likely to underachieve its potential and increase the likelihood that next-generation leaders will leave.”
Invest In The Future Of Real Estate Management

Major contributors have a wide variety of reasons for identifying with and giving to a cause. The Foundation’s mission is to be a resource for people and organizations seeking to advance the profession of real estate management. A great part of our success depends on the generosity of our supporters, who are the life-blood of the organization and make it possible to carry out the organization's mission.

We are truly grateful for a very generous and dedicated group we recognize as Major Contributors. This esteemed group has achieved this status by simply making monetary donations to the Foundation, supporting our special events and other fundraising programs. Donations are tracked and recorded in a contributor’s cumulative giving history. Once a donor’s cumulative giving level reaches $2,500, he or she is recognized as a Major Contributor.

Donors don’t give to institutions. They invest in ideas and people in whom they believe.” [G.T. Smith]

KIM HOLMES (KHOLES@IREM.ORG) IS MANAGER OF THE IREM FOUNDATION AT IREM HEADQUARTERS IN CHICAGO.
# NEW CPM MEMBERS

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- Rebecca E. Bedford, CPM
- Domenic J. Butler, CPM
- Ryo Domoto, CPM
- Yasufumi Eguchi, CPM
- Nutan Engels, CPM
- Lisa Hausman, CPM
- Shinobu Kasono, CPM
- Hiromasa Kikuchi, CPM
- Youichi Kitamura, CPM
- Justin M. Kornrumpf, CPM
- Chanda F. Lockhart, CPM
- Patrick G. Moore, CPM
- Sharry Nadjm, CPM
- Yoshinori Nakanishi, CPM
- Masayuki Nonoguchi, CPM
- Takuya Okada, CPM
- Michael J. Palladino, CPM
- Jonathan A. Passey, CPM
- Scott A. Rubemeyer, CPM
- Richard Rumpf, CPM
- Lauree A. Scheiber, CPM
- Terry Shafer, CPM
- Kate Shchepanskiy, CPM
- Tomoko Shirai, CPM
- Laslo Soljmosi, CPM
- Kazutoshi Takahashi, CPM
- Yuji Takeuchi, CPM
- Yoshiaki Tanaka, CPM
- Kenji Tanaka, CPM
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**APRIL**
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- Hayato Yamamoto, CPM
- Satoshi Yamamura, CPM
- Tatsuhito Kukita, CPM
- Alexander Leuthner, CPM
- Denise Maldonado, ARM, CPM
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- Oksana Popova, CPM
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- Richard A. Rains, CPM
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- Donald C. Santos, CPM
- Stephanie M. Schroeder, CPM
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JOSEPH A. MANASSERI
JOINS CUSHMAN & WAKEFIELD, AMO, AS SENIOR MANAGING DIRECTOR OF ASSET SERVICES, TRI-STATE REGION.

Cushman & Wakefield, AMO, announced today that Joseph A. Manasseri has joined the firm as Senior Managing Director of Asset Services for the Tri-State Region.

Manasseri will be responsible for growing Cushman & Wakefield’s Asset Services business in the Tri-State, currently consisting of nearly 50 million square feet of office, industrial and retail space. He will focus on recruiting top industry professionals, team engagement, cultivating best practices and executing consistent processes and procedures. Manasseri has more than 25 years of commercial real estate experience, including an extensive track record in asset management and a strong focus on client relationships.

He joins Cushman & Wakefield from GE Capital Real Estate, where he served as Managing Director of Global Asset Management and led the firm’s asset management group comprised of 3,200 properties across North America, Europe and Asia. Prior to his role as Managing Director, Manasseri served as Manager Director for Global Operations for GE Capital Real Estate overseeing the commercial real estate portfolios. He will report to Ron Lo Russo, President for the New York Tri-State Region, and Marla Maloney, President of Asset Services for the Americas.

PAUL WITTORF NAMED EXECUTIVE MANAGING PARTNER, MARKET LEADER FOR TRANSWESTERN, AMO.

Transwestern, AMO, announced that Paul Wittorf has been named Executive Managing Partner, Market Leader for the company’s North Texas operations, based in Dallas. He also has been appointed to Transwestern’s Executive Committee and Board of Directors. Jack Eimer, Transwestern’s current market leader, will shift to a national leadership role as executive managing partner.

Wittorf has been one of Transwestern’s top producers nationally, with extensive industry knowledge and proven success serving both landlords and tenants. Since joining Transwestern’s Houston office in 2000, Wittorf has leased and marketed office buildings and new development opportunities for clients in every major submarket in the city. This includes notable transactions for prestigious energy companies, engineering and construction firms, manufacturers, law firms and others. Earlier in his career, he focused on tenant representation for clients in a variety of industries.

Wittorf has been named to Real Estate Forum magazine’s “Forty under 40” list and recognized as a “Heavy Hitter” by the Houston Business Journal and a “Commercial Real Estate Rising Star” by Red News.

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Brazil experienced a decade of economic and social progress from 2003-2013 in which over 26 million people were lifted out of poverty and inequality was reduced significantly.

SOURCE: THE WORLD BANK

→ BRAZIL BATTLES ECONOMIC RECESSION

The economy of Brazil is in a downturn, with decrease in GDP (-3.8 percent), and we are facing a huge political crisis, with a real possibility to have an impeachment of Brazilian President Dilma Roussef. It seems 2016 will not be an easy year for Brazilians as we are facing an increasing unemployment rate (10.2 percent), the rise of interest rates and a slowing economy.

People and companies that rented their units or offices at higher prices are renegotiating the prices and offering to pay prices lower than the current ones, or even giving up a lease. The leasing prices are decreasing faster than selling prices (see chart below where $1 US = $3.54 Brazilian Real). It also is important to point out that the regular leasing contract in Brazil lasts for 30 months and there are penalties if a tenant ends up backing out early.

ALEXANDRE TEIXEIRA TAVARES, CPM, ARM, IREM ASSOCIATION EXECUTIVE, RIO DE JANEIRO
LEONARDO SCHNEIDER, CPM, CHAPTER PRESIDENT, RIO DE JANEIRO
RONALDO COELHO NETTO, CPM CANDIDATE, CHAPTER PRESIDENT ELECT, RIO DE JANEIRO

Like it or not, the political crisis in the country contaminates the economy and impacts our sector, which is very dependent on bank financing. At this time, the sources of funds are scarce and approval of new applications are more restrictive, rigorous and time consuming—not to mention made at higher interest rates.

Buyers, in turn, fear new commitments in a climate of recession and the threat of unemployment. Thus, inventories have increased, promotions have increased, but property sales have decreased. The office rental sector suffers a downturn and new leases are made at the expense of much negotiation, reduction in values and grace period offerings.

ANTONIO EUSTÁQUIO DE ANDRADE, CPM, GRUPO MENDES CALDEIRA, SÃO PAULO

Our company operates in residential real estate management for investors and real estate funds. In this sector, there is still a high inventory of new units from developers and therefore good prices. Families who are in crisis and unable to pay for their units have stimulated contract terminations or dissolutions of sale. This scenario is a concern for some, but it creates a good opportunity for funds and international investors who have cash on hand to invest. In addition, there is more liquidity and sales have increased for smaller units, up to R$500,000 (US $141,266), either because people are buying less expensive apartments or have a desire for smaller units.

FERNANDA LISBOA, CPM, 1SIZE PROPERTY MANAGEMENT, SÃO PAULO

BETH MATTSON-TEIG IS A CONTRIBUTING WRITER FOR JPM. IF YOU HAVE QUESTIONS REGARDING THIS ARTICLE OR YOU ARE AN IREM MEMBER INTERESTED IN WRITING FOR JPM, PLEASE E-MAIL MARIANA TOSCAS AT MTOSCAS@IREM.ORG.
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