

JPM

JOURNAL OF PROPERTY MANAGEMENT
JUL.AUG 2011

THE GLOBAL LINK FOR REAL ESTATE PROFESSIONALS

**LOOK
INSIDE**

for a preview
of the IREM®
Fall Leadership
Conference!

READY, AIM, FIRE!

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IREM Institute of Real Estate Management

MEETINGS FROM

S A A I D D E E

Powerful Keynote Speakers

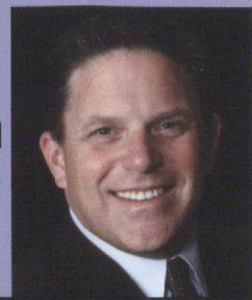
Janine Driver | Thursday, October 13

Learn how to enhance your secret weapon – confidence borne of intuitive body language – a trait that all successful people share. Janine Driver is the nation's foremost body language expert and a New York Times Bestselling author.



Jeffrey Kaplan, D.M. | Saturday, October 15

The most successful leaders excel at building strong, genuine relationships with employees, clients and business partners. Dr. Kaplan will focus on building relationships for leadership success and will inspire you to lead with passion and purpose – reinforcing the fact that in today's workplace, success isn't achieved alone.



IREM® Fall Leadership Conference • www.irem.org/iflc



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A must-attend event for:

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- Incoming 2012 chapter presidents (attendance required)
- 2011 chapter presidents
- Other chapter officers, executive council members and committee chairs
- IREM® Association Executives
- IREM® Faculty
- IREM® Members seeking to enhance their leadership role within the Institute
- Real estate management professionals who want to learn, network, connect and grow

October 11-15, 2011 • Hilton San Diego Bayfront

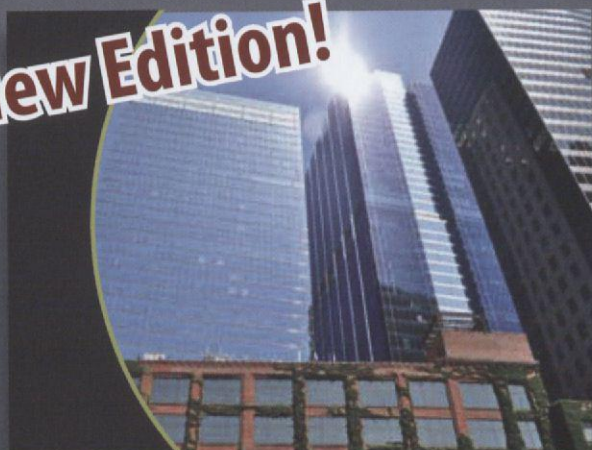
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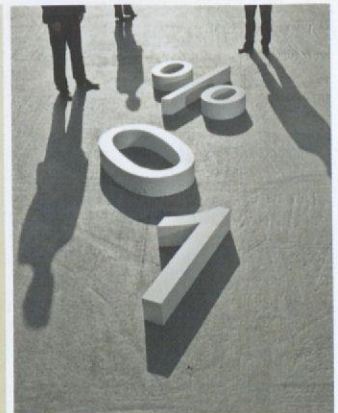
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CALCULATING RATES OF RETURN CAN BE SCARY.
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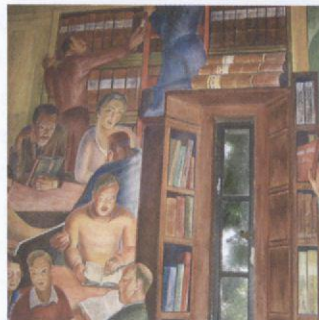
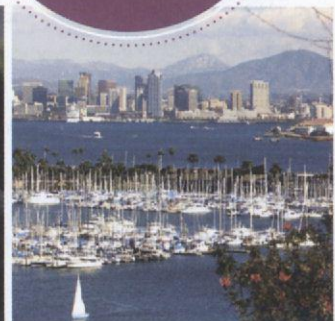
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LOOK FOR THESE ICONS THROUGHOUT THIS ISSUE OF JPM®. EACH ONE POINTS YOU TO ADDITIONAL IREM RESOURCES!



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Institute of Real Estate Management Diversity Statement | IREM encourages diversity. We welcome individuals of all races, genders, creeds, ages, sexual orientations, national origins, and individuals with disabilities. Our organization strives to provide an equal opportunity environment among its members, vendors and staff. Adopted October 2008.

Institute of Real Estate Management Sustainability Statement | The Institute of Real Estate Management (IREM) is dedicated to supporting real estate management strategies that advance an environmentally sustainable and economically prosperous future.

Turn Your Property into a LEED-Certified Building

Property owners and managers seek certification through greener alternatives

With the boom in green movements throughout the country, eco-conscious property owners and managers are increasingly looking to turn their existing sites into LEED-Certified buildings. And, doing so is just plain good business. Buildings with LEED certification benefit from government incentives, marketing opportunities and increased property values as well as reduced costs to building management and energy and lifecycle cost savings.



Top: Aluminum letters are made from 100% recycled content.

Bottom: Wood sign backer with engraved Rowmark face. Rowmark is a USA - made product that contains recycled content.

While many green strategies come with a hefty price tag, eco-signage is a cost-effective greener alternative that can help you arrive at a silver, gold or even platinum LEED-certification status.

On the path towards LEED certification?

Consider this ... The raw materials in the signage may contribute LEED points to your project. Ask about eco-signage options including:

- Composite hardwood boards made up of wood shavings or waste
- Aluminum, which is recyclable and rust-proof
- Cast metals - the ultimate in recyclable - which are made with reclaimed metals and are manufactured in ways that leave very little waste, if any
- New lighting technologies - LEDs - lower energy usage for the life of the sign.

SIGN★A★RAMA

WHERE THE WORLD GOES FOR SIGNS

SIGNARAMA is the industry's leader in signage and a great resource for discussing ways to incorporate eco-signage into your facility. Contact your local SIGNARAMA for more information on their eco-signage offerings. Find your nearest store at www.signarama.com/locations or call 1-800-465-9519.

Advertorial

TRUE GRIT

There are two types of “grit” in my life—“grits,” the *food* and “grit,” meaning *fortitude*. Both have more in common than you might expect in regards to IREM.

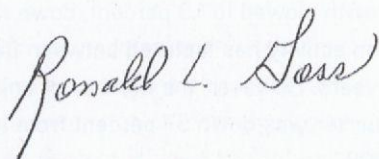
What are grits? Quite simply, grits are crushed corn. Requiring only water and maybe a dollop of butter or oil to make, grits were an inexpensive Southern staple during the Great Depression—and are popular to this day. Simple, inexpensive and essential, grits evolved from a survival food to a comfort food—often embellished with cheese, vegetables or meat—but never falling far from their original flavor.

Similar to slow-cooked, stone-ground grits, ethical individuals become more “seasoned” in the heat of the moment, under pressure. Owners, developers and investors look for these individuals—whose ethics haven’t been boiled away by the recession or other difficult factors—who demonstrate *true* grit.

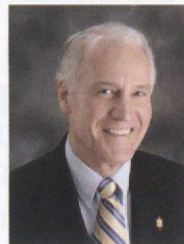
This issue of *JPM*® focuses on the importance of forming and sustaining relationships. For almost eighty years, IREM hasn’t wavered from its original purpose of building a community of real estate management professionals who are dedicated to ethical business practices; in fact, IREM added another global partner in May. I was able to travel to Shanghai to participate in the inauguration of IREM Shanghai Chapter No. 118. “Transformation Nation” (p. 48) commemorates this experience and offers a unique perspective on real estate management in this redeveloping nation.

Building relationships with experienced brokers and lenders in order to maximize loan terms and amounts is the focus in “Getting the Best Loan” (p. 28). Ever witnessed an ethically compromised situation or decision? As an IREM Member, it’s your “Duty to Report” (p. 10) these behaviors by filing an IREM ethics complaint. Find out how.

As a real estate manager, part of what separates the wheat from the chaff—or the husk from the corn cob—is the ability to embody the strength, fortitude and endurance of ethical principles in your daily practices. What we offer our tenants, owners and peers, is unparalleled industry know-how with a big ol’ helping of ethics—an essential accompaniment to any sustaining relationship.



Ronald Goss, CPM®
2011 IREM President



RONALD GOSS, CPM (PRESIDENT@IREM.ORG), IREM 2011 PRESIDENT, IS PRESIDENT OF RPM MANAGEMENT CO., INC., AMO, AND IS A SENIOR VICE PRESIDENT, A DIRECTOR AND SECRETARY OF RPM MANAGEMENT'S PARENT COMPANY, RECTOR PHILLIPS MORSE, INC., BOTH LOCATED IN LITTLE ROCK, ARK.

Turn to page 48 to read about the new IREM Shanghai Chapter.



COMMERCIAL PROPERTIES MAKING SLOW COMEBACK

Albeit very slowly, commercial real estate fundamentals are improving, and investors say the industry is moving past the bottom of the cycle, according to the *PwC Real Estate Investor Survey*, released by PricewaterhouseCoopers LLC., in March. The report highlights anticipated movement in all commercial real estate sectors.

The U.S. office market is headed toward recovery by the end of 2011 because of a lack of supply and signs of decreasing vacancy, according to the report. Office markets in Chicago, Las Vegas, Los Angeles and Tampa, however, are expected to remain in recession through 2012.

Just over 76 percent of retail stock is expected to remain in recession through 2012 because of inconsistent consumer spending and fears regarding inflation, according to the report. It projects a recovery by the end of 2013.

The U.S. multifamily sector is well ahead of the other sectors in terms of recovery, and is actually more focused on expansion at this point. An expansion phase is predicted through 2014 in many or most markets.



SENIOR HOUSING MARKET FLUCTUATING

Senior housing is showing marginal improvement in occupancy rates and increasing year-over-year rent growth, while experiencing slowed construction and less inventory hitting the marketplace, according to information from the National Investment Center for the Seniors Housing and Care Industry.

During the first quarter of 2011, the average occupancy rate rose 0.2 percent to 87.9 percent, and 0.6 percent from its cyclical bottom of 87.3 percent. For the fourth consecutive quarter, the occupancy rate has improved.

The pace of year-over-year rent growth for seniors housing accelerated for the first time since the first quarter of 2007, improving 0.5 percent after no growth occurred in the fourth quarter of 2010. Annual absorption of 2.1 percent in the first quarter also reached its highest level since the first quarter of 2007.

Annual inventory growth slowed to 1.3 percent, down from 2.6 percent a year prior. Construction activity has teetered between flat and slowed during the last couple of years. However, the number of units under construction during the first quarter was down 57 percent from its cyclical peak in the first quarter of 2008.

Generational Challenges Abound in Workplace

Intergenerational conflict among employees is an issue at almost three quarters of organizations—a problem more than half of organizations are trying to rectify, according to a poll from the Society for Human Resource Management (SHRM).

Released in May, SHRM's study, *Intergenerational Conflict in the Workplace*, revealed that 44 percent of respondents said intergenerational conflict existed to a "slight degree" in their organizations; 25 percent said to "some degree," and 3 percent said to a "large degree." More than 400 randomly selected SHRM members participated in the study.

Approximately one-quarter of respondents said conflict between the different generations does not exist in their workplace environments. Respondents from organizations with fewer than 500 employees were more likely to report the generation gap as a problem in their offices, according to the survey.

People managers at organizations cited inappropriate dress first and foremost, followed by poor work ethic, as problems with younger employees. More than one third of respondents also suggested informality, the need for supervision and lack of respect for authority as problems. Younger workers cited resistance to change, lack of recognition and a tendency to micromanage as problems with older managers.

Respondents, of all ages, expressed concerns regarding the other generations' use of technology. Younger employees said older employees' "aversion to technology" is a problem; while older employees said younger employees' "inappropriate use of or excessive reliance on" technology is a source of concern.

Despite the multitude of problems associated with intergenerational workforces, companies are not shying away from these tough issues, according to the survey results. Fifty-six percent of respondents said their organizations are addressing intergenerational conflict through increased coaching and mentoring for managers (61 percent); implementation or increased coaching for non-managers (44 percent); and increased training on job expectations for new hires (38 percent).

QUOTABLES

"The superior man is easy to serve, but difficult to please. The inferior man is difficult to serve, but easy to please."

—CONFUCIUS, CHINESE PHILOSOPHER

"In the business world, the rearview mirror is always clearer than the windshield."

—WARREN BUFFETT, AMERICAN INVESTOR

"To open a shop is easy; to keep it open is an art."

—CHINESE PROVERB

"Aim above the mark to hit the mark."

—RALPH WALDO EMERSON, AMERICAN POET

"Man cannot discover new oceans unless he has the courage to lose sight of the shore."

—ANDRÉ GIDE, FRENCH AUTHOR

"A man with a surplus can control circumstances; but a man without a surplus is controlled by them, and often has no opportunity to exercise judgment."

—HARVEY S. FIRESTONE, AMERICAN BUSINESS MAN

A goal without a plan is just a wish.

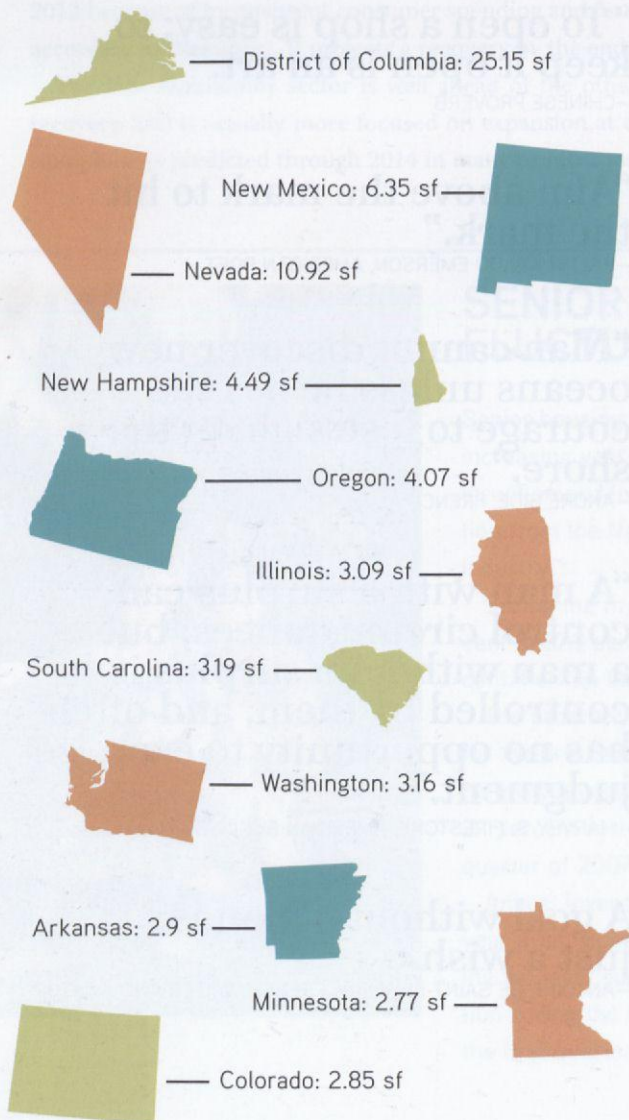
—ANTOINE DE SAINT-EXUPERY, FRENCH WRITER AND AVIATOR

GREENEST OF GREEN

Nevada tops the U.S. Green Building Council's list of top 10 states for LEED-certified commercial and institutional green buildings per capita, based on 2010 U.S. census information.

Nevada touts 10.92 square feet of LEED-certified space per person. While not a state, the USGBC also highlighted Washington D.C., in its results. The District of Columbia leads the nation with 25 square feet (sf) of LEED-certified space per person.

The top LEED states per capita, including the District of Columbia, according to USGBC results:



Urban Planning

Construction has begun on the CityCenterDC project, a 2.5 million square foot mixed-use development in downtown Washington, D.C., that will be built in three phases.

The project is one of the largest urban developments currently under construction in the United States. The project will sit on 10 acres of land—or 4.5 blocks—bounded by 9th, H and 11th Streets and New York Avenue, NW. The site formerly housed the District's old convention center.

Ultimately, CityCenterDC is expected to have two 11-story apartment buildings with 458 units; two condominium buildings with 216 units; a hotel with 400 rooms; 1,014,700 square feet of office space; and approximately 335,000 square feet of retail space.

The \$700 million phase-one of the project will involve developing the office and apartment buildings, condominiums and a portion of the retail space. It will also include a new park, a central plaza, retail-oriented alleyways and streetscapes, and a 1,555-car parking facility.

Visit www.hines.com/property and www.citycenterdc.com for more information.

HEALTH CARE SECTOR IS RX FOR REITS

The health care sector continues to explode, and U.S. real estate investment trusts (REITs) are taking advantage of the wealth of opportunities and expanding their market share, according to information from SNL Financial, a financial information service for public and private companies. Medical office building transaction activity grew 118 percent year-over-year in 2010 to \$4.2 billion, according to data from Real Capital Analytics. REITs accounted for 43 percent of the activity in 2010, up from 21 percent in 2009. In April, REITs had accounted for 25 percent of the total transaction activity for medical office buildings in 2010.

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www.bed-bug.org

If you've got the itch to discover more about bed bugs, this all-inclusive site runs the gamut from bed bug photos to remediation techniques to historical and biological facts to lawsuit information.

www.irs.gov

Eighty-six your 1099 with guidelines from the IRS website. Take a look at FAQs, compliance and enforcement information, tax statistics and much more.

<http://blog.commercialsourc.com>

The Source Blog—covering content from current legislation to social media tips to marketing tips—is the hotspot for all things commercial real estate.

www.propertymanager.com

Share ideas, challenges and resources with real estate managers across the country or browse a comprehensive selection of videos, webinars and education resources.

fast facts >>>



Collectively, Americans eat an average of 18 acres of **PIZZA** every day.

Touching your tongue while **YAWNING** can stop the yawn.



The **STATUE OF LIBERTY** wears a size 879 sandal.



Walt Disney was afraid of **MICE**.

Intelligent people have more **ZINC** and **COPPER** in their hair.



A **SNAIL** can sleep for 3 years.

Al Capone's **BUSINESS CARD** said he was a used furniture dealer.



TOMATOES—once referred to as “love apples”—were thought to cause people who ate them to fall in love.

DUTY TO REPORT Determine when and how to file an ethics complaint



MARY FAITH RADCLIFFE, CPM (MRADCLIFFE@RCPMANAGEMENT.COM), IS PRESIDENT OF RCP MANAGEMENT COMPANY, AMO, IN PRINCETON, N.J.

WHILE THIS ARTICLE ADDRESSES THE PROCESS OF *HOW TO FILE AN ETHICS COMPLAINT*, THE FIRST QUESTION TO ASK IS *WHEN TO FILE AN ETHICS COMPLAINT*. So, what do you do if you observe an ethically compromised situation or decision? Article 13 of the IREM Code of Professional Ethics *requires* members to report ethics violations. With the code so specific, the duty to report is often an obligation. But, you have to carefully consider each situation.

In particular, while all IREM Members are bound by the IREM Code of Professional Ethics, non-IREM industry professionals are not. If the person who is potentially acting unethically is not an IREM Member, IREM has no authority or jurisdiction over their behavior and cannot process an ethics complaint. If you do not know whether the individual allegedly committing the ethics violation is an IREM Member, you can verify this through the membership directory section of the IREM website.

FILING A REPORT

If you do confirm membership, the IREM Code of Professional Ethics dictates your duty to report. Therefore, your first step with IREM is to file an ethics complaint with the Ethics Inquiry Board. This can be done by anyone—not just IREM Members. If you are unsure how to word the complaint, call IREM Headquarters staff. The IREM website is also a wealth of information that can be accessed seven days each week, twenty-four hours per day. Here you can review case descriptions, results, download forms and obtain additional information about the ethics complaint process.

When filing an ethics complaint, you must review the code, specify in writing which section has been violated, substantiate it with documentation and sign it. Do not assume the Ethics Inquiry Board will know which section of the code you believe has been violated; you must show cause and prove your case. It is then up to this board to sift through all the information provided and either advance the complaint or reject it.

INSIDE THE ETHICS BOARDS

The Ethics Inquiry Board will only advance a complaint to the second step, the Ethics Hearing and Discipline Board, if there is enough evidence to warrant this decision. The Ethics Hearing and Discipline Board will then arrange for a live hearing at one of the two IREM national meetings. It is in the complainant's best interest to take this step seriously. Even though this may require travel, you, as the complainant, should plan to attend the hearing. It is important to present your case in person.

If you think the decision of the Ethics Hearing and Discipline Board was the result of procedural deficiencies or a failure of due process, you can appeal the decision. The Ethics Appeal Board hears appeals of decisions reached by the Ethics Hearing and Discipline Board, upon request. It can decide to uphold the original decision (although it cannot make the disciplinary action more severe), reverse the original decision or send the matter back for re-hearing.

This entire progression is one of the most serious processes in IREM. It is the core of our industry and is designed for all IREM Members to *Protect Your Ethics!* ■



FOR FURTHER DETAIL ABOUT HOW IREM PROCESSES ETHICS COMPLAINTS, AND A REPORT ON THE ACTIVITY OF IREM ETHICS BOARDS AT THE 2011 LEADERSHIP & LEGISLATIVE SUMMIT, TURN TO THE IREM ETHICS REPORT ON PAGE 53.

The evolution of light is a revolution of possibilities
with our Light Management Systems for LEDs.



© 2011 OSRAM SYLVANIA

Thanks to a joint venture between OSRAM and TRAXON, the future of lighting has arrived. The world's premier LED project at the Yas Hotel in Abu Dhabi was equipped with our Light Management System that can individually control each of 5,000 LEDs. The LED components, systems and light management solutions use up to 70% less energy, while offering infinite lighting design options, and the ability to control all the colors of the rainbow. The best thing about it? We provide everything from the initial idea right through to the installation of your LED lighting solution. Partner with us for unparalleled lighting expertise so you too can be right at the forefront of LED technology. Get inspired: www.sylvania.com/LED



To get the full LED story on your phone, snap a picture of this tag. (Requires a free mobile app from <http://gettag.mobi>)

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DON'T REST ON "BEST" Success happens by choice, not by chance



SHANNON ALTER, CPM (SHANNON@ALTERCONSULTINGGROUP.COM), IS PRESIDENT OF ALTER CONSULTING GROUP IN SANTA ANA, CALIF.

ON A LONG AIRLINE FLIGHT RECENTLY, I PONDERED WHAT SEPARATES THE BEST IN REAL ESTATE FROM THE REST. THE FOLLOWING ARE A FEW IDEAS THAT CAME TO MIND:

Position for growth: Recently, a colleague expressed concern to me about a manager's performance. The issue? He had less than stellar administrative skills. When I probed further, she admitted that despite his lack of these particular skills, he did have a true talent for developing relationships—and bringing in new business! To grow your company, first figure out how to maximize your and/or your staff's strengths and learn to make the most of them. For example, if you're considering taking on third-party management of an office building, but your experience is in multifamily, determine what you can do to put you ahead of the rest. Perhaps revising your management proposal to better target your client's needs will do the trick.

Consider the "a-ha" factor: Do you have a strategic plan in place but are so bogged down with everyday activities that you have no time to accomplish everything? Now's the time to get un-stuck! I encourage my clients to leave some room in their overall plan for what I call the "a-ha" factor—something that will make people sit up and say "This is how we can get closer to winning in our marketplace." The easiest route to "a-ha" is to make time to break out the whiteboard or flip chart in your next managers' meeting and do some brainstorming; you'd be surprised at what the group might come up

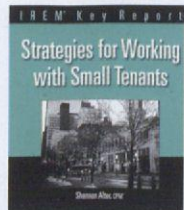
with. Try some other ways to get out of your comfort zone—such as attending a conference you've never been to, writing an article or teaching a class.

Embrace chaos: Working in the real estate world is often akin to being in a pressure cooker. Relishing the process can be the best way to propel your company forward. I recently had an opportunity to introduce an outstanding real estate executive to one of my clients, who quickly hired him. What does this experienced executive find so intriguing about my client's company? He knows the team is young, the atmosphere often chaotic and, well, there's a lot of work to do. He is excited by the boundless opportunities available to develop his team, as well as implementing best practices and positioning the company to be the best in its market niche.

Empower top talent: Another colleague recently mused about how she could retain her star managers. My response? Once you've developed a clear management strategy, give top talent what they came for: the space to satisfy clients and customers, produce results and move your organization forward. After all, isn't that why you hired them?

In our profession, you're likely to hear discussion on how to gain the edge over our competition. Lior Arussy, author of *Excellence Every Day*, explains it this way: You have a daily choice to be better than good enough. Think about what it takes to be the best of the best: What will you do? ■

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BEING TIRED: PRODUCTIVITY'S #1 ENEMY

Take the time to implement strategies for avoiding burnout



NATALIE D. BRECHER, CPM (NBRECHER@BRECHERASSOCIATES.COM), IS PRESIDENT OF BRECHER ASSOCIATES IN REDONDO BEACH, CALIF.

YOU MAY HAVE HEARD THE WITTICISM, "I CAN'T REMEMBER THE LAST TIME I WASN'T AT LEAST KIND OF TIRED." GOOGLING THE WORD "TIRED," I UNCOVERED A GREAT AMOUNT OF DIALOG ON VARIOUS SITES, INCLUDING THIS INTERESTING NOTE:

"[I don't have that] 'I didn't sleep well last night' type of tired, or the 'I've been so worried' type of tired, but more of the 'when can I have my life back' type of tired."

A popular theme—especially given the amount of effort we, as real estate professionals, are required to put forth—resulting from the continued difficulties in the marketplace and needing to do more with less.

RX

The state of being tired can be broadly categorized into mind- or body-tired. Both types may be present, but either can be problematic. Solutions take conscious effort and discipline to implement, but are mandatory to gain energy and be more productive.

Think, don't do. "Don't just stand there, do something!" is a common call to action and proof of our impatience. While action is an excellent habit, sometimes "Don't just do something, think about it" is the best approach.

Utilize dial-up time. Savor those choice moments when your time isn't as tight as Justin Bieber's press schedule; I call those opportunities dial-up time. Under-program your days so you're able to work without pressure, which allows time for thought and reflection.

Slow down to speed up. Don't feel you're not being productive because you're not moving

100 mph and crossing things off your to-do list every few minutes. For many, appearing exceptionally busy seems to be a badge of honor. To the contrary, however, busyness can signify just the reverse: Ineffectiveness. Slow down work on important matters to speed up effective results.

Eliminate to alleviate! Eliminate, delegate and streamline tasks to increase productivity. Do away with work that generates a low ROI, delegate work to develop employees, and streamline policies and procedures. That requires freeing yourself from the binds of perfectionism.

Turn it off. For all its benefits (and fun!), technology provides access to far more information than can ever be absorbed. Overloading on information and contact appears honorable—a thirst to learn and wanting to stay connected—nevertheless, it can be overwhelming and prevent time spent on significant projects.

Quiet and focus your mind. Mental multitasking creates an overload and dilutes results. It can be difficult to calm the mind and focus on one task at a time; however, do so when the task has high importance, requires advanced skills or is in any way improved with single-mindedness (e.g., speed of completion).

Sleep. We hear in the news that today's prevalent social malady is not getting enough sleep and results in hazards to the mind and body. Heed all the information available on the topic of sleeping well; check out www.sleepassociation.org for expert advice.

Now, please forgive me, I'll consider this further when I'm not in that "I don't feel like thinking" type of tired!

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by Beth Price

STATE LEGISLATIVE FORUM UPDATES

Energy conservation, health care reform and state budget shortfall issues impact real estate managers in every state

During the 2011 Leadership and Legislative Summit in Washington, D.C., this past April, IREM Members had the opportunity to discuss energy conservation, health care reform and state budget shortfall issues at the State Legislative Forum. These issues were selected because they were determined to impact real estate managers in nearly every state in some way.

Energy Conservation

IREM supports a free market system and believes it is the most appropriate means of attaining energy conservation and production goals. The nation should strive for greater energy self-sufficiency through further develop-

ment of existing sources, decontrol of energy prices and the development of all new sources of domestic energy to reduce our dependence on foreign energy supplies. Further, IREM supports the concept of positive incentives for conservation activities such as energy tax credits and an increased emphasis on energy-efficient technology by the nation's building industry.

IREM supports legislation that encourages voluntary energy-efficient improvements to buildings. These include tax credits for energy efficient commercial building property expenditures, tax deductions for energy management devices and tax credits for residential solar energy property expenditures. IREM strongly opposes mandatory national standards for multifamily and building energy conservation.

States are showing their support for voluntary energy conservation projects. At the end of 2010, New Jersey passed a resolution encouraging Congress to enact a "Renewable Energy Incentive Act" that would extend grants existing from the Stimulus Bill through 2012 for certain renewable energy projects in lieu of tax credits. In March, 2011, Wyoming formally authorized an energy improvement program that would provide financing and procedures for local governments to implement. Colorado has legislation that would include commercial buildings in the Colorado new energy improvement district created by the "New Energy Jobs Creation Act of 2010."

During the February 2011 "State of the Union" address, President Obama announced a new potential federal program called the Better Buildings Initiative. If implemented, this would make commercial building space in the United States 20 percent more energy efficient through cost-effective upgrades by 2020. Through these upgrades, there may be a reduction in business owners' energy bills by roughly \$40 billion. The proposed reform of taxes and incentives for commercial building retrofits would allow more financing opportunities for such commercial building projects. Because this is not a standing piece of legislation, it is important to review a draft of the bill before taking a stance on it.

Although not many currently exist, IREM encourages real estate professionals to be aware of state landlord/tenant codes that address energy efficiency as well as the ever-changing climate of energy conservation and programs relating to reducing energy consumption.



Health Care Reform

With the one-year anniversary of the enactment of the Health Care Reform Act passing, there is still much tension regarding how to implement this new law. Although the full impact of the law won't be felt until 2014, many state governors, attorney generals and legislators have opposed federal reform through lawsuits or legislation. Currently, there are 27 states that have filed lawsuits against the new law. States are worried about the expansion of Medicaid, which is a joint state-federal program for low-income individuals. Two federal judges, one in Virginia and one in Florida, ruled in December 2010 that the health insurance individual mandate was unconstitutional. Three federal judges have ruled that Congress possesses the authority under the Commerce Clause of the Constitution to uphold the requirement. It's expected the Supreme Court will ultimately have to resolve the issue.

For more information on the Patient Protection and Affordability Act, visit the federal government's new website, www.healthreform.gov.



State Budgets

Now that the federal stimulus package money is coming to an end, states face an even greater probability of experiencing major budget shortfalls. It is estimated that by 2013 there will be a projected gap in state budgets of \$66 billion. Currently, 35 states believe that the imbalances in their FY 2012 budgets, with an aggregate estimate, is roughly \$82.1 billion¹.

In order to create revenue, potential tax changes include a new sales tax on e-commerce. In March 2011, California, Texas and Illinois claimed that e-commerce companies have affiliate companies located in their states, which therefore qualifies those organizations to pay sales tax.

Some states are turning to state-wide legislation to address budget shortfalls. Wisconsin Governor Scott Walker signed into law a ban on collective bargaining for public sector unions and also limits raises to a certain level without approval by public referendum. Ohio has also legislated to end collective bargaining rights of public

sector employees. There has been talk of other states following this path in an attempt to better control state-wide spending.

Another economic development tool is to create or increase business taxes. The Midwestern states have been particularly involved in fighting for businesses to leave some high-tax states and relocate. Wisconsin, for example, has enticed an Illinois company, Catalyst Exhibits, Inc., to move from Crystal Lake, Illinois to Prairie, Wisconsin due to the recent tax increases in Illinois. Catalyst Exhibits will receive a \$500,000 state grant to relocate to Wisconsin and will receive a \$1.25 million low interest loan from the Kenosha Area Business.

IREM urges small business to continue to research potential tax incentives at federal and state levels in order to take advantage of tenant improvements and energy incentives. IREM legislative staff will continue to monitor these issues and will work to keep members abreast of any new developments.

Beth Price (bprice@irem.org), is legislative liaison for IREM Headquarters in Chicago.

¹ NCSL (Feb 2011, pg. 18)

RATES OF RETURN REFRESHER

By Eric B. Storey, CCIM, CPM

MEASURING FINANCIAL PERFORMANCE BY CALCULATING RATES OF RETURN, AKIN TO KEEPING SCORE AT A SPORTS EVENT, IS ONE OF THE SKILLS REGULARLY USED BY REAL ESTATE MANAGERS. Keep it sharp so you can continue to meet or exceed financial goals and objectives set for the properties you manage.

All measures of return for real estate investments can be classified into two separate categories: 1) *income rates* or 2) *discount rates*.

→ INCOME RATES

Income rates are the ratio between one year's income and a specific value. This ratio can reflect performance on an entire property or any of the individual components or positions in a property, such as debt/equity, land/building and leased fee/leasehold. The most common income rate used in our real estate industry is the overall income capitalization rate. *Capitalization* is the process of converting income into value. In the real estate world, a *capitalization rate* (Ro) is the ratio between annual stabilized NOI and overall property value. Overall cap rates fluctuate as properties vary in use and as those properties are traded in markets with different economic climates. Overall capitalization rates are most commonly determined by market extrapolation using the following formula:

$$I / V = R \text{ (WHERE } I = \text{NOI, } V = \text{VALUE, } R = \text{RATE)}$$

Once a capitalization rate has been determined, it can be applied to a specific property by estimating its annual stabilized NOI and then dividing the estimated NOI by the appropriate capitalization rate. The formula is:

$$I / R = V \text{ (WHERE } I = \text{NOI, } R = \text{RATE, } V = \text{VALUE)}$$

Another popular example of an income rate is known as *return on equity* (ROE), also known as *equity dividend* (Re) and the *cash on cash* rate of return (\$/\$). ROE is the ratio between one year's net cash flow and the current equity position in a property. The basic formula for ROE is:

$$I / E = ROE \text{ (WHERE } I = \text{INCOME, } E = \text{EQUITY, } ROE = \text{RETURN ON EQUITY)}$$

This formula has been further modified by what is referred to as the DuPont model, which accounts for the three basic components that determine ROE: *net profit margin*, *asset turnover* and *leverage*.

The formula used to determine these three components can be further broken down as illustrated on the next page.



CAP RATES & THE NBA

What do lower cap rates and NBA franchises have in common?

Overall income capitalization rates are measurably lower in cities that host NBA franchises, and even lower in population regions that host two NBA franchises, like Los Angeles and New York. Lower cap rates and NBA franchises are both typically located where the economy is strong and the future looks bright.

DID YOU KNOW...

The term "yield" was historically used to depict bushels of grain or sacks of potatoes when agriculture ruled.

NET PROFIT MARGIN

$$\frac{\text{NET INCOME AFTER TAX}}{\text{EFFECTIVE GROSS INCOME}}$$

ASSET TURNOVER

$$\times \frac{\text{EFFECTIVE GROSS INCOME}}{\text{ASSET VALUE}}$$

LEVERAGE

$$\times \frac{\text{ASSET VALUE}}{\text{EQUITY}}$$

= ROE

When the results of these three components are multiplied, the resulting number is equal to the number arrived at by using the basic formula of $I / E = ROE$. The DuPont model is very telling because it allows you to determine what portion of an ROE calculation is coming from efficient operations, lease income or financial leverage. When making a decision between two alternative investments, knowing to what extent your ROE is a product of financial leverage or leasing and efficient operations, is critical.

Yet another income rate is the *mortgage capitalization rate* (R_m), also referred to as the *mortgage constant*. A mortgage constant is the ratio of one year's total mortgage payment to the mortgage balance. The mortgage constant tells you what annual rate is required to amortize a dollar, using monthly payments at any specific interest rate and term. The formula is as follows:

$$\text{ANNUAL LOAN PAYMENT} / \text{LOAN BALANCE} = \text{MORTGAGE CONSTANT}$$

→ DISCOUNT RATES

Discount rates reflect a return over the entire term of an investment. The term "discount" also means yield. Therefore, a discount rate is a yield rate. A discount rate refers to any rate used to convert future income into present value. The term "discount" comes from the expectation that the present value will be always be less than the future value. A yield rate is a rate of return on capital. The term "interest rate" specifically refers to a yield rate on debt capital.

The terms discount rate, interest rate and yield rate

are synonymous and are used interchangeably. One of the most popular discount/yield rates used in real estate finance is *internal rate of return* (IRR). IRR is also referred to as *equity yield* (Y_e). Simply put, IRR is the rate that makes the money coming out of an investment equal to the money that goes into the investment. It is the rate that makes NPV equal zero.

Another example of a discount/yield rate is the *effective interest rate*, which is the actual return rate expressed as a percentage earned over time on a loan. Up front loan points and pre-payment penalties paid at the termination of a loan constitute additional interest and therefore effectively raise the interest rate return on a loan. The effective interest rate, which can be easily calculated with a financial calculator, is actually the IRR on a loan.

CAPPING IT OFF ←

Often, people ask, "If interest rates rise or fall, do cap rates correspondently rise or fall?" The answer is simple: There is no direct correlation between interest rates and cap rates. Interest rates are yields on debt capital and are discount rates. Overall cap rates are income rates and constitute the ratio between one year's NOI and sale price.

Notice that interest rates on debt capital secured by commercial real estate are generally the same nationwide, yet overall capitalization rates typically vary from a low of 5 percent to a high of 10 percent on property types and from city to city as economic conditions unfold.

Refreshing your knowledge on the basics of income and discount rates will increase your proficiency in profitable real estate analysis. ■

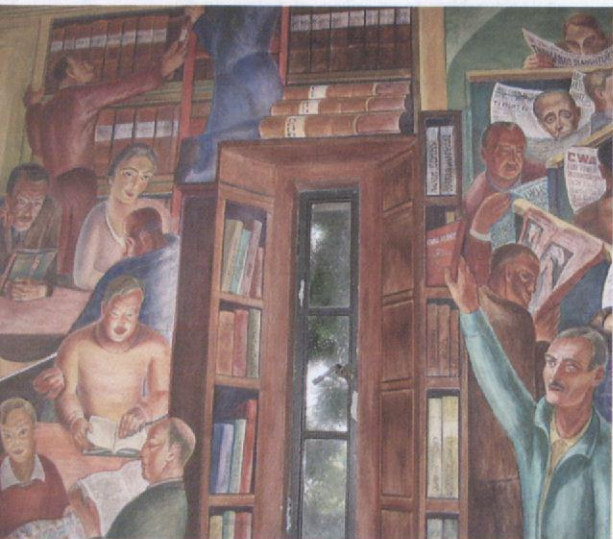


Eric B. Storey, CCIM, CPM (eric.storey@zionsbank.com), oversees the management, leasing and acquisitions of properties for Zions Bank in Utah and Idaho.

ART HISTORY Coit Tower paints a pretty picture of San Francisco's history

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A SNAPSHOT OF THE COIT TOWER MURALS, DONE IN FRESCO TECHNIQUE.



A TRIP TO SAN FRANCISCO IS NOT COMPLETE WITHOUT A STOP AT COIT TOWER IN THE TELEGRAPH HILL NEIGHBORHOOD. Boasting 360-degree views of the entire city, the San Francisco Bay, the Golden Gate Bridge and the Bay Bridge, the tower has been a prominent symbol of the city since it was built in 1933.

Developed as a monument to the city's firefighters, the fluted tower was built in honor of San Francisco socialite Lillie Hitchcock Coit. In her will, Coit bequeathed one-third of her estate to the city to be used "for the purpose of adding to the beauty of the city I have always loved."

Coit had a long and special relationship with the city's firefighters that started when she was just 15 years old. At that time, she saw Knickerbocker Engine Co. 5 called to a fire on Telegraph Hill and she rallied a group of bystanders to help the engine get up the hill to the fire. From then on, she often rode with Knickerbocker Engine Co. Number 5, and she was even recognized as an honorary firefighter. Today, she is still remembered as the matron saint of San Francisco firefighters.

ART DECO MASTERPIECE

The tower was designed by the firm of architect Arthur Brown Jr., and took five years to build.

With an art deco style and unpainted reinforced concrete, Coit Tower is both an architectural and historical gem. It was added to the U.S. National Register of Historic Places in 2008.

The tower's rich history and architectural appeal draw in locals and visitors alike. The view from the observation deck at the top of the 210-foot tower showcases the dynamic city at its best.

"You can take in how San Francisco as a city and a county has developed over the years," said Connie Chan, deputy director of public affairs with the city's Recreation and Park Department, which manages the tower. Maps inside Coit Tower illustrate how San Francisco has changed and visitors can compare these maps to what they see in "real-time" at the top of the observation deck.

REFRESHING FRESCOES

Along with the breathtaking views, the tower is adorned with 27 murals on the first and second floors of the tower. The murals on the first floor are open to the public, while the second floor is only accessible during once-a-week tours. The Coit Tower murals were funded by the federal government through the Public Works Art Project, a precursor to Works Progress Administration (WPA)-era programs that supported artists. The murals are treasured by locals and tourists, and are lauded as one of the most successful examples of public art throughout the United States.

"They are just fantastic," said Allison Cummings, senior registrar for the Civic Art Collection with the San Francisco Arts Commission. "They are such a priceless cultural asset for this city. People are amazed to walk in and see them. They are a really neat example of architecturally integrated pieces of art."

The murals depict life in California and the Bay Area during the Great Depression. A number of the murals were inspired by Diego



THE CLIMB TO THE TOP OF THIS 210-FOOT TOWER IS STEEP, BUT OFFERS PANORAMIC VIEWS OF SAN FRANCISCO AS ITS REWARD.

Rivera, the controversial Mexican painter, and incorporated many of Rivera's radical and leftist ideas. The scenes in the murals include city life, agriculture and industry settings. One section of the mural depicts a diverse labor march, along with a poor family panning for gold while a wealthy family observes. Another section of the mural, which was considered one of the most controversial at the time, includes a traffic accident, an armed robbery and a leftist newspaper.

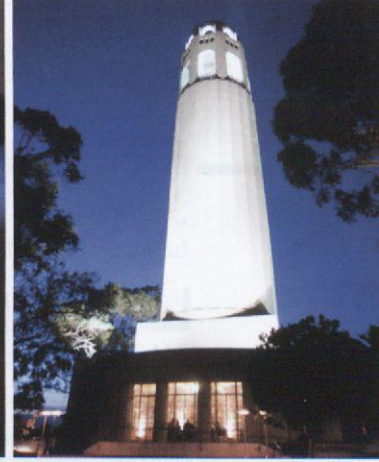
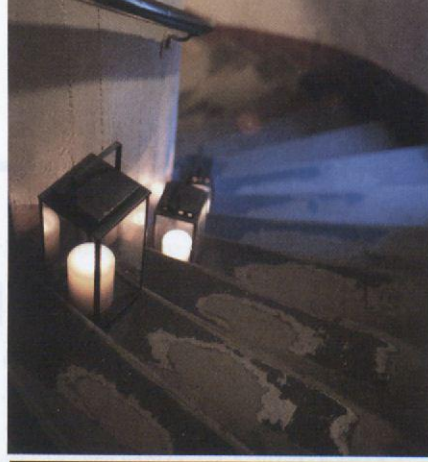
At the time, there was public uproar over the radical content in some of the murals, and critics called for the murals to be destroyed. However, the artists and their supporters protested passionately to keep the works intact. Ultimately, one image was redone, but the majority of the murals remained in their original form. The controversy surrounding the paintings delayed the opening of the tower by several months.

Almost all of the murals are done in fresco technique, in which wet plaster is applied to the walls before the painter paints on top of the wet plaster. The pigment from the paint then dries with the plaster, actually becoming a permanent part of the wall. While this technique creates long-lasting, durable murals, bright white plaster spots appear on the mural when they are chipped or scratched. The San Francisco Arts Commission is responsible for all maintenance and restoration to the murals. If/when there is damage to a mural, the commission works closely with accredited conservators who do in-painting to match the color in the surrounding area of the mural to minimize chips and scratches.

WORTH THE CLIMB

The appeal of Coit Tower is a combination of the scenery, its history and its artistry. Like so many successful properties, the location is one of the biggest draws when it comes to Coit Tower. Visitors can drive up Telegraph Hill or climb up the famed Filbert Steps to get to the top of the hill where the tower sits.

The Recreation and Parks Department's biggest challenge in managing Coit Tower is dealing with traffic issues in this congested and residential neighborhood. As an inter-agency issue, the department maintains open communication with the residents, the city and the San Francisco Municipal Transit Agency.



PHOTOGRAPHY © LAURIE ARONS SPECIAL EVENTS AND KRISTEN LOKEN

"We don't want traffic to diminish the quality of life of the neighborhood. We want to maintain the architecture and we don't want to damage the spirit of the tower," said Chan.

Coit Tower is indeed an ideal symbol of the city of San Francisco. Like the tower, the city is beloved by locals and visitors of all socio-economic levels; it is, at times, quite controversial and, above all, it is one of the most beautiful and revered cities in the world. ■

LAND OF PROPRIETORS Latin America's resilience is attracting attention from investors

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LATIN AMERICA'S EXPANDING ECONOMY AND INCREASED CAPITAL FROM INTERNATIONAL INVESTORS HAS POSITIVELY AFFECTED THE REGION'S REAL ESTATE MARKET; still, a cloud of corruption, lack of transparency and high levels of poverty and violence in some areas are hindering further growth.

"South America is in a good moment right now; real estate prices are going up," said Pepe Gutierrez, CPM, and administrador de fincas for Megafincas in Alicante, Spain. He also has contributed to the development of the IREM Latin American programs. "But there are problems," he said. "Some areas are unsafe, and many places lack a middle class—there are rich and poor people and nothing in between."

However, Latin America has had its victories. In a 2010 survey of the world's top 269 shopping locations across 59 countries, the Latin American region showed the most positive rental growth globally at 6.4 percent, according to Cushman and Wakefield's report, *Main Streets Across the World*.

In addition, Brazil's commercial office market was one of the best performers in the world in 2010, thanks to "strong demand, healthy absorption and rising rents across all metropolitan areas," according to another Cushman and Wakefield report, *America's Economic Pulse: The Tipping Point*, released in February.

"[The] majority of Latin American countries have grown in one form or another, and so have the [different] property sectors," said Juan Carlos Latorre, CPM, president of CGAI in Santiago, Chile.



A WORLD OF POSSIBILITY

Despite Latin America's recent growth and seeming resilience, it did not escape the woes of the 2009 global economic crisis.

Export volumes fell by 3.5 percent and GDP fell by 1.8 percent, according to information from the Organisation for Economic Co-operation and Development, an international group that promotes social and economic policies for countries around the world.

However, the region's improved macroeconomic fundamentals, regulation and expanding industries enabled it to recover more quickly than in years past when other economic downturns occurred, according to *Main Streets Across the World*.

Its resilience is evidenced by an increase in rental rates in most real estate sectors in multiple countries—especially Brazil, which is attracting wide attention from investors. Resiliency aside,

investors are further motivated by the upcoming 2014 World Cup and 2016 Olympic games in Rio de Janeiro, and the region's wealth of natural resources like copper, iron ore and oil.

Real estate investors spent approximately \$5.9 billion (USD) on property in Latin America through October 2010, and Brazil accounted for 70 percent of that volume, according to information from Real Capital Analytics.

"There are good opportunities in Latin America at this time," Gutierrez said. "I am not an economist, but Brazil seems to have the conditions and natural materials to make it one of the strongest countries [economically] in the future."

ALL BETS ON BRAZIL

Investors in the Brazil real estate market are expected to target all real estate sectors. However, the hotel sector is particularly ripe for investment, according to the Ernst and Young report, *A World of Possibility: Brazil Hotel Investment Opportunities*.

In a survey of more than 60 international private equity fund managers, investment bankers and real estate developers, Ernst and Young found that 50 percent of investors interested in Brazil are also interested in the hospitality industry.

With employment projected to increase 1.6 percent, Brazil's robust office market—with positive absorption

and escalating rents—is expected to remain strong, according to the economic pulse report by Cushman and Wakefield.

Brazil's retail environment is certainly picking up speed. Sixteen shopping centers opened in Brazil in 2010, and 26 more are anticipated to open in 2011, according to information from the shopping center association ABRASCE. Shopping center sales increased 18 percent in 2010 to \$50 billion (USD), according to the same information.

The residential market in Brazil, and Latin America in general, is unique because the rental market is so small. Most multifamily housing is owner-occupied, as well as heavily subsidized by the government. Gutierrez said approximately 85 percent of the population owns. Therefore, the residential rental market isn't tracked as closely.

"Latin America is [a] land of proprietors," Latorre said. "While in many countries the rental market is excellent, the Latins want—above all things—to become owners. It is for that reason that the real estate for rent market is irrelevant in percentage to the owned residential scope."

OPPORTUNITIES ABOUND

Changes in Latin America's economic climate and real estate market likely mean changes for the real estate management industry, which already varies widely across the region, CPM Members said.

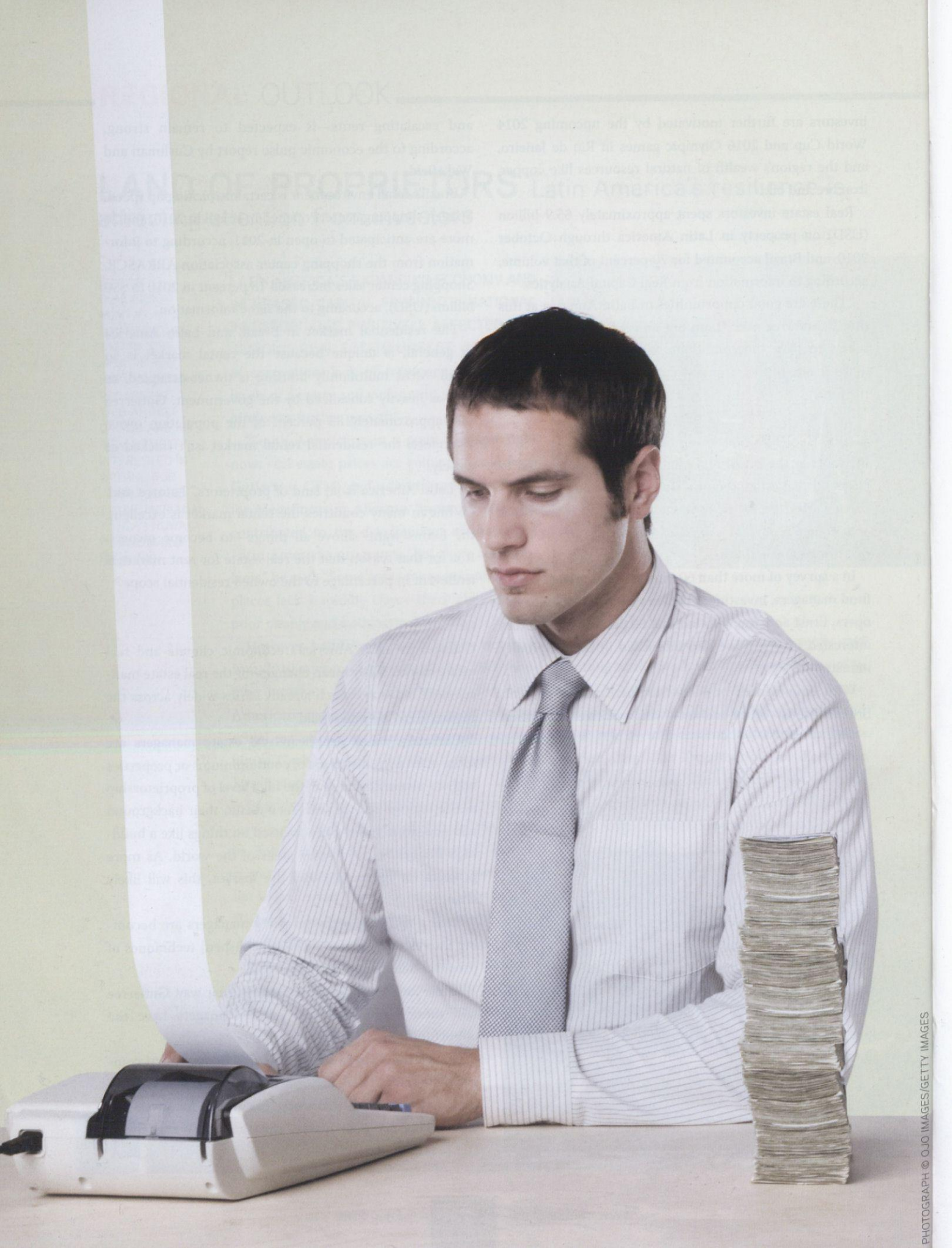
Currently, Latin American real estate managers are more often administrators of condominiums or properties with co-owners because of the high level of proprietorship in the region, Latorre said. As a result, their background and education hasn't been focused on things like a building's financials, as in other areas of the world. As more projects for rent come into the market, this will likely change.

"It is a fact that many property managers are becoming interested in learning the [established] techniques of property management," Latorre said.

While local managers are learning their way, Gutierrez said more established real estate managers have the opportunity to generate business.

"It's a struggle to find a high quality management company," he said. "There are only a few professional companies that can do all this work. Businesses [or investors] are looking for high quality managers or management companies." ■





STAYING ALIVE IN THE BLACK

MINIMIZE LOSSES AFTER A TENANT ENTERS CHAPTER 11 BANKRUPTCY
BY RANDALL L. AIRST, ESQ., LLM

Over the past few years, thousands of companies have gone bankrupt, costing creditors billions of dollars. In many instances, rent represents the single largest recurring expense. Consequently, when business goes south, and companies begin to consider bankruptcy protection, rent and related costs are singled out for particularly careful scrutiny.

As a real estate manager, you can help mitigate dam-

ages during the post-filing stage of bankruptcy by becoming familiar with the process. Section 365 of the bankruptcy code provides the tenant with an opportunity to “assume,” “reject” or “assign” its leasehold interests. Tenants will examine each lease to determine which of these three options is best—and you should do no less. Determine whether continued occupancy, assignment or vacant possession contributes most to the bottom line of the properties you manage.

[This article is provided for informational purposes only, and is not intended to provide legal advice for any particular situation.]

Even after a tenant files for bankruptcy, you must continue to monitor their financial health while also undertaking research into myriad related factors including:

- 1 Market demand for the premises in question;
- 2 Length of time the space would remain vacant in the event that the tenant rejects the lease;
- 3 Then-current market rent for the premises;
- 4 Whether then-current market rent is above or below the lease rent;
- 5 How the loss of the tenant would impact ownership's relationship with its mortgagee; and
- 6 Costs landlord would have to incur in order to replace the tenant (e.g., brokerage or tenant allowance for tenant improvement).

OPTIMIZING YIELDS BY RECAPTURING OR EXTENDING

These types of common market factors will drive your overriding objective during the post-filing period, optimizing the yield from the premises in question. The yield includes not only rent per square foot, but the impact a vacancy would have on the rest of the development. In attempting to optimize yield, you must decide whether to try and recapture the space or extend the tenant's tenure.

When a tenant files for Chapter 11 Bankruptcy protection, you must act quickly by filing a *Notice of Appearance and Demand for Notices* through counsel. As a result of taking these steps, you will receive notification of important events in the case, including the tenant's submission of a budget in order to secure a debtor in possession financing.

Landlords will be able to use this information to:

- 1 Ensure that rent is included in the tenant's budget; and
- 2 Ascertain whether the tenant is capable of furnishing adequate assurances that outstanding lease obligations will be fulfilled, with such assurances being required for a tenant to assume a lease.

Nonresidential tenants who file a Chapter 11 case have 120 days within which to either assume or reject leases. The court has the option of extending the 120 days by an additional 90 days, if such an extension is warranted by cause. The 210 days is a semi-hard cap, and no further extensions may be granted without the landlord's written consent. If the tenant does not accept or reject the lease by the end of the 210 day period, the lease is deemed to

have been rejected.

The model for assumption is located in section 365(a) of the bankruptcy code. Section (a) provides that except as postulated in sections 365(b), (c) and (d) the trustee may, subject to the court's approval, assume or reject any unexpired lease of the tenant.

Tenants who want to assume leases are required to:

- 1 Cure any monetary defaults;
- 2 Compensate landlords for damages stemming from monetary defaults;
- 3 Furnish adequate assurances that remaining obligations will be fulfilled; and
- 4 Satisfy all remaining obligations incurred under the lease as though bankruptcy had never been filed.

OBJECTIONS TO THE TENANT'S ASSUMPTION OF A LEASE

Take note of prevailing market conditions when determining how exacting to be in enforcing a tenant's 365 obligations. For example, if a tenant is paying below market rent and prospects for the premises are plentiful, the landlord may forcefully pursue adequate assurance that remaining obligations will be fulfilled. It is worth noting that Section 365(b)(1) does not provide the landlord with the right to escape from a lease merely because current market rents are higher than the lease rent. Courts evaluate "adequate assurance of future performance" on a case-by-case basis.

REJECTION AND ITS CONSEQUENCES

Rejection releases the tenant from rental payments as well as other continuing lease obligations. Rejected leases are regarded as having been defaulted just before the bankruptcy filing.

When a lease is rejected, the landlord is entitled to a rejection damage claim—tantamount to a general unsecured claim—typically yielding only a fraction of the face value of the claim. The landlord must bear in mind that Section 502(b)(6) of the bankruptcy code places a cap on rejection damage claims. The cap limits rejection damage claims to the amount of rent reserved under the lease, without acceleration, for the greater of (a) one year, or (b) 15 percent, not to exceed three years, of the remaining term of the lease, following the earlier of: (i) the filing of the bankruptcy petition; and (ii) the date the landlord recovered, or the tenant surrendered, the leased premises.

If you carefully scrutinize the nuances of how bankruptcy impacts leases, you can add a great deal of value to your owner's bottom line.

ASSUMPTION AND ASSIGNMENT

Tenants can assume and then assign a lease under section 365, which permits assignment in spite of lease provisions prohibiting transfer. While section 365 does provide for tenant assignment rights, such rights are intertwined with obligations, inserted in order to protect owners. Obligations can vary, with shopping center owners having been singled out for disparate treatment.

Tenants who seek to assign a lease have generally benefited from a below average rent, facilitating the "sale" of the lease, with such a sale generating income for the bankrupt estate. Depending on the gap between the terms of the lease, and those available in the market, the landlord will determine how to approach the preconditions to assignment.

As you can see, there are a number of grounds on which a landlord can object to a bankrupt tenant's assumption and assignment. Such grounds go well beyond the obvious question of whether the prospective assignee can pay the rent. For example, tenants are often required to return the premises to the condition in which they were leased, with the exception of normal wear and tear. The difficulty in fulfilling this obligation is often overlooked. For example, returning a supermarket to the condition existing at the time of the lease can cost \$1 million, sometimes more. Real estate managers who are intent on strict adherence to bankruptcy law requirements can require that the prospective assignee demonstrate its ability to fulfill this and all other obligations.

Tenant bankruptcy filings are a fact of life and will remain so for the foreseeable future—perhaps indefinitely. As a real estate manager, you can learn the rules governing leases, monitor the market and collect financial information from tenants. By undertaking these and other proactive measures, you will enhance the value of spaces leased by bankrupt tenants, their neighbors' leases and the host properties. With rents and property values often stagnant, the ability to make the most out of a bad situation is a skill well worth cultivating. ■



OBJECTION TO ASSUMPTION & ASSIGNMENT IN SHOPPING CENTER TENANTS

Pursuant to section 365 of the bankruptcy code, shopping center tenants seeking to assign are required to provide adequate assurance of future performance, specifically that:

- 1 The financial condition and operating performance of the prospective assignee and any guarantors shall be similar to the financial condition and operating performance of the debtor/assignor and its guarantors at the time the lease was executed;
- 2 The percentage rent payable under the lease will not fall off substantially;
- 3 The assignment is subject to all the provisions thereof, including (but not limited to) radius, location, use or exclusivity provision, and will not breach any such provision encompassed in any other lease, financing agreement or master agreement relating to the shopping center; and
- 4 The assignment of such lease will not disrupt any tenant mix or balance in such shopping center.



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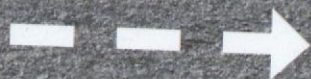


GETTING THE BEST LOAN

Building relationships

is key

in today's market



BY BRAD COX, CCIM, CPM

In the 20 years I have been a mortgage banker,

I have never seen the lending environment quite like the one we have been in for the past several years, and chances are that capital will be scarce for several more years to come. That being said, there are still pockets of capital available for commercial real estate.

WHO IS LENDING?

The likely capital sources are banks, life insurance companies, commercial mortgage-backed securities (CMBS) lenders, Fannie Mae and Freddie Mac, U.S. Department of Housing and Urban Development (HUD)-insured loans and private capital. Fannie Mae, Freddie Mac and HUD focus solely on apartment loans. Most loans are not self-amortizing (e.g., 10-year term with a 30-year amortization); however, in some cases, self-amortizing loans can be structured. The terms and amortization periods vary, according to

the lender's criteria, the borrower's needs and the property types.

Banks are looking for a strong relationship with their clients, many of whom are likely to reside in their city of business. Typically, a bank will underwrite a loan (usually under \$5 million) very conservatively by thoroughly reviewing the borrower's credit history and the performance of any of the borrower's other commercial real estate properties. The borrower should be prepared to deposit funds—usually a percentage of the loan amount and often called *compensating balances*—with the bank for the life of the loan. The loan-to-value will be in the range of 65 to 75 percent, and terms usually will not exceed five years. The rates are between 5.5 to 6.5 percent and many banks have an interest rate floor in the 6 percent range.

Life insurance companies have been very active for the past three to four

years. Their loans have always been conservative (which is probably why they are still making loans) and they continue using this model today. Many of them have a minimum loan amount of \$5 million but a few will finance properties in the \$1 million to \$5 million range. The loan-to-values are in the 70 percent range and the terms can range from two to 30 years. Most of the loan requests are for 10-year loans and the rates vary from 5.75 to 6.5 percent, depending on the strength of the borrower, property location and performance and loan size.

CMBS lenders—once the leading capital providers up until the time they abruptly exited the market following the 2007 to 2008 crash—they are now staging a slow comeback. With the exception of a few, their minimum loan amounts are \$10 million, thus disqualifying many loan requests. If the property meets the loan minimum and they like the deal,

TOUGH DEALS TO FINANCE

The following may require less traditional lending sources:

- Fractured condominiums
- Land (commercial and residential)
- Hotels
- Non-stabilized properties
- Properties with rents and occupancies way above market
- Single-tenant properties with a weak tenant or short term on the lease (short-term leases will be a problem regardless of how strong the tenant is)
- Properties with dark space
- Properties with subtenants
- Borrowers with credit issues
- Borrowers with weak personal financial statements
- Contaminated properties
- Properties with tenants that owe CAM charges and rent
- Interest-only loans
- Properties with master leases (borrower leases the space for underwriting purposes)
- Requests for mezzanine or second loans
- Note purchases

you may be able to get a loan based on 75 percent of value with a 10-year term, 25-year amortization and 5.5 percent rate as of today.

Fannie Mae and Freddie Mac have dominated the apartment finance market for many years, and to some degree they continue to offer the best rate and terms compared to other lending sources. Their future, however, is questionable. Both agencies have lost billions of dollars in bad residential loans and there is significant pressure to break them up. This could mean that the agencies are privatized, combined together or eliminated entirely. One thing is certain though, big changes are forthcoming.

HUD-insured loans, which offer financing for new construction as well as for acquisitions and refinancing, continue to be a dependable source of capital for apartment owners. The process is long, the reserves and fees are high, but in exchange, the rates are presently below 4 percent; for a refinance with cash out, you may qualify for an 80 percent loan-to-value with a 35-year term and 35-year amortization. If you have the time to process the loan, this program is worth considering.

Private lenders are gaining popularity again, despite their high rates and fees. If the property is not stabilized (under 70 percent occupancy), needs rehab, has a loan that needs to close fast or the borrower has credit or liquidity issues, then a bank, life insurance company, or CMBS lender will not be a good fit. If the borrower does not have such issues, these lenders can also provide cash beyond the

CHECKLIST OF ITEMS LENDERS LOOK FOR:

- Specific loan request including the loan amount, term and amortization
- Physical address of the property
- Pictures—at least eight color photos
- Legal name of the ownership entity (including the general partner or managing member name(s) and percentage ownership)
- Rent Roll—the current rent roll should include the tenant name, square footage and space size, move-in date and monthly rent
- Physical occupancy for the trailing 12 months (month by month)
- Rent collections for the trailing 12 months (month by month)
- Copy of the standard lease agreement
- Recent rent delinquency report
- Description of construction and property (concrete, brick, metal, on-site apartment for management, on-site office, etc.)
- Market rent for similar properties in the area
- Actual balance sheets and profit & loss statements for 2008, 2009, 2010 and year-to-date 2011. Describe any dips in the income and out of the ordinary or non reoccurring operating expenses
- List of any immediate repairs
- List of major improvements made to the property in the past five years
- Copy of a previous appraisal—if available
- Resume on the borrower (including website as applicable)
- Date of property acquisition and cost was (contract price plus closing costs)
- The loan balance for the existing loan, along with the lender name, maturity date and interest rate (include a copy of the latest mortgage statement). If there is a second mortgage, provide the same information
- List of any known environmental issues
- Description of any exceptions that may show up on title (easements, parking, liens other than the first mortgage, etc.)
- Story behind any irregularities on the property (e.g., if there is an above-average vacancy or unusually high/erratic operating expenses or income)
- Indication of the combined net worth and liquidity of the key principals within the borrowing entity
- List of any past or present loan defaults, lawsuits, foreclosures, bankruptcies or any other credit issues with which the lender may have concern

WHAT YOU SHOULD KNOW BEFORE SIGNING A LOAN APPLICATION

current loan balance if the borrower needs cash for other emergencies or wants to take advantage of an opportune acquisition. Expect loan-to-values to be in the 60 to 70 percent range, rates to be between 10 to 14 percent and fees anywhere from two to five points. Terms are normally from six months to two years. These loans are typically paid off after the property stabilizes and the borrower sells or refinances the property. They can fund as quickly as one week but two to three weeks is the norm.

GOING IT ALONE?

Working directly with a lender can reduce the amount of fees you pay. If you have a strong relationship with a bank, then you should talk to them about your loan request first. If they deny your request or say that the loan amount and terms are not sufficient, then it will probably make sense to talk to an experienced mortgage broker.

Most life insurance companies only work through correspondents, so in order to get a quote from them you will have to go through their correspondent mortgage broker in the region.

It's possible to go to the CMBS lenders directly but if you don't have a relationship with the new loan officers (most were let go several years ago) then it makes more sense to let the mortgage broker talk to them; the broker knows what the lender is looking for and usually has a better relationship with them because the broker sends the lender numerous deals to look at on a regular basis. The broker

- If this is a refinance, make sure to review the note to confirm the maturity date and when you can prepay at par or with minimum penalty.
- If it is a CMBS loan, make sure of the maturity and the open at par period because if you have defeasance versus yield maintenance, even for 90 days, the cost may be prohibitive.
- Before you sign a loan application, make contact with the servicer or lender and have them e-mail you a payoff letter confirming the payoff amount and when you can do so. For example, some loans must be paid off on a specific date, say 12/06/11. If not paid on that date, you will have to wait 30 days or pay a full month's interest.
- If the loan is past maturity, be sure you are in contact with the special servicer or lender to let him know you have a lender willing to provide the financing. He will probably still charge late fees and default interest but at least he knows you are working on it.
- It's always a good idea to know this information upfront, and not 15 days before closing, to avoid surprises.

can also get you several term letters from different lenders for review.

You can also go to a private lender directly. If you have a local private lender that you personally know, or a friend who has used a private lender before with success, then give them a call. Be careful when calling private lenders you don't know, however; this side of the business is not regulated and if you don't understand how they underwrite the numbers, you may be in for a big surprise. Using an experienced mortgage broker will eliminate most of these concerns because the broker likely has established good relationships with credible lenders.

IT'S ALL IN THE PACKAGING

The key to maximizing the loan

amount and getting the best terms is to present the lender with a well thought-out loan request package. Lenders are overwhelmed with loan requests today and they want to focus on the deals that require the least amount of time. If they don't understand your request or if there is missing or incorrect information in the loan package, they probably will put the deal behind other requests that they can quickly review and quote.

Although the lending environment is very limited, deals are still getting funded. The key to success is to have good relationships with experienced brokers and lenders and to present them with the information outlined in this article. Relationships are now more important than ever. ■



Brad Cox, CCIM, CPM (bcox@tdwood.com), is senior vice president at Thomas D. Wood & Company, a Florida-based mortgage banking firm representing mostly life insurance company lenders.

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discerning *the* desirable

FINDING THE RIGHT MULTIFAMILY RESIDENTS MEANS LOOKING BEYOND FICO SCORES AND FORECLOSURE by Bailey Webb

Here we find ourselves slowly, sluggishly advancing toward economic recovery in the aftermath of a recession. Even with so many tenants' and prospective renters' credit scores damaged by foreclosure, divorce, bankruptcy or other personal calamity, residential and multifamily property owners and managers have found new ways to move forward and identify these otherwise qualified renters while mitigating their risk.

Though home loan delinquencies are declining—3.6 percent were more than 90 days overdue at the end of 2010, from a high of 5 percent after the first quarter of last year, according to the Mortgage Bankers Association (MBA)—the number of foreclosures remained at a record level of 2.3 million at the end of January, according to mortgage tracking firm LPS Applied Analytics. Nevada and Florida have been especially hard-hit, with nearly a quarter of each state's home loans delinquent or in foreclosure, according to the MBA. Foreclosures aren't expected to decline this year, either, and they are taking longer to finalize. According to LPS, the average time foreclosed borrowers defaulted on making a payment increased from 410 days in January to 507 days by year's end.

REMOVING THE ROSE-COLORED GLASSES

All players in the single- and multi-family market—including managers and lenders—face the difficult task of balancing customers' needs and market realities with maximizing value and profit. Applicants affected by foreclosure, bankruptcy and other increasingly common and prevalent stressors of the past few years, have changed the game considerably.

"The reality is, we went through the biggest recession since the Great Depression," said Andrew Wilson, vice president of Chicago-based Aries Capital. "A lot of people were put in a difficult position of not being able to meet some financial obligations."

In and of itself, a foreclosure on an applicant's record isn't the end of it for most multifamily owners and managers, and it certainly doesn't

qualify as a deal breaker or red flag that an eviction or debt with a previous landlord can be.

Atlanta-based RAM Partners, which manages approximately 25,000 apartments throughout the United States, screens applicants as tightly as ever, according to Brenda Lindner, CPM, and senior vice president with RAM. However, the firm also takes a consistent approach to reviewing declined applicants to see what might be feasible. RAM has adjusted some of its criteria, but it still goes by the basics—credit score, residential history and employment—and will ask for a higher deposit from applicants who fall in the "conditional" category.

"If you would have normally met our criteria but have a foreclosure, we'll just ask for a month's rent deposit," Lindner said. "We're in a reality check here. These are good people who got in over their heads and can still pay rent. We're really trying to work with people."

WHAT'S THE SCORE?

Many owners and managers have maintained criteria related to FICO scores and let market forces adjust other aspects of the qualifying process.

Several years ago, as the economy entered a recession, owners and manager knew they had to reduce rents to compete with peer properties and attract and, perhaps more importantly at the time, retain residents. Foster City, Calif.-based Legacy Partners even enhanced its focus on FICO scores, said Scott Morrison, CPM, senior vice president, but decreased rent at many properties and provided other incentives to attract new high-credit renters, who could have a deposit as low as \$99 if it was accompanied by a high enough FICO score.

"You have to be flexible and creative," said Morrison, a CPM for more than two decades. "It was much better to keep residents at a [minimal] loss and not have vacancy versus a turnover loss and then having to re-lease at a lower rate anyway. The criteria to lease are reduced when you lower rent because that makes it easier for them to qualify."

"A lot of owners right now aren't looking at 'what is the value of my building?'" Morrison continued. "They're saying, 'let's break even.'"

More and more, owners and managers have to look beyond FICO scores, though. Los Angeles-based Charles Dunn Real Estate Services increasingly asks for bank references and recommendations from two past landlords as well as information on current income and consumer debt. Of course, the company follows fair housing guidelines, but does not rent to felons and sex offenders or applicants with multiple misdemeanors.

Like most owners and managers, open bankruptcy proceedings are a big red flag, too. Still, lower-credit applicants who otherwise qualify may have to pay a higher deposit, doubled in some cases, but will get an honest chance if they're showing signs and taking steps toward improving credit, said Eileen Conn, CPM, and regional vice president at Dunn. A co-signer or a six-month lease for conditional applicants can mitigate risk, too, Conn said, or they may recommend another unit or property that's a better fit for the applicant's financial situation.

“We’re in a reality check here. These are good people who got in over their heads and can still pay rent. We’re really trying to work with people.” -Brenda Lindner, CPM, RAM, Atlanta

“We’ve definitely changed some of our parameters,” Conn said. “There is a significant difference if you go by score alone, and that’s where we delve into other factors like payment history, income and things like that. Knowing the economy has taken a dive and people have lost homes or experienced other unfortunate situations, we have lowered some of our qualifications to deal with the circumstances. Most people are more open now to saying, ‘my credit’s bad and here’s why,’ whether it’s a foreclosure or divorce or something like that.”

HIGH-TECH LEADS TO HIGH-QUALITY APPLICANTS

Technology tools like On-site.com and the LeasingDesk as well as Credit Optimizer applications from RealPage and Experian’s RentBureau can make it easier to efficiently dig into applicants’ data. Technology also makes it easier to adapt to rapidly shifting market dynamics and make operational adjustments.

Houston-based Camden Property Trust, AMO, has used RealPage and its applications for about a decade to help gauge supply and demand in shifting markets and submarkets. That data has enabled the multifamily real estate investment trust to adjust standards for applicants and make quick decisions, especially in markets like Las Vegas and Colorado, where Camden now requires income verification from applicants.

“[Technology] has helped us to where we didn’t have to change credit standards because our pricing adjusted,” said Melinda Graham, CPM, regional vice president for Arizona and California at Camden Property Trust. “The market went so low that people who wouldn’t normally qualify for the property did qualify. Now, rents are recovering and we’re seeing some of those people moving out.”

Camden has also rolled out a foreclosure-forgiveness program enabling applicants to get an apartment if other factors match its standards.

Accurate tech-derived, rental-history data also opens up properties to more qualified prospects while adding another layer to weed out potential scofflaws. Those historical data can shed light on an applicant from an under-banked demographic who may have a great track record of paying rent but may not have a clear or lengthy credit history.

“It’s a great way of safely expanding one’s reach to an emerging market,” said Brannan Johnston, vice president and managing director for Experian’s RentBureau. “With respect to rental data, our clients feel like an individual’s rental payment history is one of the most accurate predictors. Increasingly, residents also will seek out properties that contribute data, and credit them for paying rent responsibly.”

Of course, screening companies play their role, too, especially in helping managers explain declines to owners. Good screening companies’ data and trend analysis helps owners and managers see different shades of gray and discern who’s worth a chance and who’s too much of a risk, said Mitch Harrison, partner with Atlanta-based First Communities, which manages 80 communities with approximately 20,000 units across the Southeast.

“You don’t want to price yourself out of the market from a credit and screening perspective,” Harrison said. “There aren’t many people out there with perfect credit.”

Harrison pointed out that, across the board, credit scores have declined, and it’s not infrequent to have applicants whose credit has been dinged by medical bills or student loan debt. With these factors and others, First Communities is placing added emphasis on verifying work history, especially tenure at a job, and applicants’ track record with rent payment and previous landlords.

“Certainly from a macro-standpoint, we wouldn’t be doing our jobs if we weren’t digging a little deeper,” Harrison said. “You have to look at each applicant to get a true picture of where they stand. It’s a big jigsaw puzzle, and you have to put it all together.” ■

Bailey Webb 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 Nowak at mnowak@irem.org.

D**ONT**
LET THE
BED BUGS
BITE INTO
YOUR
NOI





OUTSMART THIS SMALL BUT POWERFUL ENEMY IN THE PROPERTIES YOU MANAGE

BY GREG L. MARTIN, CPM EMERITUS AND JOHN L. BIEG, CPM

Bed bugs have made a comeback since the early twentieth century, and as a real estate manager, you've probably come into contact with—or at least heard stories of—the damage caused by these small pests. Contrary to popular myth, bed bugs aren't necessarily the result of dirty or unsanitary conditions—they are equal opportunity pests, finding their way from place to place by latching onto pets, furniture, clothing, luggage and other items with dark hiding spaces and nooks and crannies.

Their prevalence in hotels, dormitories, single- and multifamily homes, airplanes, hospitals and other places where people live, work and shop, is

widespread. When you consider how easily they can spread from place to place and the cost of remediation—along with the bad press associated with their presence—bed bugs can quickly become time- and money-consuming and ultimately impact the NOI of the properties you manage.

BED BUG BASICS

Sometimes prevention is the best medicine. Implementing varying bed bug procedures will allow you to respond before it's too late.

THE FOLLOWING ARE SEVEN SUGGESTIONS FOR DEVELOPING A BED BUG PROTOCOL:

1: Time is of the essence. Rapid response is the most important rule of thumb in containing and eliminating bed bugs, regardless of the size of an infestation. If left untreated, bed bugs can spread to a large number of units and/or other areas in your property.

2: Divide and conquer. Educate employees, staff, contractors and occupants about bed bugs. The more information you make available to all the players in your property, the easier it is to identify bed bugs, or at least isolate an infestation before it worsens. It is paramount that staff is trained to identify bed bugs to supplement the professional exterminator's opinion.

3: Confirm your suspicions. If an occupant mentions being bitten, appears to have bite marks and/or tells you they've seen a little insect looking similar to a baby roach, these are common signs that your property has been hit by bed bugs.

4: Take a look for yourself—then call in the experts. "Bed" bugs get their name for a reason. When inside the unit, take a look at the bed, which is one of the most common places for them to hide. Small, dark stains in the seams of mattresses and on sheets provide evidence that bed bugs have recently been feeding

in those areas. Once you have inspected the unit that you believe to be the source, move on to neighboring units. Every contiguous unit to the bed bug infestation is vulnerable to bed bugs. Use a "clover leafing" technique to check above, below and on each side of the infestation.

5: They're real: time to develop and implement a bed bug treatment checklist for each unit, like this one:

- Send preparation letter to occupant;
- Have unit treated for bed bugs;
- Record level of preparation and sanitation in unit;
- Send 10-day cure notice to occupant whose unit is unprepared and/or displays poor sanitation;
- Have unit treated bi-weekly until the pest control company reports that it is free of bed bugs;
- Confirm successful treatment via a canine walk-through



BED BUG-SNIFFING DOGS CAN ALSO BE USED TO DETECT EGGS, CAST SKINS AND FECAL SPOTS, ALL OF WHICH CAN INDICATE THE PRESENCE OF BED BUGS IN VARIOUS STAGES OF DEVELOPMENT.



Visit www.bedbuginstitute.com to learn more about preventative tips, or to find a pest management professional near you.



- Continue a bi-weekly inspection until unit has been cleared for 60 days.

6: Record keeping is a must. Even the best prevention and treatment program will fall short of its goals if it fails to assign specific responsibilities and create individual accountability. Up-to-date and accurate records of bed bug issues serve as a historical reference for future infestations. Capture and document all information applicable to bed bug issues—such as occupancy and vacancy numbers, treatment preparation service dates and costs, bed bug activity, sanitation conditions and any other additional comments—to efficiently organize and mobilize prevention and treatment efforts.

7: Ease the burden of costs and responsibility. While it is the owner's responsibility under the lease to provide pest-free housing, there should be a means to charge back pest control expenses to the occupant—particularly in cases where the unit has not been properly prepared for extermination, and when re-infestation occurs after treatment efforts.

There is little in the way of bed bug case law, so use judgment with riders or forms and consider having them reviewed by an attorney to determine feasibility. Bed bugs are a local or state issue and legislation pertaining to your area should be reviewed. Almost every state has some form of bed bug control legislation under consideration or already in place.

BED BUGS: BITING BACK

Permission given by Claire Gesalman of the EPA

IDENTIFYING BED BUGS

Bed bug adults are reddish brown, wingless and the size of an apple seed, but younger bed bugs are white or translucent yellow and can be so small, they're almost invisible. Learning to recognize the signs of eggs, molted skins and fecal spots can help identifying bed bugs when you can't see them.

PREVENTING BED BUGS

Bed bugs love to hide. To the extent possible, remove clutter, seal cracks to eliminate their habitat, encase mattresses and box springs and check luggage when returning from a trip. When inspecting a space, look for the tell-tale signs of bed bugs (which can look like mold from a distance) by checking curtain rods, inside baseboard heaters and behind chipped paint or loose wallpaper for fecal spots, cast skins and/or live or hatched eggs.

TREATING BED BUGS

Vacuuming (and removing the vacuum bag after); steam treatment to fabrics; CO₂ freeze treatment; superheating for at least 90 minutes (at the "kill-temperature" of 114-118 degrees Fahrenheit); and/or using contact, residue or growth-regulating pesticides approved by the U.S. EPA will help to eventually eliminate bed bugs.



For more information on bed bugs, visit www.epa.gov/bedbugs.

BROACHING THE BED BUG DISCUSSION

A commonly held belief is that cleanliness often results in a bed bug-free environment, and vice versa. Occupants tend to incorrectly believe that a quality building with clean occupants doesn't have the potential to have a bed bug infestation, and discussing the subject of bed bugs with occupants is rarely recommended in a marketing plan.

There are two distinct players in bed bug discussions: 1) The occupant whose unit is the source of the nest and from where the bed bugs emanated; and 2) The occupant(s) in the vicinity of the source, who were second-hand victims of the expanding infestation.

If only one unit has bed bugs, remediation is relatively straightforward. If more than one unit has bed bugs, it's best to find out where the heaviest concentration is and identify it as the source. You might wish to inspect each vacant unit—either by a professional inspector or a canine detector—to certify that it is bed-bug free. The inspection can also help you deduce whether bed bugs were brought in from the outside, or whether they crawled in from another unit.



REMEDICATION RESPONSIBILITY

Although the occupant responsible for the bed bug outbreak is obligated to fully cooperate with the exterminating service during and after inspections/treatments, as a real estate manager, you will be faced with working alongside the occupant in order to successfully eliminate bed bugs and monitor their spread to the rest of the property. Start by educating the occupant on what bed bugs look like, where they are likely to hide and methods of eliminating them. By delegating responsibility to the occupant(s) to bear the costs associated with re-infestation, you are also incentivizing them to be vigilant about proactively treating the problem.

While being firm about the parameters of treatment, also keep in mind that a bed bug infestation is invasive and time consuming for the occupant, and also has a negative psychological connotation. To ease their sense of fear, you could consider mentioning their unit may have gotten bed bugs from an outside source, such as a friend's/relative's house, hotel or caregiver. ■

HOSPITALITY INDUSTRY MUST BE INHOSPITABLE TO BED BUGS

Permission given by BASF Pest Control Solutions

USE THE FOLLOWING TIPS TO IDENTIFY AND ELIMINATE BED BUGS IN HOTELS:

- Inspect luggage to prevent the spread of bed bugs to the new room. If found, the New York City Department of Health and Mental Hygiene advises hotels to wash and dry all bedding, curtains, rugs, towels and bathrobes on the hottest cycle.
- Immediately move guests to another, non-adjacent room and close it off to other guests. If possible, close off adjacent rooms so they can be inspected as well.
- Call a pest management professional (PMP), who will be trained to thoroughly inspect the premises, prescribe the right treatment option and carry out the work.
- Ask your PMP questions such as what products are being used, what your role is in follow up and how you can prevent infestations from occurring.
- A PMP may do the following to prepare the room(s) for treatment:
 - › Remove pictures and other wall hangings
 - › Detach wall fixtures
 - › Remove electrical face plates
 - › Remove drawers from cabinets and dressers
 - › Remove headboards
 - › Lift and turn box springs and bed platforms over for a thorough inspection
 - › Carefully inspect upholstered furniture
 - › Examine wheels, casters, posts and legs of all furniture
 - › Pull carpet back from the wall to carefully inspect
 - › Remove curtains to be heat-treated in a dryer, steam cleaned or spot-treated with product



To read a related article on bed bugs by Greg Martin, view the Nov/Dec 2009 *JPM*[®] article entitled "Don't let the Bed Bugs Bite" online at www.jpm-digital.org.



Greg L. Martin, CPM Emeritus (marting@draperandkramer.com), is vice president of Draper and Kramer, Inc. [left]

John L. Bieg, CPM (biegj@draperandkramer.com), is an assistant vice president of Draper and Kramer, Inc. [right]

Draper and Kramer, Inc., is a property and financial services firm in Chicago.

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One Call Now's notification service allows you to quickly communicate with all your tenants, accurately and within seconds. Messages can be sent and received in a variety of ways— web/e-mail, phone, or text—to every tenant at once. It can even translate your message into languages other than English. No need for any hardware, dedicated phone lines or installation, and it works directly with your current property management software.

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- **Payment reminders**
- **Event reminders**

or, the latest weather crisis hits?

2011 has seen more than its fair share of inclement dangerous weather. Tornadoes, fires, floods, and mudslides have devastated several parts of the US, and an unusually active hurricane season is predicted.

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Screen Test

INTEGRATED SCREENING INCREASES COMPLIANCE AND STREAMLINES COSTS FOR MULTIFAMILY MANAGERS
BY JOEL R. NELSON, YARDI SYSTEMS

Fifteen to 20 years ago, assessing the risk of admitting a prospective resident into a multifamily community was not a particularly streamlined or comprehensive process. Credit bureau reports were the primary source of applicant data. Screening companies had emerged to help bring consistency and structure to the process, but for the most part, these services were delivered manually and had minimal automation.

As time passed, however, real estate managers sought additional ways to maximize rental income with reliable renters, minimize risk and comply with the Fair Housing Act, and the Department of Housing and Urban Development (HUD) guidelines. Toward that end, they sought to create a more complete, and therefore more accurate, risk assessment model. One barrier was a data infrastructure not sufficiently advanced to allow easy access to criminal and civil records. Eventually, court networks and data aggregators developed systems and interfaces, making national registered sex offender lists, documents in the Treasury Department's Office of Foreign Assets Control, civil court eviction records, criminal court records, rental history records and other potential sources of information about prospective renters available to multifamily property managers. As one indication of criminal screening's growing importance, online resident screening service provider, RentGrow, Inc., reports that the portion of its clients using criminal screening as a rental decision criterion has grown from 15 to 95 percent over the past 10 years.

Within the last several years, as property management state-of-the-art technology evolved to encompass a "one-stop-shop" concept, comprehensive resident screening services have the capability to be fully integrated into a core property management and accounting system. This convergence was part of a growing trend among multifamily housing providers to reduce costs and increase efficiency by standardizing business-wide on a single technology platform, thus consolidating many ancillary processes and services, and minimizing the number of

technology vendors.

ALCO Management Inc., a Memphis, Tenn.-based apartment developer and manager with extensive HUD property experience, can attest to the benefits of integrated screening.

"We benefit greatly from customizing decision criteria for each property, which helps enforce uniform screening standards. Our screening system provides a reliable, automated process, and being able to launch a credit check directly from our Yardi Voyager guest card workflow or from our marketing portal, without having to use a separate system, allows our leasing agents to work much more efficiently," said Michael Johnson, ALCO's executive vice president and chief administrative officer.

Investco Financial Corporation of Sumner, Wash., which owns, builds and manages residential properties, reports similar advantages.

"Doing our applicant screening within our property management and accounting platform, rather than using a separate system, speeds up our approval process. We get more thorough background checks and less risk in selecting residents," said Missy Castaneda, regional manager for Investco.

The convergence of the screening process with the applicant workflow system enables the property manager to screen much more efficiently. Using new capabilities to apply consistent screening criteria that comply with the Fair Housing Act and other government requirements can ultimately help maximize revenue and reduce risk by ensuring that units are filled with reliable renters.



Joel R. Nelson is a writer at Yardi Systems.



The Power of Online Renewals

ONLINE RENEWALS ARE A CORNERSTONE OF YOUR RESIDENT RETENTION PROGRAM BY LESLIE TURNER, ONESITE®

As the retail adage goes, “the best customer is the one you already have.” This sentiment holds true for multifamily as well: The best renter is the one you already have.

Offering online renewals is an integral part of an overall resident retention program, even a game-changer for real estate management companies. Online leasing creates cost savings associated with marketing to new residents as well as helping to free staff time to devote to other site-level operations.

CALCULATING THE COST OF RESIDENT TURNOVER

It makes a lot of business sense to hang on to your current residents. Turnover at apartment communities can be costly. According to SatisFacts Research, the cost per move-out can be as much as \$4,100 when considering:

- Average rent of \$1,009*
- Average vacancy loss days of 45
- Average concessions \$634*

**Source: Axiometrics-average asking rent and concessions as of December 2010*

Even if this unit is re-rented for \$50 more per month, it would take seven years to break even from the original move-out. Therefore, focusing on resident retention goes a long way toward helping property management companies greatly reduce turnover expenses.

USING THESE ASSUMPTIONS, HERE'S HOW THE MOVE-OUT ADDS UP:

Vacancy loss	\$1,513
Concessions	\$634
Leasing staff time/cost	\$170
Marketing costs	\$849
Hard turnover costs (i.e., carpet cleaning, etc.)	\$765
Maintenance staff time/cost	\$165
Apartment cleaning	\$71
Total Cost	\$4,166

ONLINE RENEWALS: THE TECHNOLOGY GAME-CHANGER?

The ability for residents to renew online via a resident

portal generates impressive results. Leading multifamily real estate investment trust UDR, Inc., recently recounted the success it experienced with an online renewal product.

“Since we began offering online renewals [in July 2010], more than 80 percent of our lease renewals have been completed online, a phenomenal acceptance rate in such a short period of time,” said Tom Toomey, president and chief executive officer of UDR. “At properties with a high percentage of leases renewed online, turnover has been 2 percent lower and asking rents have increased by 3 percent, with 90 to 95 percent of residents accepting the initial rent increase. Residents make faster buying decisions and more are choosing to stay with our communities.”

If you're using an integrated revenue management system with online leasing and renewal technology, you'll gain real-time visibility into pricing and unit availability, a key advantage real estate managers can use to maximize rental prices with prospective residents.

CONVENIENCE IS KING

Residents can use the portal to log service requests, view their charges, pay rent and utilities, book amenities and communicate with property management. They also give owners and managers the option to offer time-sensitive incentives, such as gift cards in exchange for lease renewals or amenity upgrades on existing units, which create a sense of urgency and reinforce residents' decision to stay in their unit.

The push toward self service through a resident portal has gained momentum and is becoming the standard for apartment communities. Online renewal is an effective tool to help property owners and managers retain their most valuable residents—the ones they currently have. ■



Leslie Turner is the president of OneSite®. She is responsible for developing property management solutions for conventional, affordable, student, senior living and military housing for RealPage, Inc., a provider of on-demand products and services to apartment communities and single-family rentals across the United States.



IREM FALL LEADERSHIP CONFERENCE



THE POWER OF POSSIBLE

Sea and be seen

at the Fall Leadership Conference in San Diego

Discover the power of “possible” at the IREM Fall Leadership Conference—held October 11-15, 2011—by exploring a spectrum of knowledge offerings from the vantage point of sunny San Diego. Whether you’re a beginner or a heavy hitter in the industry, you’ll return home with the tools to support you in managing your properties, developing your employees, serving your clients and running your business. Fuel your success by honing a unique multi-dimensional approach to leadership.

FEED YOUR INNER LEADER

The possibilities are endless when you harness the power of fresh learning offerings and countless networking opportunities mixed with the vibrant urban atmosphere of San Diego. The **IREM Fall Leadership Conference** will awaken your inner leader through:

- Tailored learning, relevant to your professional career and IREM leadership path;

- Fresh insights and proven strategies that will immediately impact your bottom line;
- Interactive events designed to strengthen and expand your business network across the globe; and
- Live forums that encourage and stimulate idea sharing and discussion.

KNOCK-OUT KEYNOTES

Janine Driver

Thursday, October 13



What if you had a secret weapon that you could use to change the dynamics of any interaction according to your own needs and goals? Well, you do! In Janine Driver's keynote you'll learn how to enhance your secret weapon—confidence observed through intuitive body language, a trait that all successful people share.

Visit www.irem.org/iflc for more information on the business, governance and educational programming that will take place at the conference.

Janine Driver is the nation's foremost body language expert and *New York Times* bestselling author of *YOU SAY MORE THAN YOU THINK: A 7-Day Plan on Using the New Body Language to Get What You Want!* She is also founder, president and lead instructor of the Body Language Institute, an elite organization offering award-winning advanced communication training which helps executives and business leaders boost their confidence, credibility and career. A retired federal investigator for the Bureau of Alcohol Tobacco and Firearms, her motto is, "If I can get the bad guys to confess, then I can get the people in your life to say yes!"



Jeffrey Kaplan, D.M.
Saturday, October 15

In today's workplace, success isn't achieved alone. The most successful leaders excel at building strong, genuine relationships with employees, clients and business partners. And yet, individuals rarely put the same rigor into relationship-building as they put into job basics. Under the pressure of daily demands, even good leaders focus on the "how" and the "what" and let the "who" take care of itself—often to the detriment of individual and organizational success. In his keynote, Dr. Jeffrey Kaplan will inspire you to lead with passion and purpose for leadership success.

Dr. Kaplan is a member of the executive management team of FerrazziGreenlight Consulting, where he leads the Leadership Development and Training practice and manages the Greenlight Research institute. Previously, he worked for the global consulting firm, Capgemini, serving as the leader of the firm's marquee alliance with Microsoft Corporation.

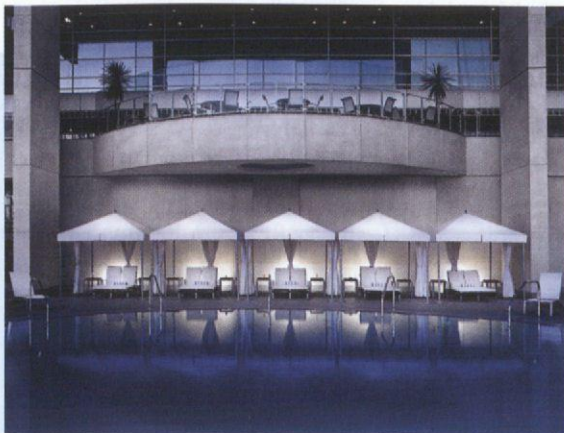
THE PERFECT BLEND

Expanding your network is easy when you're having fun! Experience the undeniable energy and spirit of camaraderie generated whenever IREM Members come together. Don't miss this opportunity to blend business and pleasure in an event-packed week, including:

- Regional Dinners on Wednesday, October 12;
- IREM Young Professionals Event on Wednesday, October 12;
- Inaugural Gala Dinner on Thursday, October 13;
- Joe Aveni Open Golf Tournament Benefitting the IREM Foundation on Friday, October 14;
- The Big Bash on Friday, October 14; and
- Rock 'n' Rally on Saturday, October 15.

LEADERSHIP IN ACTION

Not currently volunteering for IREM? The conference is the perfect venue to engage with fellow members and learn how their involvement has benefitted them both personally *and* professionally.



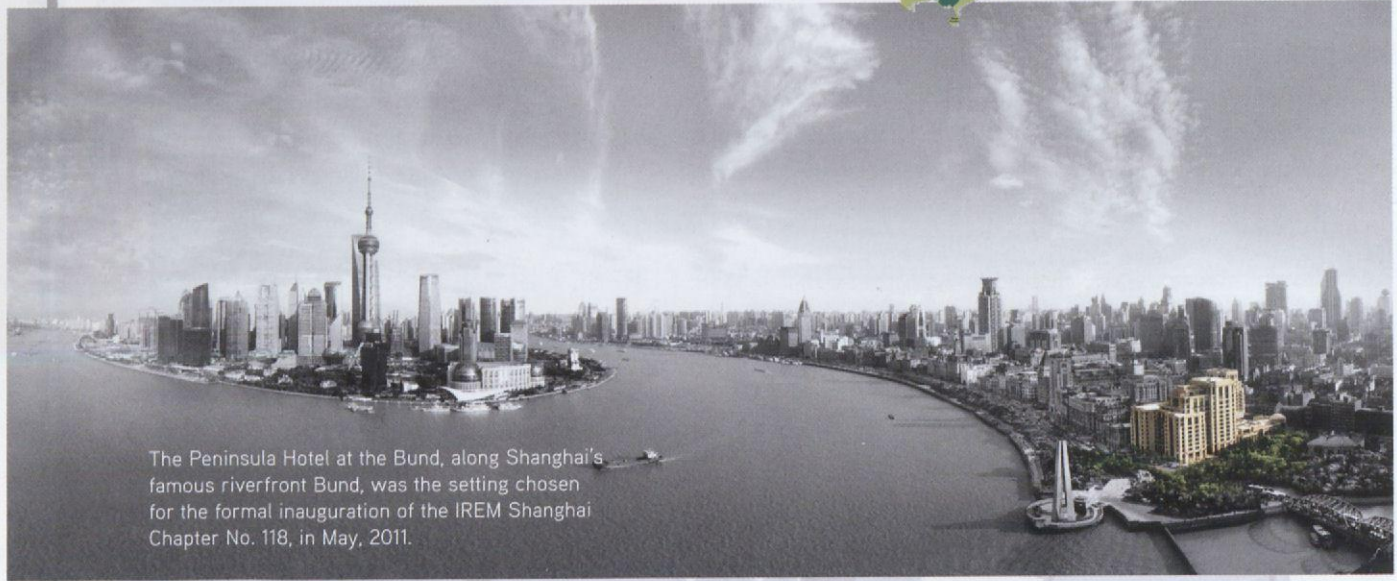
MAKE YOUR RESERVATIONS TODAY!

Experience the city's unique coastal culture and lifestyle for yourself at the magnificent **Hilton San Diego Bayfront**—serving as the location and headquarter hotel for the IREM Fall Leadership Conference—downtown San Diego's newest waterfront hotel. Rising 30-stories above the edge of San Diego Bay, the hotel fuses a dynamic waterfront location, sun and sea-inspired design and a casually sophisticated vibe.

Make your guest room reservations immediately by calling the Hilton at 1-800-445-8667. Please identify yourself as

attending the IREM conference in order to obtain the IREM group rate of \$199 single/double occupancy. You may also visit www.hilton.com and use the group code **IREM** to obtain the IREM group rate.

Visit www.sandiego.org for more information on all there is to see and do in fabulous San Diego!



The Peninsula Hotel at the Bund, along Shanghai's famous riverfront Bund, was the setting chosen for the formal inauguration of the IREM Shanghai Chapter No. 118, in May, 2011.

PHOTO COURTESY OF THE PENINSULA SHANGHAI

TRANSFORMATION NATION IREM sets sites on Shanghai in the midst of its economic redevelopment

» On May 17, 2011, Ron Goss, CPM, IREM President and Nancye J. Kirk, chief strategy officer/vice president of the global services institute of IREM, shared the inauguration of the IREM Shanghai Chapter No. 118 with its president, Qi Liu, CPM, and 200 other real estate professionals, in Shanghai.

"As the first president of IREM China Shanghai Chapter, I feel honored to have selected property management as my life career in such an exciting era," said Liu at the inauguration of the new chapter.

As head of asset management for Shanghai Land Group Co., Ltd., with experience as general manager of Shanghai World Expo Land Holding Company—responsible for the 2010 Shanghai World Expo that attracted over 73 million visitors during its six-month run—Liu is eminently qualified to take on the role of first president of the newly formed chapter. His diverse experience will undoubtedly come into play throughout his leadership role with IREM.

SHANGHAI: SHOOTING STAR

The cosmopolitan city of Shanghai—steadily growing since the early 1990s after Deng Ziaoping's economic reforms kicked off intense urban redevelopment—has moved to become the center of finance and trade in the new China.

"China is experiencing the transformation from incremental asset growth to the real estate management of

existing inventory," said Liu. He added that the significant inventory of properties that have come online has prompted property owners to actively seek out professional real estate managers who can provide skilled, up-to-date real estate management services.

According to Liu, in 2010 alone, approximately four million square meters of properties were developed, adding to the tens of millions of already-existing real estate inventory in Shanghai. He predicts that as China's economy continues to progress dramatically, the year ahead may bring more than 20 percent growth of property inventory. In addition, the first-ever REIT product in mainland China will soon launch in Shanghai as an effort to break the current real estate financing bottleneck.

Today, much conversation in Shanghai centers on the booming real estate market and the possibility that the boom is a bubble that will soon burst. Real estate speculation remains high, as limited investment channels in China cause people to turn to housing as a profitable investment opportunity. As a result, government controls are being put in place, property taxes that previously have

not existed in China have been introduced in Shanghai (a pilot rate of between 0.4 percent and 0.6 percent on newly purchased homes based on per-square-meter price of the property has been established), and speculation is being discouraged through higher interest rates and larger down payments on multiple homes.

ASPIRING TO ASSET MANAGEMENT

Speaking at the inaugural, held in tandem with the first asset management symposium in Shanghai, IREM President Ron Goss, CPM, drew upon both similarities and differences between the U.S. real estate market in 2008 and the current market in China. Goss made the case for real estate investment to adopt a new business model based on a return to the fundamentals and for property management to assume a more important and visible role in the real estate arena.

“Now is the time,” said Goss, “for property management to be recognized as the value-added service that can turn around troubled properties and squeeze returns out of struggling portfolios.”

Goss went on to challenge the more than 200 real estate professionals at the forum, most of whom were property managers, to manage the asset—not just the building.

“As managers of these assets,” he said, “we are shouldering an increasing degree of responsibility for financial planning and strategic tasks. We are being expected to run our properties as the business enterprises they are.”

PROLONGED PARTNERSHIP

The Shanghai Chapter—which currently has 35 CPM Members—comprises the administrative divisions of Shanghai, Jiangsu and Zhejiang, a fast-growing and affluent region that encompasses a population of nearly 150 million. The chapter formed from an agreement signed in 2008 between IREM and the Shanghai Weston Real Estate Management Institute, a division of Brawman International Group. IREM and Weston also signed an agreement to form a real estate management research center, which will provide members with professional resources, tracking of the property management sector and solutions to issues that emerge in the property management industry in China.

Liu said these new partnerships will provide resources

[RIGHT] Qi Liu, CPM, president of the IREM Shanghai Chapter No. 118.

[BELOW] Guests of honor and presenters at the First Real Estate Asset Management Forum in Shanghai.



of scientific know-how and professional networking opportunities to local real estate managers, which will definitely have a far-reaching impact on the industry of property management in the Yangtze River Delta and will progressively enhance the level of property management throughout China.

“We, CPM designees in China, will spare no effort to dedicate ourselves to the better tomorrow of real estate management in China,” said Liu.

And tomorrow is coming sooner than expected. Aside from Shanghai’s visible revival along the Bund River area, Liu said that Shanghai’s highly educated and skilled labor force is raising its professional stature, attracting more talent from throughout China and abroad, and making it appealing to overseas investors.

Liu said that spreading the Institutes’ theories and practical model of property management practices would contribute to a higher standard in China and promote the exchange between real estate managers and their counterparts in overseas countries.

“[The formation of our new chapter] will surely be recorded as a milestone event for the China property management sector,” said Liu. ■

Nancye J. Kirk (nkirk@irem.org), is chief strategy officer/vice president of the global services institute of IREM Headquarters in Chicago.

AMO SPOTLIGHT

RELATED PROPERTY MANAGEMENT, AMO

An exclusive interview with the president of a team of "impact players"

SNAPSHOT

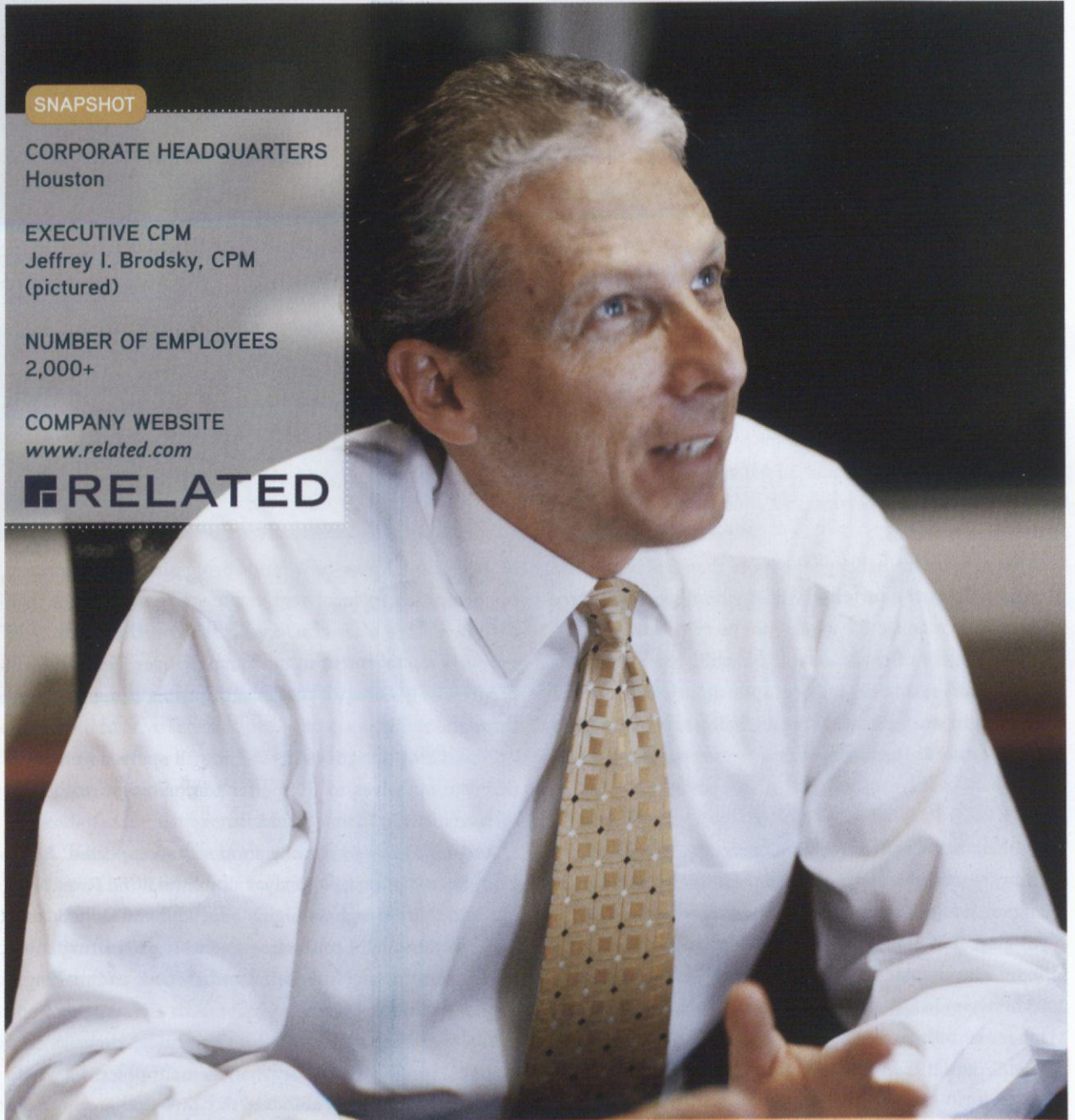
CORPORATE HEADQUARTERS
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EXECUTIVE CPM
Jeffrey I. Brodsky, CPM
(pictured)

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Formed almost 40 years ago, Related Property Management, AMO, is a fully-integrated, highly diversified industry leader with experience in virtually every aspect of real estate development, acquisitions, management, finance, marketing and sales. Since developing one of the nation's first LEED Gold residential buildings, Related has also been a market leader in environmentally conscious real estate development and operations. Headquartered in New York City, Related has offices and major developments in Boston, Chicago, Los Angeles, Las Vegas, San Francisco and South Florida and boasts a team of more than 2,000 professionals.

The following is the perspective of Jeffrey Brodsky, CPM, president of Related Management, AMO.



How do you align internal corporate practices with your vision of sustainability?

We view sustainability in the light of three core business imperatives:

First: We are never satisfied with the status quo. We can always do more, but we are pleased with the progress that has been made. We implement dozens of low VOC products, provide training programs for our maintenance staff in sustainable best practices, employ energy auditing, benchmarking and reduction strategies, implement smoke-free initiatives at more than 100 of our locations nationwide and invest billions of dollars in the construction of LEED certified buildings.

Second: Sustainability is the norm, not the exception. We believe that sustainably built and operated buildings are simply a representation of best practices among best-in-class real estate companies. Our commitment fits in easily with the decades of clear vision and encouragement to “do the right thing” by Stephen Ross, CEO and founder.

Third: Sustainability builds long-term value. Regardless of asset class, we believe that buildings that are not executed with a commitment to sustainability will soon lose value and ultimately become obsolete. Our clients expect the effort from us and are willing to choose our products over others who do not execute to our standard.

You describe finding/retaining employees as “talent acquisition.” What distinguishing characteristics do you look for in your employees?

If you will excuse the sports metaphor, we look for “impact players.” We are not trying to simply fill job openings; our recruiters and hiring managers understand that, while experience in a field may be helpful, it is in no way sufficient. What is more important to us is the ability to work and thrive in a culture where excellence is demanded. We look for team members who will excel in an entrepreneurial, opportunistic environment filled with enthusiasm, initiative and flexibility.

In return for their dedication, we provide our employees with lifelong learning through educational reimbursement programs, participation in dozens of industry groups and access to an hundreds of courses and learning options available through an online learning management system.

Describe your hybrid-building concept and some of the challenges and opportunities involved.

Related was one of the first developers to create hybrid buildings, which incorporate both luxury rentals and condominiums in the same building, using shared amenity spaces. Mixed-use developments allow us to integrate our diverse program groups into a master development plan—each module benefiting from the others and adding value to the whole—exceeding the sum of its parts.

There were some initial concerns that condominium buyers would be reluctant to purchase in a building with renters. Once we were able to educate the market on the demographics of our rental portfolio, buyers were pleased to invest side-by-side with Related in our hybrid developments. Due to our financial stability, well-known commitment to long-term operational and service excellence, and aligned interest in developing long-term value for the asset, owners receive a unique value proposition. They also receive more expansive amenity packages than traditional buildings—at a more affordable price.

What is the “Expect More at Home” service platform?

Through the coordinated efforts of our on-site service delivery teams, we provide an urban luxury experience to our residents, and our resident surveys indicate that we succeed at the highest professional standards. Every facet of our buildings’ execution, amenities and finishes is exceptionally designed. We also believe in the luxury of choice, and seek to offer our residents multiple options as well as the ability to move within their portfolio of options at any time. Through offering various rent payment preferences, cable and internet options, paperless leasing and a suite of personal assistant services, and many others, Related provides our residents with the best.

We challenge our employees to not simply fulfill—but to exceed—resident expectations at every interaction. Building staff and managers attend customer service training sessions to enhance their ability to respond personally and effectively to requests, communicate clearly with residents and other staff members and achieve positive results.

We know that our competitors can build similar buildings to ours, but they cannot manufacture the environment created by our exceptional team. ■

To earn the ACCREDITED MANAGEMENT ORGANIZATION (AMO) accreditation from IREM, a company must demonstrate a high level of performance, experience and financial stability, and have a CPM in an executive position. AMO Firms must meet high ethical standards and other stringent requirements, proving their value to the industry.



ARTICLE 7: CONFLICT OF INTEREST

Real estate managers must be diligent in acting in the best interest of clients



EILEEN CONWAY, CPM, ARM, IS A REGIONAL VICE PRESIDENT AT CHANCELLOR PROPERTIES, IN PHILADELPHIA.

Real estate managers run into conflicts of interest with vendors, condo board members, employees and on occasion, management companies. The IREM Board of Ethical Inquiry receives many complaints citing conflict of interest. Article 7 of the IREM Code of Professional Ethics states:

"A Member shall not represent personal or business interests divergent from or conflicting with those of the client or employer and shall not accept, directly or indirectly, any rebate, fee, commission, discount, or other benefit, monetary or otherwise, which could reasonably be seen as a conflict with the interests of the client, employer or firm, unless the client or employer is first notified in writing of the activity or potential conflict of interest, and consents in writing to such representation."

Here are several examples of conflict of interest complaints and how they were resolved:

Comingling funds. A CPM Member and the AMO firm for which he worked were terminated for comingling funds. The CPM failed to communicate to the clients the firm's practice of depositing all clients' money into one interest-bearing account and then crediting interest to the firm. The CPM and the firm used a computer accounting system to keep separate client

The expectation that the real estate manager is acting in the **best interests of the client** when it comes to handling the client's funds must always be met.

records and argued that the interest rightfully belonged to the firm because if the funds were kept in a separate account, the amount would

not be large enough to earn interest.

Misappropriation of equipment. A CPM Member misappropriated equipment and failed to account for funds. The CPM denied any wrongdoing, saying that the equipment was only borrowed. The IREM Ethics Hearing and Discipline Board terminated membership. The CPM appealed the decision which was upheld by the Ethics Appeal Board.

SEC Rules Violation. A CPM Member was terminated for violating SEC rules and Article 7 of the IREM Code. The CPM was found to have engaged in practices relating to real estate investments, including conversion of funds. As the CPM violated SEC rules three times over a four-year period, his IREM membership was terminated and he was ultimately expelled from NASD.

A CPM Candidate was suspended for soliciting clients from the employer to start a new management business. The candidate had proposed a business plan to the employer suggesting dividing the management into two firms. Although this plan was not formally accepted by the employer, the candidate moved ahead with formation of a second firm and contacted clients to move to the new firm.

The expectation that the real estate manager is acting in the best interests of the client when it comes to handling the client's funds must always be met. Any apparent conflict of interest or real conflict of interest must be disclosed to the client.

If the real estate manager is diligent in their understanding of their client's intent as to the handling of their funds, adheres to strict accounting requirements, uses recommended insured institutions, keeps the client informed as to the status of their funds and discloses to the client any possible conflicts of interest, there should be no violations of Article 7 of the Code. ■



Activity of IREM Ethics Boards at 2011 Leadership & Legislative Summit

The following took place at the IREM Leadership & Legislative Summit this past April.

The **Ethics Inquiry Board** reviewed one new complaint which alleged the Respondent changed the terms of a note to give buyers of the partnership's property preferential position to the disadvantage of the limited partners. The Complainant alleged the Respondent did not disclose changed material terms to the limited partners before proceeding with the transaction. The complaint will be investigated to determine whether it should be forwarded for hearing.

The **Hearing and Discipline Board** conducted two hearings. The first involved a complaint heard previously by the Hearing Board in May 2010. The Respondent appealed, and the complaint was considered by the Appeal Board in October 2010. The Complainant was the president of an HOA managed by the CPM Respondent's property management firm. In the original hearing, the Complainant alleged the CPM Member's firm failed to provide accurate and auditable financial records, and that the management company prepared its own invoices, adding unauthorized and undisclosed service fees.

The Hearing Board voted to terminate the membership status of the CPM Member, who then filed an appeal. Based on the information presented in October 2010, the Appeal Board determined to send the complaint back to the Hearing Board for their consideration.

The Respondent CPM attended the hearing and called a witness. The Hearing Board considered additional

evidence, and the testimony of the Respondent and the Respondent's witness. The Board found the Respondent not in violation of the Code.

In the second case heard in April, the CPM Complainant was a former employee of the CPM Respondent, who is the owner and president of a property management firm. The Complainant charged the Respondent with accepting referral fees and commissions from three vendors without disclosure to the client. The Respondent's position was that the arrangement was not in violation of the management agreement. The Complainant attended the hearing. The Respondent attended with legal counsel.

The Complainant alleged violations of Articles 3, 6 and 7 of the IREM Code of Professional Ethics which concern Accounting and Reporting, Contracts and Conflict of Interest, and Article 2.12 of the Minimum Standards and Code of Ethics of the ACCREDITED MANAGEMENT ORGANIZATION.

The Hearing Board found the Respondent did not disclose referral fees in writing to all of the clients and found the Respondent in violation of Article 3 (Accounting and Reporting) and Article 7 (Conflict of Interest). The Hearing Board reached no conclusion with respect to Article 2.12 of the AMO Code since an AMO Firm was not charged in the complaint. The Respondent will be suspended for one year, issued a published letter of censure and must successfully complete the IREM ethics course (ETH800) by April 11, 2012, or the suspension will be continued. ■

DISCIPLINARY ACTION WAS TAKEN FOR THE FOLLOWING MEMBERS AS A RESULT OF HEARINGS IN ORLANDO IN OCTOBER 2010. EACH WAS ALSO ISSUED A PUBLISHED LETTER OF CENSURE AND MUST SUCCESSFULLY COMPLETE ETH800 BY DECEMBER 31, 2011, OR MEMBERSHIP STATUS WILL BE TERMINATED.

Heather Summers, CPM, was suspended for three years for violating Article 7, Conflict of Interest.

Jose Antonio Nicolas, CPM, was suspended for three years for violations of the Pledge, Article 1 (Loyalty to Client, Firm and/or Employer), Article 7 (Conflict of Interest) and Article 9 (Duty to Former Clients and Former Firms or Employers).

Kimberly Murray, CPM, was suspended for one year for violations of the Pledge and Article 9 (Duty to Former Clients and Former Firms or Employers).





FAMILY VALUES

IREM Regional Vice President Chip Watts, CCIM, CPM, gives his perspective on working with family, tornadoes and returning home



CHIP WATTS, CCIM, CPM, IS PRESIDENT OF WATTS REALTY CO., INC., AMO, IN BIRMINGHAM, ALA. HE CURRENTLY SERVES AS THE 2011 AND 2012 REGIONAL VICE PRESIDENT FOR REGION 5, WHICH INCLUDES IREM CHAPTERS IN ALABAMA, ARKANSAS, LOUISIANA AND MISSISSIPPI.

Watts Realty Company, AMO, is a fourth generation real estate management company. Are there any common themes your family has seen through the years?

My father and grandfather always said, “No matter how good or bad the economy is, people will always need a place to live.”

Each member of the family who has been involved in Watts Realty Company has contributed something unique. We’ve seen quite a few changes in the company since my great-grandfather, W.A. Watts founded the company in 1906. Believe it or not, none of us has a degree in anything related to real estate. In fact, I have a degree in wildlife science. My father and grandfather were very careful not to steer me into the family business, but I naturally gravitated toward it on my own.

How has your role in the family business colored your role as RVP?

Working with family brings a level of transparency to everything we do. We’re very honest with each other even when we don’t want to be—we don’t have a choice. There are no boundaries; and, while this can be challenging, it can also be a good thing since we never sweep problems aside.

While I love to have fun, my approach is honesty first, feelings later—which is certainly a

result of working in a family business. My peers and customers know that if there is a problem, it’s always better to present all the facts up front and vice versa. Clients, customers and peers learn to like us because they know they can trust us. We’re going to give you our honest assessment—you may not like it—but you can count on us for the truth.

I also possess a friendly sense of competition. For our region’s RVP Challenge, we encouraged other chapters to step it up. We wanted to not only compete nationally, but among ourselves. I’ve found that these qualities have produced some out-of-the-box solutions for our region, encouraging membership and generating camaraderie.

Describe some of the challenges your region faces.

In late April, we suffered a tornado outbreak in our region, specifically in Birmingham, Ala., where my office is located. Tornado damage will bring in short-term cash flow from construction work, cleanup efforts and an influx of temporary workers, but the tax base is gone for now and residents have been forced to relocate. Still, Southerners have a “close-to-home” mentality. We might go someplace else for a while, but we always come home. Being close to family is key.

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FOUNDATION NEWS

THE ART OF HELPING OTHERS

IREM Foundation blends funding and fun while giving back to industry

KIMBERLY HOLMES (KHOLMES@IREM.ORG), IS MANAGER OF THE IREM FOUNDATION IN CHICAGO.

THE JOE AVENI OPEN IS SCHEDULED TO TAKE PLACE FRIDAY, OCTOBER 14, 2011, AT THE IREM FALL LEADERSHIP CONFERENCE IN SAN DIEGO, CALIF. VISIT WWW.IFLC.ORG TO REGISTER TODAY.

Year after year, volunteers pitch in and give selflessly to the IREM Foundation by donating their time, energy and skills, and serving on various committees and boards. We are grateful to have a growing force of volunteers who believe in our cause.

To date, the Foundation has subsisted on personal donations and grassroots fundraising events, but continuous financial support is needed in order to reach a much broader spectrum and make a greater impact.

SUSTAINING SUPPORT

Each year, the Foundation continues to advance its mission by advocating workforce development as an essential component in creating, sustaining and retaining qualified real estate management professionals.

While the Foundation develops and supports its own independent initiatives, it also supports education and training opportunities that align with the Institute's goals and encour-

age industry growth.

Through the help of generous supporters, the Foundation has helped many people through the years and has been able to sustain and expand its programs.

PUTTING THE "FUN" IN FUNDRAISING

Giving back can be fun! The Party with a Purpose—a sold-out event held in conjunction with the IREM Leadership and Legislative Summit this past April—had over 175 attendees and generated a gross income of over \$18,000. By attending special events like the Party with a Purpose and the upcoming Joe Aveni Open, you can show support to the Foundation while networking with your peers.

Consider making the IREM Foundation your charity of choice. Your generosity helps to expand the Foundation's vision of excellence: developing new programs and projects, turning new ideas into reality and finding innovative ways to help others. ■

INCOME-AND OPPORTUNITY-GENERATING PROGRAMS

The symbiotic relationship between the Institute and the Foundation has produced meaningful results and enriched the lives of many. However, like any other business, the Foundation's primary duty is to operate with a positive net income in order to financially support its education and career development programs.

Income-generating programs:

- Annual giving
- Chapter restricted fund
- Planned giving
- Special events

Opportunity-generating programs:

- Scholarship
- Professional recognition
- Grants and funding

Visit www.iremfoundation.org to pledge your support today!

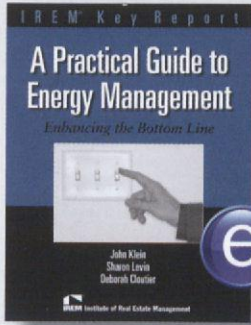
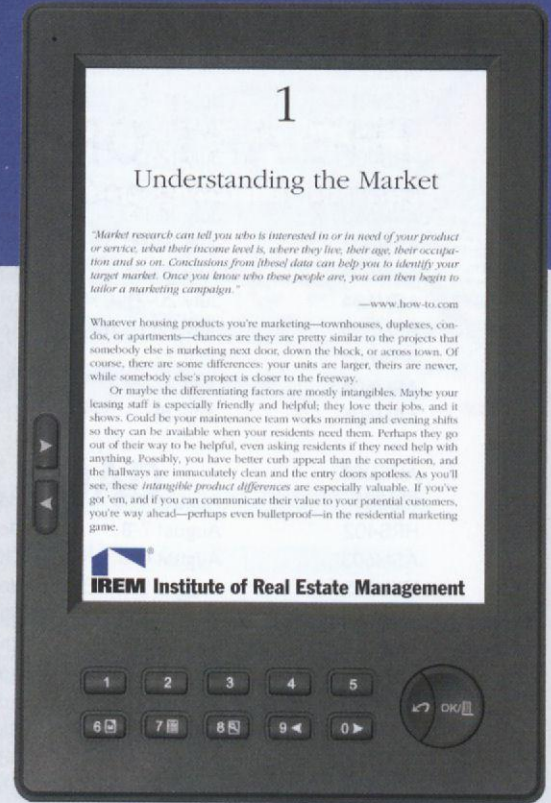


IREM Members spend a beautiful day networking and golfing at last year's Joe Aveni Open, in Orlando, Fla.

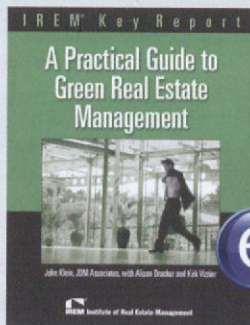
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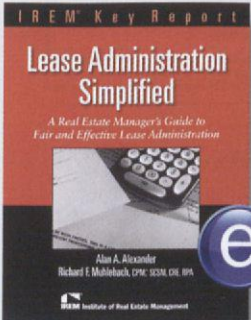
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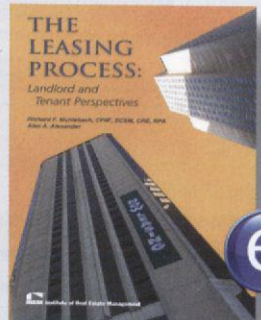
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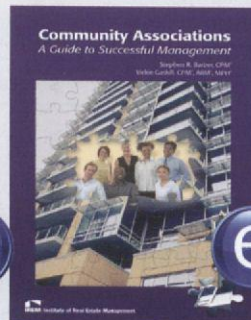
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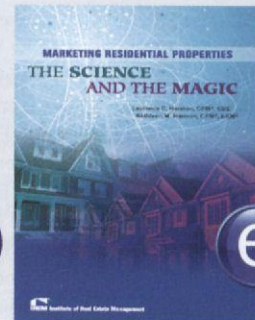
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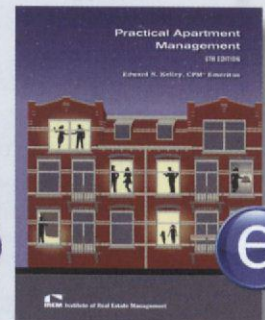
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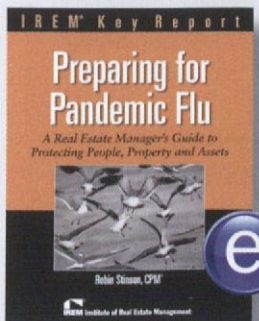
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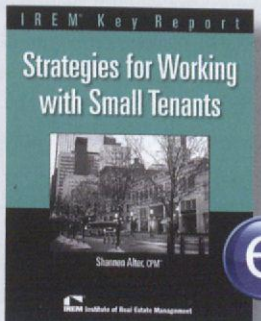
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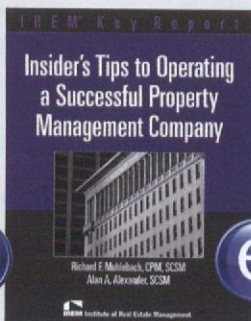
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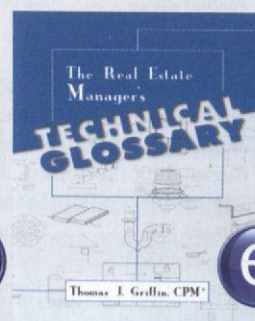
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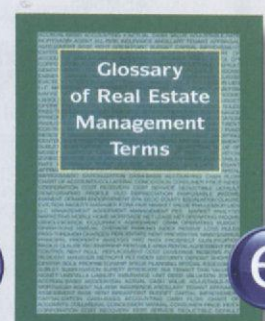
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AUGUST

CID201	August 4-13	Honolulu
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MKL405	August 9-10	Honolulu
ASM604	August 10-11	Charlotte, N.C.
ASM605	August 12	Charlotte, N.C.
ASM603	August 15-16	Addison, Texas
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ASM603	August 22-23	San Francisco
ETH800	August 23	Phoenix
FIN402	August 24-25	Oak Brook, Ill.
HRS402	August 24-25	New Orleans
ASM604	August 24-25	San Francisco
CPM001	August 26	Anchorage, Alaska
CPMEXM	August 26	Anchorage, Alaska
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CPM001	August 26	New York
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ASM605	August 26	San Francisco

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FIN402	July 23-24	Fukuoka, Japan
MNT402	July 28-29	Kamloops, BC
MNT402	August 2-3	Tokyo
MNT402	August 9-10	Fukuoka, Japan
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ETH800	August 18	Shanghai
MKL404	August 19-20	Shanghai
HRS402	August 21	Shanghai
MKL405	August 23-24	Tokyo
MKL405	August 30-31	Fukuoka, Japan

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- BDM602 // Property Management Plans: The IREM Model (international only)
- CPMEXM // CPM Certification Exam
- CPM001 // CPM Certification Exam Preparation Seminar
- ETH800 // Ethics for the Real Estate Manager
- EE800 // Real Estate Professional Ethics (international only)
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ON THE ROAD • IN MEMORIAM



ON THE ROAD

JULY 19

San Diego Chapter No. 18

Location: San Diego

Visiting Officer: Jim Evans, CPM, President-Elect

AUGUST 11

Alaska Chapter No. 97

Location: Anchorage, Alaska

Visiting Officer: Jim Evans, CPM, President-Elect

AUGUST 16

South Colorado Chapter No. 53

Location: Colorado Springs, Colo.

Visiting Officer: Jim Evans, CPM, President-Elect

For a more comprehensive calendar of chapter visits, go to www.irem.org/calendar.

In Memoriam



Tony Pusateri, CPM

Tony Pusateri, CPM, CSM, CAP and devoted IREM Member, passed away May 2, 2011, at the age of 65. Tony dedicated more than 30 years to the field of real estate management. An industry leader and advocate of IREM education, he served on IREM faculty, course review teams and governance committees and boards.

Previously, he was the former senior vice president of property operations for Equity Residential Property Management, where he devised innovative approaches to operations via technology and reporting. He recently worked for RealPage until his untimely death.

Tony was greatly respected by his peers and will be deeply missed.

DIAGNOSING CONCRETE CRACKS

Tell-tale signs your building is “cracking up”

DREW ROBB 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 NOWAK AT MNOWAK@IREM.ORG.

CONCRETE CRACKS ARE A FACT OF LIFE. WHILE SOME CRACKS MIGHT NOT NEED ATTENTION, OTHERS HAVE THE CAPABILITY OF CREATING SERIOUS STRUCTURAL DAMAGE—COMPROMISING THE SAFETY OF OCCUPANTS RESIDING IN THE BUILDINGS YOU MANAGE. CAN YOU TELL THE DIFFERENCE WITHOUT EXPERT ADVICE?

“It is important to accurately assess structural cracks to determine what is significant and what is not,” said John Duntemann, a principal at consulting engineering firm Wiss, Janney, Elstner Associates (WJE).

“You have to properly identify the extent and cause of cracking before you can implement the right repair solution,” he added.

WHERE DO THEY COME FROM?

Cracks in concrete are typically caused by a number of factors, such as thermal expansion and contraction, sub-grade settlement, application of heavy loads and even earthquakes. All of these internal and external stressors manifest as large and small cracks.

In many cases, uncertainty surrounds the presence of concrete cracks. Pete Barlow, a principal at Contech Services Inc., a company that repairs, strengthens and waterproofs concrete structures, said his company is constantly being contacted by anxious building managers and owners.

“Many times a week, people send us photos of cracking at their facilities [and ask] for advice,” said Barlow.

EPOXY IN CONCRETE REPAIR

In many cases, epoxy injection by a high-

performance epoxy manufactured for structural concrete bonding and crack repair is used to remedy concrete cracks.

Duntemann gives an example of cracking that developed at the ends of pre-stressed concrete beams in a cooling tower being constructed at a synthetic fuel plant. Demolishing the structure and starting over was not considered an option.

“The beams were injected with epoxy and load-tested to verify their structural capacity.”

“You often run into challenging environments such as cracks full of water, cold temperatures or exceedingly wide cracks that require a customized solution,” said Duntemann.

One size does not fit all. Diagnosing and treating concrete cracks requires the right combination of materials, chemistry and expertise.

WHEN IN DOUBT, FOREGO

“DO IT YOURSELF”

Leaving concrete cracks unrepaired not only poses a risk to the structure of the buildings you manage but also threatens the safety of occupants. If you notice cracks, contact a structural engineer to assess the extent of the damage, if any. Duntemann also advises against a “do-it-yourself” approach for all but the most minor problems. In his view, there are too many factors involved in the engineering and chemical formulation side of concrete cracking to leave anything to chance. By learning to spot the difference between structural and non-structural cracks, and by seeking advice from a contractor, engineer or epoxy manufacturing company, you can fix concrete damage and even make the structure stronger and less apt to crack again.

One size does not fit all. Diagnosing and treating concrete cracks requires the right combination of materials, chemistry and expertise.



CRACK CLASSIFICATION

Dividing concrete cracks into structural and non-structural groups can help determine if a crack needs attention.

STRUCTURAL CRACKS

These occur particularly in support beams, columns and load-bearing areas and affect the integrity of the building.

NON-STRUCTURAL CRACKS

While not detrimental to building integrity, these may need to be addressed due to cosmetic reasons. Take proactive steps to prevent non-structural cracks from becoming structural cracks. Tiny fractures can also lead to other challenges.

"Small cracks in below-grade foundation walls can allow water to migrate into the structure," said Barlow.

GAP SIZE

Hairline cracks are generally not a problem, but their severity depends on where they are and the size of the openings in the cracks. High frequency hairline cracks may indicate an underlying stress issue that needs to be addressed. Your concern over the seriousness of concrete cracks should increase proportionally with the size of the openings. As a rule of thumb, Barlow said that cracks measuring 0.015 inches or larger should be investigated.

"The larger the width, the greater the likelihood you have lost aggregate interlock," said Barlow. "But repairs can be done on cracks down to 0.005 inches."

LOCATION & ORIENTATION

Cracks that form in random directions are of lower priority than those in beams, columns or other load-bearing areas.

"If one side of the fracture is offset from the other, that is often a bad sign," said Barlow. "Other warning signs are closely spaced cracks or repetition of cracking at the same locations on each floor."



NEW PRODUCTS

BYE-BYE BED BUGS Heat remediation is broadly recognized as one of the cleanest, most effective methods to destroy bed bugs. The Bedbug Chaser™, available through Avtron LoadBank Inc., is a compact portable heater that uses an accelerated convective heat transfer process to allow air to flow 360 degrees so that the infested space is treated evenly. This “supercharged heating” technique accelerates air flow on three axes simultaneously, killing both adult bed bugs and insect eggs and larvae.

For more information, visit www.bedbugchaser.com.

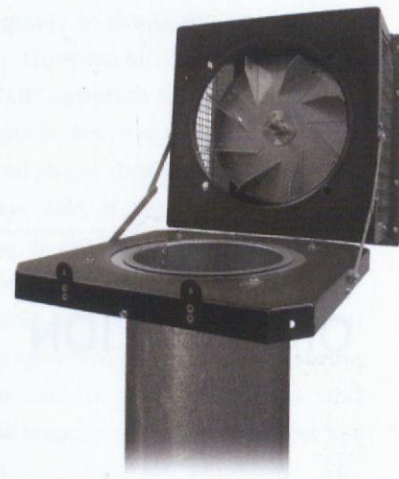
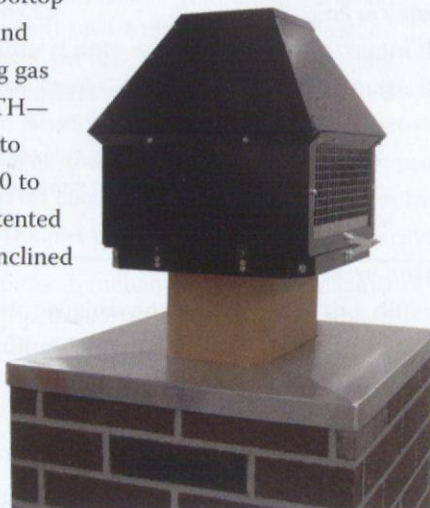


CONCEALED CEILING Claro-T panels, a new generation of lift and shift concealed ceiling panels available through Decoustics, are durable, concealed grid fiberglass ceiling panels that feature a metal perimeter edge. Installation is a snap with Claro-T's T-bar grid system, which provides a custom, modern look, without the need for tools. Claro-T's sustainable design is made from a high percentage of recycled content and contributes points to LEED® certification. Custom sizes and colors are available.

For more information, visit www.certainteed.com.

UP ON THE ROOFTOP A new line of rooftop draft inducers, available through Tjernlund Products, Inc., is designed for exhausting gas fireplaces. Two versions—the RT and RTH—come in two capacity ranges—from 250 to 750 cubic feet per minute (CFM) and 750 to 1500 CFM—and are equipped with a patented auxiliary cooling system and backward inclined fan blades that repel soot build-up.

For more information, visit www.tjernlund.com.



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MOBILE INTERNET SPEED TESTS



AT&T iPhone 4

	Download (mbps)*	Upload (mbps)*	Ping (ms)*
Chicago	1.28	1.16	147
Albuquerque, N.M.	2.15	1.48	273
Baltimore	0.33	0.34	344
Average	1.25	0.99	255



Verizon iPhone 4 hotspot

	Download (mbps)*	Upload (mbps)*	Ping (ms)*
Chicago	0.97	0.53	227
Albuquerque, N.M.	1.48	0.47	109
Baltimore	1.03	0.44	96
Average	1.16	0.48	144

*milliseconds (ms) *megabits-per-second (mbps) / Comparison provided by Cantera Consultants & Advisors Inc.



Sprint OverDrive

	Download (mbps)*	Upload (mbps)*	Ping (ms)*
Chicago	2.95	0.94	165
Albuquerque, N.M.	0.44	0.50	111
Baltimore	0.03	0.25	1841
Average	1.14	0.56	706



Verizon MiFi

	Download (mbps)*	Upload (mbps)*	Ping (ms)*
Chicago	0.53	0.55	156
Albuquerque, N.M.	0.44	0.50	111
Baltimore	0.61	0.69	201
Average	0.53	0.58	156

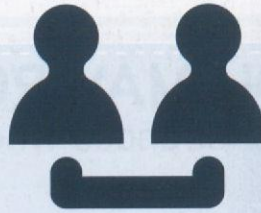


TODD CLARKE, CCIM (TCLARKE@NMAPARTMENT.COM), IS CEO OF NM APARTMENT ADVISORS IN ALBUQUERQUE, N.M.



READ TODD CLARKE'S TECHNOLOGY BLOG AT WWW.CANTERACONSULTANTS.COM/TECH.





PUT YOUR BEST FACE FORWARD

3 tips to personalizing your business Facebook page

KAREN ALTES (KALTES@IREM.ORG), IS SENIOR MANAGER OF ONLINE COMMUNITIES FOR IREM HEADQUARTERS IN CHICAGO.

PEOPLE WON'T ENGAGE UNLESS YOU ASK THEM TO, SO POST POLLS, SOLICIT FEEDBACK AND UPLOAD PHOTOS. (PEOPLE LOVE TO COMMENT ON PHOTOS!) RESPOND TO THEIR COMMENTS, AND KEEP THE CONVERSATION GOING.

1 POST COMPELLING CONTENT

Interesting posts attract fans to your Facebook page. There are lots of places to find great content—for example, keep an eye on your local newspaper, websites or business journals. You can also turn to professional associations like IREM for industry news.

Mix news and related content with posts about your company or properties. For example, you might post events that are being held at your apartment community, welcome new tenants to your shopping center or give tips to your office tenants for saving energy. It is appropriate to post about special lease deals or other promotional announcements, but make sure your wall doesn't become just a stream of property listings.

2 ENGAGE WITH YOUR FANS

Engagement makes social media social! Content attracts people to your page, but engagement with you and other fans is what keeps them coming back. As a rule of thumb, only about 10 percent of users of any online community actively participate. The rest are "lurkers." Your goal when managing a social media space is to encourage that 10 percent to participate often, and to pull some of those

lurkers out of the shadows and turn them into participants.

3 AVOID PITFALLS

A Facebook page isn't a high-risk venture, but you should avoid some of the more common mistakes to achieve the best results. One common error is creating a personal profile instead of a business page. Not only is it against the Facebook terms of service, but you'll also miss out on a lot of tools that are only available for business pages.

Another mistake is turning off the ability for your fans to post to your wall. Businesses usually do this to prevent spam posts or to avoid negative posts from customers, tenants or clients. But spam posts on business pages are rare, and it's easy to delete and block any that may appear.

Negative comments are a little more difficult to respond to. Should someone post a complaint on your page, simply respond and ask them if you can call or e-mail them to discuss their issue further. (And, of course, follow up!) Or, just thank them for their feedback. Don't delete complaints unless you really feel it's necessary, because users will see that as an attempt to hide problems.



DON'T BE BORING! FACEBOOK IS FUN, SO TAKE ADVANTAGE OF THE OPPORTUNITY TO SHOW YOUR CUSTOMERS, CLIENTS AND FANS YOUR PERSONALITY!



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