Management Plan Handbook

For CPM® Admissions Credit

CERTIFIED
PROPERTY
MANAGER

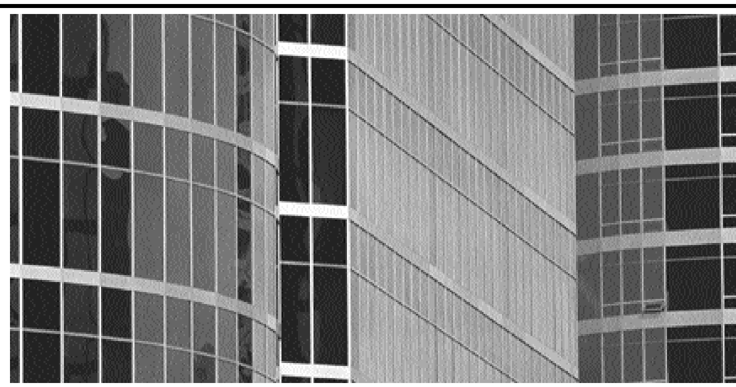

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Table of Contents

Fulfilling the Management Plan Requirement to Become a CPM® Member

Why a Management Plan?

One of the requirements for becoming a CERTIFIED PROPERTY MANAGER® is to prepare a management plan on a property. The management plan is the most comprehensive and applicable tool available to enable Candidates for the designation to demonstrate their ability to apply property management and asset management theory, principles, and techniques to an actual property.

You are given the chance to showcase your expertise and ability to explain clearly and convincingly the options and recommendations for meeting the objectives of ownership and the reasoning that leads to your final conclusions. The plan becomes your opportunity to demonstrate your mastery of all you have learned—in the classroom and on the job.

In simple terms, your management plan should describe your property as it is, suggest one or more options on what *could* be done with it, then present a final recommendation on what *should* be done with it.

From a personal perspective, your management plan will display your analytical and research skills, confirm your effectiveness as a communicator, exhibit your wide range of knowledge, and illustrate your ability to synthesize a vast range of facts and opinions into a coherent whole. It is, in and of itself, a learning experience comparable to no other. From a professional standpoint, a management plan becomes the plan of action for a property.

The skills achieved in successfully completing a management plan can be used in the future as you take over properties, prepare management plans for clients, or make proposals to clients on how to meet their goals.

Two Options

There are two options to complete the management plan requirement for CPM® admissions credit:

Option A: Complete and receive a passing evaluation on the Management Plan Skills Assessment (MPSAXM)

Option B: Complete and receive a passing evaluation on a management plan (MPIND) for an actual property following the IREM® model found in this handbook

MPSA (MPSAXM) Option

The MPSAXM is designed to assess a student's knowledge of the concepts, technical skills, and processes involved in preparing, analyzing, and completing a property management plan. It is completed in a classroom setting and includes an exam component that requires written responses to management scenarios based on a property type of your own choosing.

A student must attend all four days and receive a passing score on the exam in order to fulfill the CPM® management plan requirement.

The exam may be completed electronically or in a paper-based format during the four-day offering. Students must comply with specific guidelines and pre-course requirements prior to being able to complete the electronic version.

For the MPSAXM, students must choose one property type out of the following options: office building, conventional apartment, or retail strip shopping center.

Components

The MPSA Exam includes several components:

IREM® Management Plan Review (Day 1 and 2)
Prepare to complete the Management Plan Skills Assessment by reviewing the importance of managing by plan and the IREM® management plan outline. You'll discuss how the property analysis, market analysis, and analysis of alternatives contribute to a comprehensive management plan.

MPSA Exam/Practical Application – Case Study (Day 3)
You will be presented with information about a property based on your initial selection at the time you registered (i.e., office building, conventional apartment, or retail strip shopping center). On this day you will review and analyze the case study and prepare the "as is" alternative. You will also have the opportunity to ask questions of an IREM® facilitator. The practical application is open book.

MPSA Exam/Practical Application – Skills Assessment (Day 4)
Presented with a management scenario, you will work independently to prepare written essay answers to a series of questions that follow the IREM® management plan outline. The questions are designed to measure your ability to analyze and communicate complex information needed to complete a workable management plan. The practical application is open book.

MPSAXM Grading

The MPSAXM is given the same point total value as a management plan: 1000 total points. To receive a passing score on the MPSAXM, a student is required to achieve the minimum score to pass of 700 (70%) or higher, and a minimum of 70% in Practical Application Section 3 (Analysis of Alternatives) and Practical Application Section 4 (Recommended Course of Action).

MPSAXMs are graded by trained IREM® graders on a pass/fail basis. The examination itself will not be returned, however, a written evaluation is provided with a grade letter. The grading process takes 60 days. All results are in writing; no grades are revealed over the telephone, by fax, or by e-mail under any circumstances.

If an individual passes the MPSAXM, he or she has fulfilled the management plan requirement for CPM® admissions credit. If an individual fails the MPSAXM, he or she must retake the MPSAXM or prepare a management plan following the outline contained in this handbook. (Please note: If you are a member, you may register for either option at a 50% reduced rate.)

Registration, Location, Tuition:

For information on how to register, where and when the MPSAXM is offered, and cost, consult the IREM® education catalog or visit www.irem.org. If you do not have a catalog, please contact the IREM® Customer Relations department at 1-800-837-0706, extension 4650.

Management Plan (MPIND) Option

Prepare and receive a passing score on a management plan on an actual property of your own choice following detailed guidelines provided by IREM®.

- Once registered, you will receive materials to assist in writing a management plan, including the IREM® Management Plan Handbook.
- You will have one year to submit a management plan from date on the confirmation letter.
- You must receive a passing score on the management plan to fulfill the CPM® management plan requirement.
- Students may request additional guidance from a CPM® Member while preparing their management plan. Contact the Faculty and Grader Liaison, at (312) 329-6047 for additional information.

Should a student fail the management plan, he or she will have one opportunity to submit a rewritten plan, in accordance with current rewrite policies. If a failing score is received on the rewritten plan, the student must re-register for the management plan option or attempt the MPSA (MPSAXM) option. (Please note: If you are a member, you may register for either option at a 50% reduced rate.)

Management Plan Guidelines

Selecting a Property

The best property on which to do a management plan is one in your own portfolio and with which you are familiar. However, this is not a requirement. You should select any property for which you can obtain the information you need to complete the plan.

Your property may be operating at a high level already, and you are looking for ways to improve it. Or the property may have one or more problems. Either way, every property needs an operating plan. The IREM® management plan outline is a guide that can be followed for all properties in all situations.

You can write your management plan on any type of property, as long as it minimally conforms with the following property type and size requirements:

Apartments, rental mobile homes, hotels and motels	**At least 50 units**
Single-family homes	**At least 35 units**
Office buildings	**At least 40,000 square feet of net rentable space**
Retail/commercial buildings	**At least 40,000 square feet of net rentable space**
Industrial Properties	**At least 50,000 square feet of net rentable space**
Mobile home parks	**At least 170 pads**

Mixed-use properties of the nature listed above and of comparable size may be used. Finally, please note that you may not do a management plan on a property which is to be developed. This would be, in effect, a feasibility study. The subject of your plan must be an existing building.

IREM® does not approve properties selected for plans in advance. As long as your property meets the criteria outlined here, it is acceptable. In addition, IREM® does not require the owners' approval for you to write your plan. However, the process of doing your plan certainly will be much easier if you have the owners' cooperation.

The only verification of the property that takes place occurs after you submit your management plan to IREM®. This is when the existence of the property is confirmed through either the owner or your local IREM® chapter.

Authenticating the Property

All data and information contained within your management plan should be factual to the degree possible. For this reason, verification of the existence of the property and the factual nature of the plan's content will occur. For this verification, you have two options.

1. Your first option is to authorize IREM® to request a confidential statement from the property owner verifying the existence of the property and the accuracy of your general description. This will be done by a letter sent to the property owner or appropriate agent by IREM® after receipt of your management plan.

2. The second option is to choose your local IREM® chapter to verify the existence of the subject property and the accuracy of your general description. If you want the chapter to authenticate your subject property, a separate photograph (color or black-and-white) must accompany the plan. This is in addition to the photograph that should appear with the title page.

In either case, you still must sign and have notarized the one-page "Verification of Management Plan" form, which is included at the end this handbook. Here you certify that the plan is your own work and indicate which verification method you are electing.

Length, Style, and Format

When writing your plan, you should follow the outline presented in this handbook. A plan is not judged on its length–the suggested length for a management plan is 100 text pages, with additional pages for exhibits. Brevity, but clarity, should be sought whenever possible.

In preparing your plan, also think about:

Appearance: A measure of professionalism should be displayed through neatness, presentation, general appearance, and style. Type your plan double-spaced on white paper. Start each section on a new page. Make it "user friendly."

Accuracy: The information contained within the plan should be accurate to the best of your knowledge. Give special attention to mathematical accuracy.

Judgment: There is no substitute for judgment in the evaluation of a real estate issue or concern. Basic management principles, your own experience, and sound professional reasoning are the essential ingredients in a management plan.

Organization: Your plan will be more readable and better understood if you organize it using the section titles and headings found in this outline. You are strongly advised to use tabs to separate the major sections.

Clarity in writing: When writing your plan, be precise and concise. Omit extraneous material and emphasize what is important and relevant. Use language that will be understood. Make grammatical accuracy your goal.

Submitting Your Plan

You do not need to be an IREM® Member to submit your plan for grading, however, if you are not an IREM® Member, your grading fee is higher.

In either case, when you submit your plan, it must be accompanied by:

- The completed one-page "Verification of Management Plan" which is provided at the end of this handbook. Be sure to sign the form and have it notarized. You will be sent an acknowledgement confirming receipt of your plan.
- Two copies of the plan: an original, with all original photographs and artwork (high-quality color laser photographs are also acceptable) and a photocopy which does not need to be color copied. You should keep a third copy for your own records. *(Three-ring binders are not recommended.)*
- A separate photograph of the property if its existence will be verified by your IREM® chapter.

- Also, if the plan is a rewrite, a check for the rewrite fee made payable to IREM® must be enclosed.

Send your plan via a **traceable** method to:

> Management Plan
> c/o Faculty and Grader Liaison
> Institute of Real Estate Management
> 430 N. Michigan Avenue
> Chicago, IL 60611

If you are a CPM® Candidate, you must submit and pass your management plan within your 10-year candidacy period. You will have one year to submit a management plan from date of registration.

Management Plan Grading

Your management plan will be evaluated by a CPM® Member who has been fully trained to grade management plans.

A 1000-point system is used to evaluate your plan. The outline in this handbook shows the point allocations. To pass, your plan must receive at least 700 points. In addition to an overall score of at least 700 points, certain sections of the plan are so critical to the entire management plan that you must receive at least a minimum score on these sections in order to receive a passing grade on the overall plan. For example, the "Market Analysis" section is worth a possible 250 points; you must receive at least 175 points on this section for your plan to pass. If you receive only 165 points on this section, your entire plan will fail, even if your plan earns 700 or more points overall.

If you receive 900 or more overall points and at least 90% of the possible points in the four key sections, your plan will receive a grade of "pass superior," reflecting the outstanding caliber of your work.

You will receive notice of your grade (either "pass superior," "pass," or "fail") 60 days from the date the management plan is received at IREM®. **All students are notified in writing of their grades; grades will not be revealed over the telephone, by fax, or by e-mail under any circumstances.**

Along with your notice of the final grade, you will receive your original plan with grader comments directly on the plan itself, and a grading sheet summarizing your strengths and, so that you can learn from the experience, your weaknesses. Because grader comments will be made on the plan, you should not insert the text pages in plastic or other protective sheets.

A plan that is judged to be of unacceptable quality by the initial grader will be submitted for a second review. If the initial finding is upheld, the failing grade will stand. If the second reviewer passes the plan, the plan will pass. In such a case, you will receive both grading sheets, thus apprising you of the somewhat marginal quality of your work.

If your plan receives a failing grade, you will have two options:

1. Revise and resubmit your plan according to the following rewrite policy:
    a. Your revised plan would be due one year from the date you receive notice that your first plan failed. Submit the "Application for Management Plan Credit – Rewrite" form, which was sent to you with your results letter and graded plan.
    b. The "Verification of Management Plan" form is not required.
    c. <u>A rewrite fee applies for rewritten plans.</u> Please include a check for the rewrite fee made payable to IREM®.
2. Complete and pass the Management Plan Skills Assessment (MPSAXM).

If you submit a rewritten plan and it fails, you will have two options:

1. Register for the management plan option (MPIND). You will need to choose a different property on which to write your plan.
2. Complete and pass the Management Plan Skills Assessment (MPSAXM).

Please note: If you are a member, you may register for either option at a 50% reduced rate.

Management Plan Calendar

Here is a sample schedule to help you organize your work.

Due Date	Task
________________________	Select the subject property.
________________________	Meet with owner.
________________________	Visit the property and collect the necessary data.
________________________	Analyze the property data.
________________________	Identify comparables and obtain data on them.
________________________	Conduct regional and neighborhood research.
________________________	Take photographs.
________________________	Complete the market study.
________________________	Assemble financial data.
________________________	Develop and test alternatives.
________________________	Write and review first draft.
________________________	Proofread the plan.
________________________	Have plan edited by a colleague.
________________________	Make copies of the plan and have the plan bound.
________________________	Submit the plan to IREM®.

Management Plan Summary Outline with Points

		Total (1,000)	Minimum to Pass (700)
Introduction to the Management Plan	Title Page – 0* Table of Contents – 0* Executive Summary – 55 Purpose of Study and Client Objectives – 20	75	0
Property Analysis	Property Description – 50 Financial Analysis – 100 Summary and Conclusions – 50	200	140
Market Analysis	Regional and Neighborhood Analysis –100 Competitive Rent Analysis – 100 Summary and Conclusions – 50	250	175
Analysis of Alternatives	Issues and Concerns – 50 Alternative Courses of Action – 50 Evaluation of Alternatives – 200	300	210
Recommended Course of Action		100	70
Appendix	Supporting Material – 25 Certification and Disclosures – 0* Qualifications of Analyst – 0*	25	0
Appearance and Style		50	0

* No points are awarded for this section, but points will be deducted if it is *not* included or not considered adequate.

Management Plan Components

The follow section of this handbook provides an overview of each component of a management plan using the IREM® model. Tips gained from several years of grading management plans are also provided. Sample acceptable sections are included. Please note that these are samples, not blueprints or models. These examples are intended to help sharpen your understanding of what is required in each particular section.

Introduction to the Management Plan

The introduction to the management plan sets the stage for the descriptive material and analysis to follow. (75 total points)

Title Page (0 points)
The title page is the first page that the reader will see and, as such, sets the stage for the study to follow and gives you the opportunity to create a favorable first impression.

Include on the title page the following items:

- Identification of the property, including name and street address; and if appropriate, the name of the neighborhood
- Brief description of the property (e.g., a 50-unit apartment building)
- Date of report
- Identification of the client and property owner
- Your name, address, and telephone number
- A photograph of the property, either on the title page or the immediately following page; the photograph will be extremely helpful to the reader in visualizing the property and gives you the opportunity to create a favorable first impression

Tips for Writing this Section

DO Follow the IREM® outline.
Create a favorable first impression by providing a clear, attractive photograph, either an original or a high-quality color copy of your subject property.

Make the title page the first page of your management plan.

Show the correct date of the report on the title page.

DON'T Don't place a photo of the subject property on the title page without identifying it.
Don't identify the report as fulfilling an IREM® requirement. Treat the title page as if the plan is being submitted to a "real" client.

Don't forget to include your name, address and phone on the title page.

An Acceptable Sample from this Section

Management Plan
May 20XX

Identification of report

Executive Center
123 ABC Avenue
Anaheim, California

Property's name and address

Color photo of subject property

The Executive Center is a two-story, 67,194 sq. ft., garden-style office building.

Brief description of property

Presented to:
Real Properties
200 State Street
Anaheim, California

Prepared by:
John Doe
ABC Management
12345 S. Main St.
Concord, California
(415) 555-5555

Student's name, address, and phone number

\- 1 -

Clients' name and address

Page number

Table of Contents (0 points)

The table of contents is a complete, sequential list of the title of each section of the management plan and corresponding page numbers. The wording used in the table of contents should match the wording used in the body of the plan. You are advised to use the wording from this outline to create your table of contents and to label the sections of your plan with tabs or dividers as an aid to the reader.

The purpose of the table of contents is to guide the reader through the plan easily and enable the reader to quickly locate given sections. Therefore, be sure to put a page number on every page in your plan – even the title page, table of contents, executive summary, and all exhibits in the appendix. Then, be sure that the page numbers shown in the table of contents accurately correspond with the pages on which the various sections begin.

Tips for Writing this Section

DO

Follow the IREM® outline.

Assign a page number to every page in every section including the exhibits in the appendix.

Consult a style handbook for correct ways to format a table of contents. Consult this handbook for any style and format guidance needed in other areas of your plan as well.

Use the wording for the outline in this handbook to create your table of contents and to label the sections of your plan with tabs.

DON'T

Don't be careless and include a table of contents that is not accurate and lacks page numbers for each heading.

Don't list your appendix without referring the material in it to the table of contents.

An Acceptable Sample from this Section

Table of Contents

Title of page

Major heading

Correct page number

- 2 -

Page number

Executive Summary (55 points)

The executive summary is a brief synopsis of the plan and its recommendations (no more than four pages, and usually fewer) that draws the reader's attention to the significant sections of the report. In essence, the executive summary is a condensed version of the management plan designed to appeal to the reader who needs a snap-shot view of the project. The executive summary has, in fact, become widely used and well received in business circles as a convenience to the reader and particularly to business executives who need to get to the bottom line quickly.

This summary should be designed to give the reader a succinct view of the owners' objectives, observations you made in the course of the analysis, alternatives to be considered, and a recommended course of action and implementation plan. Because the executive summary is a condensed, but still complete, version of the management plan, it probably will be the last part of the plan you write, even though it appears first.

Tips for Writing this Section

DO

- Follow the IREM® outline.
- Treat the executive summary as a "mini management plan" by briefly covering all major portions of the plan.
- Cite the goals and objectives of the client.
- Write the executive summary last.

DON'T

- Don't say that your plan is "prepared for the sole purpose of fulfilling an IREM® requirement." Even though this may be true, treat the plan as if you are presenting it to a "real" client.
- Don't take for granted your clients' knowledge of the property.
- Don't exceed four pages.

An Acceptable Sample from this Section
(Please note that double-spacing is recommended for management plans. Single-spacing is used in this handbook's samples in order to display more sample content.)

Executive Summary

The following management plan attempts to analyze the current condition of the ABC Building and to introduce an alternative course of action consistent with a the owner's goals and objectives, which are to retain ownership of the property on a long-term basis, and to achieve a cash-on-cash rate of return of 8% or more in the stabilized year while enhancing the value of the property. With long-term ownership in mind, a viable alternative has been recommended, along with a time frame for implementation, which would allow the owners to achieve their objectives.

The property, a 140,00 square foot office building, is located in Walnut Creek, California, a major hub city located along a major interstate in the San Francisco/East Bay area. The commercial base in the city is predominately office and retail development. Little new development has been completed within the last few years due to a city imposed growth limitation plan. A heavy presence of high-end retail and upscale housing makes Walnut Creek one the most desirable cities in the East Bay.

Walnut Creek holds one of the lowest vacancy rates within the outlined region at 11.5%. The average rental rate has remained relatively flat during the past year, ranging between $15.00 and $24.00 per square foot (PSF) per year. A negative absorption of approximately 3% was noticed during the first quarter of 20XX primarily due to corporate downsizing within the area. Occupancy has averaged 90% - 100% at the ABC Building within the past year. It is believed that a current vacancy rate of 9% has been obtained due to management's attention to detail and an aggressive marketing approach.

The property has maintained a stabilized net operating income of approximately $1,426,000 annually, which, when capitalized at the 10% capitalization rate developed in the plan, results in a property valuation of $14,260,000. After deducting costs of sale, taxes, and current mortgage balance of approximately $12,230,000, the owner's equity as of the date of the plan is estimated to be $1,459,600.

- 10 -

Two concerns relative to the operation of the property will be addressed in this report, which are 1) the existing inadequate Energy Management System (EMS), and 2) the under-utilization of the exterior courtyard. These issues are easily curable and require minimal outlay. Upon implementing the recommended course of action, the owners will benefit from a significant increase in cash flow and at the same time profit from an increase in the value of the property.

An inefficient Energy Management System results in high energy and maintenance costs and discomfort to tenants. Through the controls of energy using systems, an energy cost savings of roughly 9% at the property is realistic. By reducing energy demand and consumption, while preserving the life of the equipment, the property would be operating more efficiently while improving the bottom line.

The exterior courtyard is comprised of approximately 12,000 square feet and, in my opinion, is considered under-utilized. Comparable properties have assembled their ground floor, or courtyard areas, to include retail or food services as an amenity to the tenant population. A highly visible store could be designed at the corner of Main Street and State Street for high volume service that would feature both lobby and street access. As a result, annual revenue would increase by $41,400.

Four alternative courses of action have been evaluated and tested to determine which one best meets the goals and objectives of the owners.

1. Do nothing and continue to operate “as is”.

2. Install new Energy Management Systems (EMS) controls.

3. Construct a retail annex in the under-utilized open courtyard.

4. Combine Alternative #2 with #3: install EMS controls and construct a retail annex.

- 11 -

Each alternative was tested for cash-on-case rate of return ($/$%), value enhancement, net present value (NPV), and internal rate of return (IRR). As the test results indicate, Alternative #4 best meets the owner's goals, with a $/$% of 8%, value enhancement of $2,493,802, an NPV of $305,268, and an IRR of 14%, and therefore is the recommended course of action.

Design and installation of an EMS should immediately be implemented with the owners investing $44,294 and the local utility company rebating approximately $10,386. Commitment from a credit worthy tenant, such as Starbucks Coffee, should also be pursued immediately as it is a requirement of the existing lender to fund 100% of the project. As soon as the owners take advantage of the recommended solution, the sooner they will realize an annual savings in operating costs of approximately $23,550, with an increase in annual revenue of approximately $41,405.

With no constraints to capital outlay, Alternative #4 suggests that the owners invest $263,044 which would increase NOI in 20XX by $108,831 to $1,534,668. The proposed recommendation yields a $/$% in Year 3 (20XX) equal to 8% and a net value enhancement of $2,493,802.

- 12 -

Purpose of the Study and Client Objectives (20 points)
This section will serve to identify the client and the owner of the property (if the client is not the owner). The identification of the owner, client, and manager should be clear. The plan should clearly state the reasons that the management plan was undertaken and the goals and objectives of the client. It is critical that, throughout the plan, these client objectives remain consistent and that the final recommendation supports these objectives. However, the results of the management plan may suggest that the goals and objectives of ownership are unrealistic given the facts of the market. If this is the case, the manager, through the plan, must strive to clarify and modify ownership's goals to bring them within the realm of reasonable expectations. Similarly, the clients' objectives may be inconsistent or mutually exclusive. If this is the case, this should be noted and referred to throughout the plan since one solution may support one objective while another solution fulfills another objective.

Tips for Writing this Section

DO

Follow the IREM® outline.
Be specific and direct in stating the purpose of the study.
Keep ownership goals consistent throughout the entire study.

DON'T

Again, don't say that the purpose of the plan is to fulfill a CPM® admissions criterion.
Don't confuse the purpose ("to point out areas of deferred maintenance") and the objectives ("increasing the property's value by 40% within five years"). They are different although inter-related.

An Acceptable Sample from this Section

Purpose of the Study and Client Objectives

The purpose of this study is to outline various recommendations for ABC Properties, Inc., the client and owner, of implementing proposed courses of action at the property related to both functional and physical obsolescence.

The owner's objectives are to:

- retain ownership of the building for at least seven years
- achieve a cash-on-cash rate of return of not less than 8% in the stabilized year
- operate the property to achieve an IRR of at least 12.5%
- enhance the value of the property

With these objectives in mind, the alternatives addressed in this management plan will suggest to the owners various means of achieving the rate of return they desire as well as enhance the property, while retaining ownership of the building.

Upon reviewing the operations of the building, it was apparent that the current Energy Management System operates inefficiently. In addition, an under-utilized exterior courtyard possesses the capability of producing additional revenue. Recommendations regarding the concerns referenced above will be further addressed in this plan.

- 15 -

Property Analysis

In this section of the plan, you describe and analyze the property as it currently exists, concluding with salient observations about the property and its potential. (200 total points, 140 minimum points to pass)

Property Description (50 points)

This section of the plan should present a verbal picture of the property–a picture so clear that the reader can easily visualize it. Assume that the reader has never been to the area and has never seen the property. Overall, it will include a general description of the land, the improvements, and the management policies and personnel associated with the property.

There should be a comprehensive physical description of the land with a discussion of its potential and legally permitted use, a legal description of the property, and information about the property's:

- Dimensions, shape, topography and soil condition–particularly if they may limit changes to the property
- Frontages, access and egress
- Location and availability of utilities and other services, either public or private
- Zoning and land-use restrictions
- Easements

A site plan, either contained here or provided as an exhibit in the appendix, is needed. Most importantly, this section of the plan should include a thorough description of the improvements. Include photographs of both the interior and exterior, clearly label them and supplement them with a description of the improvements (the good and the bad), including, but not limited to:

- Age of improvements—chronological and effective age
- Architectural design and style
- Type of improvements; type of construction and exterior materials, including windows, and quality of materials and workmanship
- Description and condition of foundation, structural system, and roof
- Shape of the building, particularly if there's anything unusual about the shape or general layout of space
- Gross area and complete space inventory (e.g., number of units, breakdown of unit type, rentable versus usable area)
- Description and condition of interior space or units
- Building systems (e.g., HVAC, plumbing, electrical, life safety, elevator) including current condition and age
- Description and condition of public areas and amenities
- Physical condition, including deferred maintenance and functional utility/inutility
- Relevant information about the grounds, parking, landscaping, and detached structures

Finally, this section of the plan should include a complete description of all personnel involved in the management of the property and the management itself. Contained here should be:

- Job descriptions of each person along with a statement as to the overall effectiveness of the staff
- Management policies and essential procedures being enforced with respect to residents/tenants, both on-site and off-site operations, budgeting, maintenance, marketing and leasing, together with a statement as to the overall effectiveness of the property's policies and procedures
- A synopsis of the current management contract, if available
- Observed deficiencies in management
- A description of the property insurance

Tips for Writing this Section

DO Follow the IREM® outline.

Identify the client, owner, and management firm.

Present a clear picture of the physical aspects of the property in detail.

Thoroughly describe the current management and on-site staff and their effectiveness.

Discuss management's duties under the management agreement.

Include floor plans and identify each of them.

Label all photos, putting them on the same or facing page as the written description whenever possible rather than in the appendix and refer to them in your text.

DON'T Don't simply state the size of the site or use general or non-descriptive language to describe the property's improvements.

Don't ignore flood plain data if the property is in a flood zone.

Don't simply list jobs and reproduce job descriptions.

Don't recite the property's rules, regulations, and policies without including an evaluation of how effective these policies are and how they influence the bottom line.

Don't assume that other's opinions about management policies are correct. Do your own research and form your own opinions.

Acceptable Samples from this Section (excerpts)

Excerpt 1: Exterior description

Property Description

The subject property is Caraway Arms Apartments, located at 542 Parkway Road in Johnston, Texas. There are 2 entrances along the front of the property off Parkway Road. Curb cuts were not allowed when the street was reconstructed and access is limited when traveling south, requiring either a u-turn at the stop light or left turn on Branch Hollow. U-turns are not allowed during morning nor evening rush hours. There are 3 entrances from the side street Branch Hollow plus a horseshoe access limited to a few buildings. The frontage view along Parkway is hampered by telephone poles and lines.

The site has an area of 16.164 acres and is a rectangular configuration with a gently slopping topography to the rear of the property. Drainage is adequate and there is not any evidence of flooding; however, there are ponding issues throughout the interior of the property in the parking lot and some sidewalks.

It is improved with 328 apartment units that were constructed in 1984. The gross building area is 295,240 square feet and the rentable floor area is approximately 291,920 square feet in 22 buildings.

With the 23-year age of the property, the trees and shrubs are mature. The large trees have created shade issues that do not allow grass to grow. There are several areas that have eroded due to the slope of the land and inadequate planting to preserve the integrity of the soil. The shrubs are overgrown and exceed an acceptable height limit for safety precautions. A landscape program has started to trim and lift the shrubs from the ground.

The roofs are pitched with flat areas that hold the exterior a/c condensers. With the exception of 8 buildings, all roofs were replaced over the last 7 years. The property is budgeted for the remaining 8 buildings; however, owner permission has not been requested.

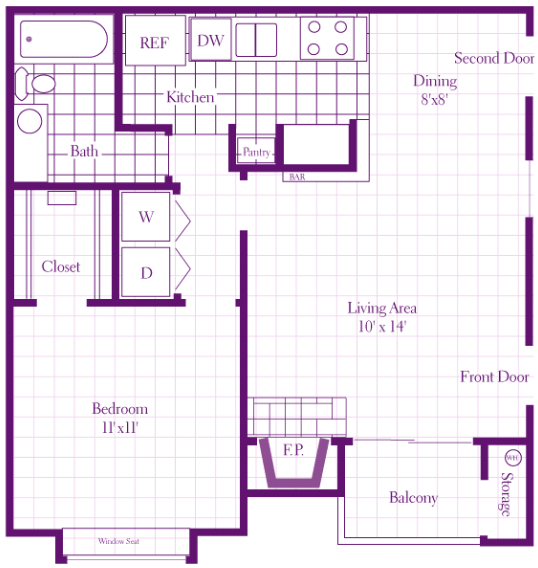
The exterior is 50% brick veneer and 50% cedar siding. Tuck pointing throughout the years is obvious since it does not color match the original. The siding has aged over the years showing rot as well as inability to hold paint. A program to replace the siding with concrete plank siding began 2 years ago on the chimney chases; only 10 of the 164 have been completed. The patios/balconies are dated with the 4’ cedar enclosures.

- 16 -

Excerpt 2: Interior description

The interiors of the apartments are dated with original light fixtures, hardware, cabinets, and countertops. Carpet has been replaced with a higher grade berber and wood-grained vinyl but there still remains a large number of apartments with FHA grade carpet and dated floor tile. Subfloors are failing and have become an expensive issue that must be resolved.

There are 120 one-bedroom, one-bath units with 705 sq ft each, all of the same floor plan. There are 60 units on the ground floor known as the 1A1 and the remaining 60 units of the 1A2 on the second floor; marketing name is Primrose.



- 18 -

Excerpt 3: Managerial description

On-site staffing consists of a Property Manager, Assistant Manager, 2 Leasing Consultants, Service Manager, Service Tech, Painter, Porter, Housekeeper, and Summer Help. The corporate Regional Supervisor visits the property no less than once bi-weekly and conducts an extensive site checklist each month.

All employees complete drug testing and a physical exam prior to hire; all must test free of drugs or provide information for prescription drugs; the purpose of the physical exam is to evaluate physical abilities to perform the job description for their particular job. The 4 office personnel complete a DISC test to determine personality traits to achieve the tasks of the job description for their position and complete an Achiever test to determine a skill level to perform for their particular position. Service personnel complete a maintenance exam in the presence of a staff member, and it is graded by corporate personnel. All employees receive 2 interviews prior to hiring. The new hire paperwork is completed by corporate personnel on the first day of employment.

The Property Manager is ultimately responsible for all property operations and supervision. The Assistant Manager's main responsibility is to bill, post, and collect all revenue. All office personnel are expected to lease apartments and provide proper orientation to new residents, but this is the main responsibility of the Leasing Consultants. The Service Manager completes the Move-In Inventory form with new residents and is responsible for the service department, including service requests and assignment of duties to other service personnel, make ready process, and policing of the grounds and amenities.

Finding qualified personnel has been a problem. A Leasing Consultant position was vacant from March 15 and not replaced until July 9. The Property Manager position has not been stable. Due to this churn, property operations have suffered. The Leasing Consultant in his current position has a 26.8% closing ratio, but it is doubtful that all prospects have been logged appropriately; he has been unreliable by being late and excessive use of personal leave; his termination has been requested. The Service Manager position was occupied by an employee for over 5 years that requested a transfer to another city. The position was filled by another transferee who was not ready for this staff size. This position is currently filled by a member of the construction crew and interviews are in process. The porter and summer help positions will be questionable on who will be retained once the summer position expires in August.

Purchase Orders are processed on-site, ultimately with the Property Manager's approval. Service Manager requests monthly inventory stocking around the 20th of each month along with a supplemental order around the 10th of the month. Purchase Orders are completed once each week, preferably on Wednesday, and the other weeks of the month will include contract services for make readies. The Property Manager has the authority to exceed the monthly budget by $200 in a general account code or $500 over the entire monthly budget. A formal procedure is written by policy to forward excesses to the Regional Manager. The Regional Manager may exceed the monthly budget by $2,000. Any amount over $2,000 must be forwarded to the owner for approval. Invoices are matched to the Purchase Order, preferably on Tuesday of each week, and forwarded by courier to the corporate office for payment each Thursday.

The software of choice is Yardi Voyager. This requires a high-speed internet connection at all times to access. A computer is on each of the 4 office desks and Outlook e-mail is on 3 of the 4. The management company IT department is in the process of converting all computers to Office 2007 as well as an upgraded version of Yardi. Desktop banking will become an option with the new Yardi version. Credit and debit cards are accepted for payments.

The management contract requires the management company to be accountable for successful day-to-day site operations, training of personnel, process all vendor payments, maintain bank accounts, balance bank statements, perform cash management, and produce monthly financial statements. The management fee is 4% of all monthly collections plus a 5% construction management fee for any capital improvements over $10,000. An additional 1% asset management fee is paid.

- 20 -

Financial Analysis (100 points)

Whereas, the previous section of the plan provides a verbal picture of the property as a physical asset, this section of the management plan provides a verbal picture of the property as a financial asset on an "as is" basis. Because it provides the underlying basis for analyzing the property as a real estate investment and for formulating recommendations, this section of the plan is extremely important. Include in this section all of the following components, wherever they are applicable:

- The current operating budget, including the rent roll, other income, and operating expenses presented on a line-item basis with a complete yet concise explanation of each line item
- Tenant profile, lease terms, and expiration
- Vacancy and lost revenue
- Operations for the last three years, including other income and operating expenses, accompanied by an analysis of historical performance of the property based on these three years of operations
- Original acquisition and loan(s) facts (if known) including original loan amount, current balance, and terms, and prepayment penalties, if applicable
- Capitalization rates and valuation of the property on an "as is" basis plus a justification for capitalization rate used; include owners' current equity

Tips for Writing this Section

DO Follow the IREM® outline.

Provide a complete and accurate current rent roll, listing number, size or type, tenant name, monthly rent, annual rent, square foot rate, expiration date, options, pass-throughs, and any other pertinent information.

Provide line-by-line income and expense data for at least three years. If three years of data are unavailable, explain why.

On a line-by-line basis, explain why each item might be low, high, or on target.

Analyze the property's condition based on the numbers. Summarize your findings including trends.

Discuss the capital improvement budget.

Discuss revenue lost due to vacancy.

If the property is debt free, and since this is an educational exercise, discuss the type(s) and parameters of loans available in the subject's market place.

DON'T Don't present the work of others such as photocopies of monthly statements. All exhibits in this section must be your work and must be legible.

Don't forget to include all owners' current (rather than historic) equity in the property.

Don't disregard the original loan even if the lender is now the owner due to foreclosure or some other reason. If foreclosure occurred, explain why.

An Acceptable Sample from this Section (abbreviated version)

Financial Analysis

ABC LTD purchased the property on October 10, 1996 for $12,250,000 with an original loan of $9,800,000. The property was refinanced in June, 2001 for $13,200,000 and proceeds were used to purchase another property; loan balance on January 1, 2007 was $12,311,493 with an interest rate of 6.96% on a 30-year amortization. Payments of principal and interest are $86,465.61 per month. Taxes and insurance are escrowed each month as well as a $7,927 monthly reserve for replacement escrow.

A modified accrual accounting is utilized on all properties and monthly operating statements reflect delinquencies, prepaids, taxable income (loss), as well as demonstrate the increase (decrease) in cash for the month as well as YTD. Monthly operating statements also demonstrate monthly and YTD comparisons to prior year.

Owners pay close attention to Cash Flow Before Debt Service as a true reflection of the property operations rather than Net Operating Income. This includes a deduction of Recurring Replacements expenses.

Due to the limited cash flow of property operations, capital improvements have been planned but not executed to maintain the property at a standard to increase rents and compete in a rehab and new construction market.

Current year operations ending June, 2007 are underperforming. Income is under budget by $48,358, with a vacancy rate that has not met budget. Average physical occupancy during the first 6 months is 90% while the budget projected 95%. Economic occupancy has been at 83% compared to a budget projection of 87%. GPI has exceeded budget by $17,419 and is offset by a variance of $11,507 in Loss to Old Lease. This would equate to an approximate $6,000 gain by raising rents in the first half of 2007.

Income	**Actual**	**Budget**	**Variance**
Rental Income	2,257,226	2,356,925	-4.2%
Tenant Income Other	99,617	112,606	-11.5%
Non-Rental Income	3,398	3,701	-8.2%
Total Revenue	2,360,241	2,473,232	-4.6%

Operating Expense have exceeded budget by only $1,580 for the first 6 months, indicating management has controlled expenses; however, budgeted Insurance Expense jumped 87% from prior year actual.

Recent changes in payroll with hiring of a new manager are reflected in the increased Administrative costs.

- 18 -

Expenses	Actual	Budget
Leasing Expense	136,857	134,240
Admin Expense	282,698	268,072
Utility Expense	109,074	114,810
Maintenance Expense	313,619	314,314
Real Estate Taxes	293,210	271,679
Insurance	115,662	114,904

- Total Operating Expenses	1,251,120	1,218,019
= Net Operating Income (NOI)	**1,109,121**	**1,255,213**

Recurring replacements have taken their toll on operations by exceeding budget $14,857. This overage is completely due to carpet replacements that were held at the end of 2006 as units were made ready down to major purchases as well as the growing subfloor issues. A qualified person was placed on staff to focus on sub floor repairs rather than continuing to contract this expensive need.

All other Recurring Replacements are under budget, as well as appliances, which continue to inhibit property performance.

-Recurring Replacements	161,998	147,140
=Cash Flow Before Debt Service	**947,834**	**1,108,073**

Although there has been slight improvement over the last 4 years, the property has not been able to support itself and has required an infusion of owner cash. Accounts payable have run tight and cash management is an integral part of the accounting and asset management functions.

An accounting change was made in 2005 with the treatment of Write Off in Other Incomes and is reflected in the changes of Tenant Income Other and Non-Rental Income.

2007 operations will not meet the existing budget.

- 19 -

Summary and Conclusions (50 points)
This section of the plan concludes with a summary of all of the above information and, most importantly, relevant conclusions drawn from that information. It is absolutely critical that the plan include not only a description of the physical and financial aspects of the property, but also an analysis of the property's overall condition. This is where your observations as an experienced property manager come into play. It is absolutely critical to not only describe the property as a list of numbers, but to analyze the property's current condition and future potential through those numbers. Among other things, you will want to comment on those income, expense, and related items that deviate from what you, as a trained real estate manager, regard as the norm.

For example, in the conclusion to this section you may find it appropriate to comment on such factors as:

- Whether operating expenses are too high and if so, why, and in what specific areas
- Implications you can draw from the historical data
- The cash flow situation and its effect on financing opportunities or lack thereof

This section, and the plan overall, will be strengthened by a conclusion that concisely and professionally summarizes the property's physical state, its management, and its financial status, and justifies that opinion through salient and reasoned observations.

By preparing the summary and conclusions, you are beginning to identify issues and concerns that may need to be addressed in order to maximize the owners' goals and objectives. Most likely, these issues and concerns will be addressed through the alternative courses of action you identify later in the plan.

Tips for Writing this Section

DO	Follow the IREM® outline.
	Focus on the main issues and concerns that the Property Analysis section indicates.
	Be brief but concise.
	Relate any issues to the owner and/or clients' objectives.
DON'T	Don't make broad generalizations without backing them up or substantiating them.
	Don't contradict previous statements.
	Don't introduce new facts not previously discussed.

An Acceptable Sample from this Section

Summary and Conclusions for the Property Analysis Section

- 23 years old and showing its age, both exterior and interior
- Ponding issues in parking lot and sidewalk with erosion of dirt
- 8 buildings need roof replacement
- Building settlement has been severe and cannot be lifted without damaging the integrity of the buildings and foundations
- Office, clubroom, and model furniture is outdated
- Amenities need attention - Fitness center is inadequate in size, putting green is damaged, pool decks are cracked, pool furniture is mismatched and inadequate
- Staffing consists of 4 office personnel and 5 permanent service staff + 1 summer temporary; added 1 staff for sub floor repairs
- Property Manager position has not been stable and requires a longer term candidate
- Management company provides a support system for property operations
- 2007 budget will not be met
- Total Revenue over the last 4 years have grown an average of 2.7%; Expenses have averaged a 1.4% growth
- Insurance rates almost doubled in 2007 compared to 2006
- Recurring Replacements have averaged a 19% increase over 4 years due to carpet replacements and sub floor problems
- Gross Potential is at $227,472 currently, starting at $219,733 in 2004 with a decrease to $212,968 to begin 2005 year
- Highest availability has been in the 1-den, 2-1, and 2-2 floor plan
- Concessions are still offered
- Owners expect a 6.5% cap rate if sold today
- Operations do not support an outside loan and owners are willing to fund a reasonable rehab with an 11% return

The property cannot continue in its current state and be financially viable for the owners. A well-planned rehab is necessary to make it perform against its competitors.

Expenses have been maintained throughout the years, and the hold back on financial performance has been a flat Revenue. GPI is capped for its existing physical condition and rents cannot be raised, vacancy loss continues to be higher than acceptable, and concessions are necessary to capture prospects.

Loans cannot be obtained to fund a rehab and it will be necessary for the owners to fund the improvements.

- 20 -

Market Analysis

This section of the plan moves from the property itself to the relationship of the property within the marketplace and provides reasoned conclusions about the rental value of the property's space. (250 total points, 175 minimum points to pass)

Regional and Neighborhood Analysis (100 points)

The regional and neighborhood analysis together provide a picture of the immediate environment surrounding the property. This section should provide a complete but concise analysis of the region and neighborhood as they affect the subject property.

Within the regional analysis, begin by defining the region and establishing its boundaries, such as the metropolitan statistical area (MSA) in which the property is located. Include a rationale for defining the region as you do. A map delineating the region is needed. Having defined the region, provide a clear and concise description of the region. The demographics of the region's population are of critical importance. Consider such factors as population, employment, income levels, residential and commercial development, transportation, public improvements and utilities, education and culture, and climate. Include within the regional analysis changes in past years and observable trends to arrive at a reasoned conclusion as to the probable future of the region and the direction of growth.

The emphasis should be on those physical, social, political, demographic, and economic factors that have a direct and specific bearing on the property being studied, and this relationship should be made clear. Only include those factors that may have a discernible or measurable impact on the property being studied (i.e., rail facilities should be detailed if the subject property depends on rail).

After analyzing the broader region, a neighborhood analysis follows. Here, provide a clear and concise picture of the neighborhood immediately surrounding the property, emphasizing those characteristics and trends that will have a bearing on the future of the property being studied, and specifically the existing supply and demand for rental space and the price level of rental space.

This section should include:

- Geographic delineation of the neighborhood and location of the property within the neighborhood; a map is required identifying the subject property and showing the boundaries of the neighborhood
- Classification of the neighborhood in terms of land use patterns (i.e., residential, commercial)
- Stage in the neighborhood's life cycle, which requires a physical inspection of the neighborhood
- Relevant information about population, municipal services and facilities, transportation, shopping, neighborhood income levels, and political considerations
- Any other considerations germane to the immediately surrounding area
- Real estate facts (i.e., average rents, vacancy, and supply)

Throughout this section, be brief with descriptive matter. Relevance and analysis are the keys. Include within both the regional and neighborhood analyses concrete conclusions that relate back to the subject property. Indicate how regional and neighborhood influences will exert pressure on the marketplace and ultimately affect the subject property.

Tips for Writing this Section

DO Follow the IREM® outline.

Include maps to help create a visual picture. Use arrows to identify the locations of the subject property on all maps or plats. If the map permits, also draw an outline around the region and neighborhood.

Forecast the future of the neighborhood and region.

Based on the data presented, form your own conclusions about the future of your subject property as a part of the region and neighborhood.

State if and how physical, economic, governmental, and social forces in the region and neighborhood might affect the subject property.

Use statistical data from the IREM® Income/Expense Analysis®.

DON'T Don't cover areas greater than the actual region and the actual neighborhood.

Don't present data collected without supplying a narrative and analyzing the data as it relates to your property. If the data has no direct bearing on your property, don't include it.

Don't assume the reader knows anything about your region and neighborhood.

Don't ignore the need to address the climate if exterior construction is an issue.

Don't forget to identify the sources of your data.

Don't use adjectives when specific numbers are available wherever possible (i.e., use "vacancy is 7%" not "vacancy is low").

An Acceptable Sample from this Section (abbreviated version)

Regional and Neighborhood Analysis

Regional
The ABC Building is located in the City of Walnut Creek, County of Contra Costa. The county is strategically located near San Francisco and the Silicon Valley. Contra Costa County is one of eight counties encompassing the Greater Bay Area. The City of Walnut Creek, located 25 miles east of San Francisco and 50 miles north of San Jose is situated in the geographic center of Contra Costa County.

According to the 20XX Bay Area Real Estate Forecast, prepared by Smith & Smith Company, the Contra Costa/Greater East Bay office market consists of approximately 20,000,000 square feet of space in 469 buildings. The market is dominated by the Tri-Valley and Walnut Creek sub-markets, which make up over 70 percent of the total rentable square feet.

Although the overall Contra/Costa Greater East Bay office market vacancy rates have increased by nearly 3 percent from 20XX year end figures, Walnut Creek has one of the lowest vacancy rates at 11.15 percent. Vacancy rates dropped during 20XX to 11 percent from just a few short years ago when vacancy rates were as high as 15 percent due to tenants fleeing from the higher leases in San Francisco.

However, recent reports compiled by Smith & Smith on the office market indicate vacancy rates for new and subleased premier office space climbed to 13.8 percent in the first quarter of 20XX, up from the 10-year low of 11 percent in 20XX. This is mainly due to corporate downsizing within the areas which has saturated the office market with sublease space and brought about the first increase in vacancy rates in a year. Two major tenants vacated a total of 120,000 square feet in Walnut Creek after moving to smaller facilities. Available sublease space in Contra Costa County increased by 215,000 square feet, primarily in the North I-680 and Walnut Creek sub-markets.

- 21 -

Neighborhood
Walnut Creek has over 6,100,000 rentable square feet of office space, which includes 4,005,000 rentable square feet, or 87 buildings, in the greater downtown area. According to figures published by Smith & Smith, approximately 684,000 square feet of office space was available at the end of the fourth quarter 20XX in Walnut Creek. Although the Contra Costa/Greater East Bay Office Market absorbed approximately 78,000 square feet during 20XX, Walnut Creek reported a negative absorption of approximately 100,000 square feet due to tenant downsizing and consolidation. Combined with the above figures, little to no new construction, moderate employment growth and an estimated 10 percent increase in population which is projected to continue well in the 1990's, it is expected that existing supply of office space in Walnut Creek will satisfy demand through 20XX.

The average asking lease rate in the downtown Walnut Creek Area has remained relatively flat during the past year ranging between $15.00 and $24.00 per square foot (PSF) annually. Rents in downtown Walnut Creek are roughly 20-25 percent higher than Class “A” office buildings located in the North I-680 Corridor due to its proximity to Oakland and San Francisco via major freeway access and a BART terminal located near downtown. In addition, a heavy presence of high-end retail and upscale housing makes Walnut Creek one of the most desirable cities in the East Bay and a major hub city along the I-680 corridor.

Tenant improvement allowances, rental abatements, and other concessions decreased dramatically in 20XX as competitive quality office space became scarce. Tenant improvement costs from shell condition five years ago averaged $25 per rentable square foot, whereas today 95 percent of all lease transactions are on second or third generation office space and re-improvement contributions by landlord average $8 - $12 per square rentable foot.

- 22 -

Knots Landing, the one and only new office project constructed in the past five years, recently broke ground in the Tri-Valley area of the market, just south of Walnut Creek. Knots Landing is a 195,000 square-foot office building and part of four, five-story building complex of 780,000 square feet. The first building will be ready for occupancy in July 20XX. This is significant because the City of Walnut Creek adopted a restrictive growth plan limiting commercial development to a total of 750,000 square feet between the years 20XX and 20XX. The development of 750,000 square feet will be allocated over the ten year period and will be divided into five two-year increments of 150,000 square feet. Therefore, as office development remains restricted in the Walnut Creek market, forecasts indicate rents will remain flat and vacancy rates will decrease as tenants will compete for efficient, well located office space.

Occupancy has averaged 90 to 100 percent at the ABC Building within the past year. As of July 20XX, the ABC Building vacancy rate increased by 6 percent due to downsizing by large tenant. Currently, 10,000 square feet is vacant and available for lease and the occupancy rate is 91 percent. Other comparable properties in the downtown Walnut Creek area are 85 percent to 97 percent leased. The above occupancy rates signify that the downtown area of Walnut Creek prevails to be one of the healthiest environments within the Contra Costa/Greater East Bay office market.

In conclusion, the ABC Building is located in a market which has shown signs of recovery from the recession in the early 1990's with decreasing vacancy rates and fewer concessions given by Landlord. A proposal was recently submitted by the exclusive broker on the ABC Building for approximately 5,000 square feet and the exclusive broker feels strongly that a lease agreement will be consummated by December 20XX. Recent lease transactions and renewals at the ABC Building have averaged rents between $19.80 and $22.20 per square foot per year, with minimal improvements, and are not expected to deviate greatly in the immediate future. The consensus of the real estate community is that this trend will continue into the next several years as little new construction will occur, thus driving up demand for quality office space.

- 23 -

Comparison Grid Analysis (100 points)
In this section, you will draw a conclusion about market rent levels by citing comparable buildings and taking into account supply/demand factors and absorption rates for buildings similar to the subject property (i.e., Class A, B, or C office product, garden style or high rise apartments). Referring to the previous section, indicate how regional and neighborhood influences will exert pressure on supply and demand. Include an inventory of existing space or units, properties under construction or yet to be constructed, and occupancy rates. On the demand side, include a survey of major users of comparable space and their future needs as well as anticipated new business formation. Quantify the market and bring supply/demand relationships down to the level of your specific building. Absorption analysis is critical.

Your conclusions about rent levels will come from comparable buildings and will constitute a comparison of your property to those other buildings. First, identify the comparable properties. Then include descriptions and photographs of the comparable properties and a statement as to the degree of comparability. Use a comparison grid illustrating this analysis. A matrix might also be used to illustrate the effect of various market rent levels on the rate of absorption for space. (Virtually every management plan should contain a comparable analysis supported with a comparison grid. The only exception might be a condominium or homeowners' association or low income housing where it is not germane. However, recognizing that this is in part an academic exercise, such an analysis nonetheless should be contained within your management plan.)

In performing this analysis, use properties that are truly comparable to your subject property, research them thoroughly, make appropriate adjustments to the comparables, then show how the rent levels you have calculated relate to the subject property. Generally three or four comparable properties should be sufficient. (Use the Appendix to include other comparables if necessary.) Conclude the section with a final statement as to the estimated market rent levels for the subject property based upon the conclusions you have drawn from this analysis. Keep in mind that this section should not be merely a collection of charts and data. Rather, it should represent an analysis of the data as it relates to the subject property. Computer-generated reports may be helpful but they must be accompanied with narrative analysis or interpretations so the reader can fully understand them.

Tips for Writing this Section

DO

Follow the IREM® outline.

Present a discussion of market segmentation (i.e., Class A or Class B office, high-rise or low-rise, urban or suburban, etc.) and describe what segment of the market your property competes in and why.

Project or estimate the relative competitiveness of the subject property by utilizing absorption figures specific to the market segment involved.

Try to discuss the market with a local appraiser or counselor and give appropriate credit in the report.

Use a comp grid that covers at least 10 items (age, condition, amenities, etc.) to support your conclusions about market rent levels.

For easy reference, include photos of each comparable on the same or facing page as the written description whenever possible, rather than in the appendix.

Use a map to locate and identify the subject property and its comparables.

Research the comparable properties thoroughly. Interview managers or the site staff; cite these sources.

Where possible, include recent leases/rentals to support the rents reported for the comparable properties.

Make sure your comparison grid adjustments are consistent from property to property.

Include a narrative description of how the market rental rate was calculated.

DON'T Don't place photos of the comparables in the appendix.

Don't make broad statements about the market unless you tie them back to the property.

Don't forget to provide summaries of the comparables and contrast or compare them to the subject property.

Don't adjust the rates on your subject property, adjust the comparables.

Acceptable Samples from this Section (excerpts)

Excerpt 1: Description of a comparable

Comparable #3

Rigley Tower

Comparable's name

Photo of comparable

Address:	200 Ocean Avenue Oakland, California
Constructed:	1987
Buildings:	1
Floors:	18
Class:	Highrise A
Total Sq. Ft:	238,080
Occupancy Rate:	92%
Load Factor:	18.5% (single tenant 12.5%)
Face Rate:	\$25.00 - \$27.50
Free Rent:	Negotiable
Cost Pass Through:	Base year 2001
Tenant Improvements:	\$16.00 - \$20.00
Lease Term:	3, 5, or 10 years

Parking:	3.5/1,000, covered, \$25/mo.
Min/Max Contiguous:	850/7,500
Owner:	Hight Associates, Inc.
Management:	Hight Management Co.
Marketing:	Smith and Jones, Inc., Mike Smith/Bob Jones
Commissions:	5%
Amenities:	24-hour security Full-service lease Air-conditioned galleria Parking garage connects to building

Description of comparable

- 112 -

Page number

Excerpt 2: Sample comp grid

Title of subsection

Office Building Comparison Grid

All dollar amounts are annual per rentable square foot unless otherwise noted.

❑ **Renovated**

❑ **As is** **Date** 6/4/20XX **Type** Class A Office

	Subject	Comparable 1	Comparable 2	Comparable 3
Property Name	One Urban Centre	Two Urban Centre	Bayport Plaza	One Metro Centre
Base Rental Rate				
- Concessions				
+ Expense Pass-Throughs				
+ Tenant-Paid Improv.				
= Tenant's Effective Rent		$18.00	$22.25	$18.50

Categories	Description	Description	+/-Adj.	Description	+/-Adj.	Description	+/-Adj.
Location/Accessibility							
Age	8 years	13 years	+.75	15 years	+.75	11 years	+.50
Market Presence							
Building Condition:							
Exterior	Fair	Good	-.05	Very Good	-.10	Very Good	-.10
Grounds	Fair	Very Good	-.10	Very Good	-.10	Good	-.05
Common Areas	Good	Good		Good		Very Good	-.05
Office Space	Good	Fair	+.05	Good		Very Good	-.05
Other							
Building Systems:							
Elevators	Good	Fair	+.05	Very Good	-.05	Good	
HVAC Efficiency	Poor	Fair	-.05	Good	-.10	Good	-.10
Life Safety	Good	Good		Very Good	-.10	Good	
Other							
Available Space:							
Location	Interior space	Interior space		Interior space		Interior space	
Floor Plate	Good	Good		Very Good	-.05	Very Good	-.05
Window Modulation	Poor	Fair	-.05	Good	-.10	Good	-.10
Parking:							
Type	Garage	Open	2.00	Garage		Open	+2.00
Visitor Space							
Cost to Tenant							
Other							
Amenities/Features:	4/1000 ratio	4/1000 ratio		4/1000 ratio		4/1000 ratio	
	Near downtown	Attached hotel		Near hotel			
		Centre Club		4-star restaur.			
		Near airport		Near airport		Near airport	
		Blocked view		Water view			

	Subject	Comparable 1	Comparable 2	Comparable 3
Total Rent Adjustments		+2.60	+.15	+2.00
Adjusted Effec. Rent/ Rentable Sq Ft		20.60	22.40	20.50
= Adjusted Effec. Rent/ Usable Sq Ft	21.1667 (use $21.00)			

-152-

Comparison factors

Average adjusted effective rent

Summary and Conclusions (50 points)
This section should conclude with a summary of the salient points of the regional and neighborhood analyses and how they impact on the subject property, a recap of the competitive position of the property when compared to similar properties, and recommended rental rates for the property.

Again, your summary and conclusions will continue to identify issues and concerns that may need to be addressed in order to maximize the owners' goals and objectives, which should be addressed through your alternative courses of action later in your plan.

Tips for Writing this Section

DO

Follow the IREM® outline.

Be brief but concise.

Focus on the main issues and concerns that the Market Analysis section indicates.

Clearly state market rent and other issues concerning financial terms (e.g., concessions).

Relate any issues to the owners' goals and objectives.

DON'T

Don't make broad generalizations without backing them up or substantiating them.

Don't contradict previous statements.

Don't introduce new information not previously discussed.

An Acceptable Sample from this Section

Summary and Conclusions for the Market Analysis Section

- Overall vacancy rates are 3% due to tenants fleeing higher lease rates in nearby San Francisco.
- Due to the construction of a nearby new development, the City of Walnut Creek will now approach the City's adopted restricted limit to the amount of overall square feet of commercial space.
- Due to the fact that there will be little to no future construction in the area, and the moderate employment growth, the existing supply of office space will remain at 8,800,000 square feet through the end of 20XX.
- Occupancy at the ABC Building has remained high averaging between 90 - 100%, which competes with the neighborhood average of 85 - 97%. With the limit to new construction in the area, it is expected that the occupancy rate will increase.
- Absorption is expected to reach 200,000 square feet year 1; 275,000 square feet year 2; and 300,000 square feet for the following three years.
- After comparing the subject with three comparable properties, it is recommended that the lease rate increase from an average of $19.80 - $22.20 per square foot to an average of $20.40 - 22.80 per square foot.

- 35 -

Analysis of Alternatives

This section of the plan is where you begin to discuss what can be done with the property—the alternatives that exist for meeting the clients' objectives, and how each of those alternatives stacks up against the others. (300 total points, 210 minimum points to pass)

Issues and Concerns (50 points)

In this section of the plan, you will provide a synopsis of issues you have identified that are relevant to the future operations of the property, or concerns that have arisen in the course of the previous analyses. These issues and concerns will come from the property analysis and market analysis you have just completed. They may relate to the property itself, to the relationship of the property to its neighborhood and region, to the competitive position of the property in relation to comparables, to the management and operations of the property, or to the financial structure of the ownership. Likewise, these issues and concerns may be problems the property is experiencing currently, they may be focused on future developments that likely will affect the property, and/or they may be opportunities for further improvement and value enhancement.

Characteristics you will want to consider as you write this section are:

- Location of the property
- Condition of the physical asset, including deferred maintenance
- Financing
- Management, staffing, and operating policies and procedures
- Marketing and leasing policies, programs, and plans
- Environmental considerations
- Legal considerations
- Occupancy, tenant mix, vacancy and expected absorption
- Operating expenses incurred by the property
- Income generated by the property
- Cash flow

Tips for Writing this Section

DO Follow the IREM® outline.

Provide a synopsis of issues and concerns you have already identified that are relevant to the future operations of the property.

Identify the real issues and concerns and separate them from the symptoms of these concerns.

Explain how the issues and concerns impact the owners' ability to reach the goals and objectives.

DON'T Don't make any statements or generalizations without substantiating them.

Don't assume that the reader can see an obvious connection between the analyses sections and a stated issue or concern. Explain your reasoning thoroughly.

Don't contradict previous statements.

Don't make any statement that hasn't arisen or been substantiated in your previous analyses.

An Acceptable Sample from this Section

Issues and Concerns

Upon conducting a complete analysis on Canterbury Center, four major issues have been identified and are as follows:

1. Location

2. Inadequate Energy Management System (EMS)

3. Under-utilization of exterior courtyard

4. Absence of a marketing/leasing plan

Location

While the overall location is attractive to tenants, the fact that there are no much-needed support and/or retail services in the immediate area tends to detract potential tenants. While other buildings are walking distance to such services as travel agents, fast food services, grocery stores and temporary service agencies, there are no such services in the immediate area of the subject property.

Inadequate Energy Management System

The existing HVAC equipment is currently operating inefficiently due to the lack of an adequate Energy Management System (EMS). The HVAC system starts and stops by means of a single contact relay in the touchplate automated lighting system. This relay is only capable of activating all of the mechanical equipment by time of day. This is an inefficient method of operation because it bases everything on outside air temperature without consideration to the internal heat load. Consequently, the HVAC equipment is currently operating at 100%, whether or not it needs to, during occupied hours. The EMS is nothing more than an on-off switch with no method of making incremental adjustments.

- 38 -

Currently, the pneumatic controls require continual recalibration causing discomfort to the building occupants. The system does not allow for a pre-cooling of selected floors that historically have high loads due to occupancy and heat loads. The inability to monitor and control static pressure to reduce chiller run time is an additional concern which should be further addressed for system efficiency.

Under-Utilization of Exterior Courtyard

Presently the exterior courtyard of approximately 12,000 square feet is being utilized as open “common area”. As the market study will indicate, comparable properties have assembled their courtyard areas to include retail services as an amenity to the tenant population while at the same time increasing revenues and the value of the properties. All three of the comparable properties, as noted in the market study, feature a retail business (i.e., floral shop, travel agency, or sundry shop and/or a food service).

Absence of a Marketing/Leasing Plan

Currently, the property has no marketing and/or leasing plan, or a tenant relations program. While maintaining tenants has not been a major problem as of yet, the property is at a distinct disadvantage compared to other properties who have a specific plan to retain and attract tenants. Should the area become more competitive, the owner may lose tenants to those who have more incentives and marketing packages.

Together, these issues and concerns will result in higher operating expenses, lower rental income, and reduced occupancy. Thus, this prevents the owner from achieving their 8% return on investment goal, as well as their goal to increase property value by $1,200,000 or more.

- 39 -

Alternative Courses of Action (50 points)
There are always a number of options available for managing any property. In almost all cases, the first alternative is to leave the property as it is. Other options can range from minor changes to substantial ones. They could involve repositioning of the property to obtain a different tenant mix, major physical renovations, or the restructuring of financing. In this section, identify the alternatives that you envision for your subject property and fully but briefly describe each of them. One alternative must be "as is" and at least one additional alternative must be considered.

In outlining the various alternative courses of action, it is essential to refer to the clients' objectives, as these will have a direct bearing on the appropriateness of the various alternatives.

Tips for Writing this Section

DO

Follow the IREM® outline.

View this section as of utmost importance in allowing you to tie the owners' goals and objectives to the data you have collected and analyzed.

Be aware that if the issues and concerns have not been accurately identified, then it will be difficult to suggest appropriate alternatives.

Mention any alternatives that you considered, but did not test. Explain your rationale for not testing them.

Provide at least two courses of action, one of which must be leaving the property "as is."

DON'T

Don't provide just one course of action.

Don't address issues or concerns here that were not already identified in the "Issues and Concerns" section.

Don't forget to explain the financial implications of each alternative (e.g., cost to implement, out-of-pocket cost to owner, borrowing cost, down-time and loss of rents during renovations, etc.).

Don't overlook considering immediate sale at market value as a possible alternative even though it may not meet the owners' objectives.

An Acceptable Sample from this Section

Alternative Courses of Action

A range of possible alternatives will be explored and recommended to the owners which would allow them to obtain their stated goals and objectives of:

• Retaining ownership of the building for at least seven years.

• Achieving a cash-on-cash rate of return of not less than 8% in the stabilized year.

• Operating the property to achieve an IRR of at least 12.5%.

• Enhancing the value of the property.

Four alternative courses of action have been examined in response to the issues which have been identified in this Management Plan and are as follows:

1. Do nothing and continue to operate the property “as is”.

2. Install new Energy Management System (EMS) controls.

3. Construct a retail annex in the under-utilized open courtyard area.

4. Combine #2 and #3 by installing an EMS and constructing a retail annex in the courtyard.

Alternative #1: Do nothing and continue to operate “as-is”
To continue operating the ABC Building “as is” will undoubtedly be a consideration to the owners since capital outlay will be minimized to include mainly tenant improvements and lease commissions. However, this alterative does not allow the owners to obtain their goals and objectives of achieving a minimum cash-on-cash rate of return of 8% in the stabilized year.

- 41 -

Upon completing a site inspection and reviewing the current system operations, signs of functional and physical obsolescence are evident. It would be in the owner's best interest to research and evaluate potential utility savings through means of today's new energy efficient technology. Failing to upgrade technology at the property could result in tenants not renewing, or not choosing to lease space at the building due to higher operating costs and tenant discomfort.

Based on the projected NOI in 20XX of $1,388,027 and a cap rate of 9.3%, the value today would be $14,925,021. The value in Year 4 (20XX) is projected at $15,331,580 based on NOI of $1,425,837 and a cap rate of 9.3%. Thus, value enhancement is $406,559. This insignificant increase in value warrants the owners to implement a major capital improvement program in order to enhance its value and continue an aggressive marketing approach.

Alternative #2: Install new Energy Management System (EMS) controls
A study conducted by Systems Associates, Inc. (SAI), indicates an annual savings of approximately 9% of the total building electrical usage, or $18,845 annually, would be generated upon the installation of an electronic EMS system.

To design and install electronic EMS controls, or more specifically an ENERGY 2.0 System, would cost $54,680 less a $10,386 utility rebate according to proposal dated March 20XX from SAI. The local utility company provides financial assistance to customers installing unique energy efficiency measures through their "Customized Incentive Program." Therefore, the total cost of installing the EMS controls is estimated to be $44,294 (refer to the SAI proposal in the appendix).

Upon reviewing this information provided by DBD Consulting and SAI, it is apparent that many operational control strategies can be implemented, many of which will increase energy savings and enhance system and equipment operation.

- 42 -

Substantial energy savings can be realized by: (1) optimizing the two supply fan via monitoring the interior building conditions and outside air temperature thus reducing peak demand, (2) independently controlling each floor by allowing a pre-cooling of selected floors that historically have high heat loads due to occupancy and equipment, (3) reducing static pressure by monitoring and controlling duct pressure, (4) staging the supply and return fans, and (5) reducing chiller runtime due to the fan system operating more efficiently.

Total operating expenses are expected to decrease upon the installation of this EMS by approximately $23,550 annually. The projected NOI in Year 4 (20XX) of $1,449,962, at a cap rate of 9.3%, creates a value at the end of the holding period of $15,590,989. Value enhancement of $621,674 is greater under this alternative than it is to operate the property “as is”.

Alterative #3: Construct a retail annex in the under-utilized open courtyard area
An additional $37,260 annually in rental income is conceivable upon the construction of a proposed 1,380 square foot retail annex in the open courtyard. According to Scott Thompson of Smith & Smith, “this location would be ideal for coffee, flowers, bagels, or yogurt and sundries shops.” With the recent on-set in popularity of coffee stores, this seems to be a feasible site for such a business.

Starbucks, a roaster and retailer of specialty coffee, is currently evaluating neighborhood office and retail complexes for future sites. “Starbucks has plans to expand to every major market by the year 20XX. They open an average of five new stores each week, serving over two million coffee drinkers weekly,” according to Starbucks Coffee Real Estate Department and are planning to eventually have 200 locations in the Bay Area. Starbucks stores range in size from 800 - 1,500 square feet and are typically located at airports, supermarkets, office buildings and regional malls. The corner location of the courtyard at the high traffic intersection of Main Boulevard and State Street offers a high profile location with placement, a major requirement of Starbucks Coffee.

- 43 -

A marginal increase in before-tax cash flow of $41,405 ($147,825 - $106,420) is estimated in Year 3 or 20XX. Capitalizing the projected NOI in Year 4 (20XX) of $1,506,083 at 9.0% creates a value of $16,734,255. Upon implementing this alternative, the owner's of the property would create a net value enhancement of approximately $2,220,000.

Alterative 4: Install EMS controls and construct a retail annex in the courtyard

A final alternative of installing EMS controls and constructing a retail annex has carefully been reviewed. With no constraints to the amount of capital outlay required, this alternative should be considered by the owners. Without an Energy Management System, higher energy and maintenance cost can rapidly reduce a property's competitive position in a tight market place. Value enhancement of $2,493,802 greatly exceeds the individual results.

- 44 -

Evaluation of Alternatives (200 points)
Each alternative will have a financial impact or result. Each alternative will create changes in the income of the property, or the expenses incurred by the property, or both. The purpose of this section is to evaluate the *before-tax* financial impact of the various alternatives that you previously identified. Here, explain precisely what would be involved in implementing each alternative, taking into account each of these items:

- Cost of implementing changes
- Sources and uses of additional capital
- Management policies and procedures
- Marketing considerations
- Conformity to ownership objectives

For each of the alternatives, complete a pro forma statement and before-tax cash flow analysis assuming that the alternative will be implemented. For each alternative, prepare a one-year operating budget by line-item using market rents or contract rents or a combination of the two, as appropriate. Provide a detailed line-item expense budget, backing up fully and objectively your budget assumptions and projections. Project net operating income and before-tax cash flow. Demonstrate how the property will perform upon implementation of the proposed change.

Likewise, budget for the expected holding period in summary form and calculate before-tax cash flow for this period over the holding period. Whether you define "long term" as being three years or five years or anywhere in between or beyond should depend on when the property achieves a stable income stream.

Alternatives should all be mathematically validated using the following tests, all on a before-tax basis:

- Cash-on-cash rate of return ($/$%)
- Value enhancement
- Net present value (NPV)
- Internal rate of return (IRR)

You must conduct these tests and show your calculations. It is recognized that in certain situations some of these tests may not be applicable for the subject property. If this is the case, explain fully why the test does not apply in this situation in enough detail to show your knowledge and understanding of the test. A full explanation and an example of the test will indicate to the reader that the mathematical concept is understood.

In the same vein, other tests also may be applied; however, testing beyond those listed is not required.

In undertaking these analyses, be sure to explain how capitalization and discount rates were determined, and show all computations so that the reader can understand your methods of calculation.

For purposes of the management plan, summarize the before-tax results of the tests on the various alternatives both in narrative form and in a matrix form like this:

Test	**Alternative 1 "As Is"**	**Alternative 2**	**Alternative 3**	**Alternative 4**
$/$%				
Value Enhancement				
NPV				
IRR				

The goal of these tests is to demonstrate the cost-benefit relationship of each alternative. More than likely, however, all tests will not point to the same alternative. For example, the NPV test could point to one alternative as the best, while the value enhancement test points to another. When this occurs, state clearly which analytical method or methods are preferable given the circumstances and provide your reasoning.

Keep in mind that this section of the plan is of utmost importance. The before-tax calculations you perform and the tests you conduct in order to arrive at a final recommendation should be complete, thorough, and accurate.

Tips for Writing this Section

DO Follow the IREM® outline.

State the financial analysis techniques you will use for each alternative (i.e., $/$%, Value Enhancement, NPV, IRR). Explain what the test does and, most importantly, what the results mean.

Use the IREM® Financial Analysis Spreadsheet (available at www.**IREMFIRST**.org) to assist you with your calculations.

Double check all of your math calculations.

Provide a written description of the budget assumptions and all numerical analyses.

Use the recommended rental rate for the property as developed by the comparison grid analysis.

Justify capitalization rate(s) used.

Discuss and support the discount rate.

Include a before-tax cash flow analysis for each of the alternatives. Make sure that each cash flow analysis is accurate and thorough.

Use today's owners' equity (not historic equity) in your testing. Midstream analysis may be useful in this regard.

DON'T Don't assume that you need not apply all of the tests to the alternatives that are not financial in nature (e.g., staffing or policies).

Don't simply assume a cap rate and loan terms. State the sources and rationale for them.

Don't simply include printouts from ARGUS, Yardi, or other analysis software. The analysis must be your own work and must include supporting narrative.

Acceptable Samples from this Section (excerpts)

Excerpt 1: One-year budget narrative analysis

One-Year Budget Analysis

A fiscal operating budget analysis for this year has been prepared for the property in "as is" condition. In summary, rental income is expected to drop even further to $906,761, a 3.4% decline from last year's July year-to-date level of $938,781. Due to physical deterioration of the property, expenses are expected to increase 6% this year to 3.30/sq. ft., for a total of $644,459. (In Dallas, Texas, the high for properties built at the same time as the subject property is 3.43/sq. ft., according to this year's edition of IREM's *Income and Expense Analysis for Conventional Apartments*.) As a result, the property's annual net operating income prior to debt service will be $299,092. With annual debt service of $466,656, the property will therefore yield a $167,564 deficit this year. This year's budget and justification of expenses follows.

Excerpt 2: Operating expenses from the one-year budget summary

20XX Fiscal Operating Budget – Summary

Property:	Simple Gardens
No. Units:	276
Total Sq. Ft.:	195,400
Avg. Unit Size:	708 sq. ft.
Date:	1 May 20XX

	Budget	**Cost/ sq. ft.**	**Cost/ Unit**	**% of Gross**
Operating Expenses				
Insurance	30,195	0.15	109	2%
Taxes	147,276	0.75	534	11%
Management Fees	47,218	0.24	171	4%
Professional Fees	0	0.00	0	0%
Utilities	119,470	0.61	433	9%
Repair & Maintenance	136,664	0.70	495	10%
Administrative	26,724	0.14	97	2%
Advertising & Promotion	26,380	0.14	96	2%
Payroll	110,855	0.57	402	8%
Total Operating Expenses	644,782	3.30	2,336	48%

Excerpt 3: Line-by-line explanation of utility expenses

EXPENSE ANALYSIS
Utility Expenses:

Acct. #	Account	Annual
6105	**Electric, Common Area** Based on seasonal usage and historical data, average cost $0.13 per sq. ft.	25,998
6110	**Electric, Vacant Units** Based on turnover, historical data, and average vacant unit costs of $25, average cost $0.08 per sq. ft.	14,810
6120	**Gas** Based on historical data, average cost of $0.16 per sq. ft.	31,914
6125	**Sewer & Water** Based on average consumption and historical data, average cost of $0.21 per square foot	41,432
6130	**Trash Removal** Based on current contract rate	5,316

Excerpt 4: Income line items from one-year budget

20XX Fiscal Operating Budget – By Month

Property: Simple Gardens
No. Units: 276
Total Sq. Ft.: 195,400
Av. Unit Size: 708 sq. ft.
Date: May 1, 20XX

Projected Average Monthly Occupancy: 83%

Acct No.	Account Description	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	Cost/ sq. ft.	Cost/ Unit	% of Gross
Other Income																	
4705	Cleaning Fees													0	0.00	0	0%
4710	Forfeited Deposits	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,200	1,000	1,000	16,700	0.09	61	1%
4725	Late Fees/NSF Fees													0	0.00	0	0%
4730	Laundry/Dry Cleaning													0	0.00	0	0%
4715	Liquidating Damages													0	0.00	0	0%
4735	Miscellaneous Income	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	20,400	0.10	74	2%
4720	Prepaid/Delinquent													0	0.00	0	0%
4740	Utilities incomes													0	0.00	0	0%
Total Other Income		**3,200**	**3,200**	**3,200**	**3,200**	**3,200**	**3,200**	**3,200**	**3,200**	**3,200**	**2,900**	**2,700**	**2,700**	**37,100**	**0.19**	**134**	**3%**

Excerpt 5: Expense line items from one-year budget

20XX Fiscal Operating Budget – By Month

Property: Simple Gardens
No. Units: 276
Total Sq. Ft.: 195,400
Av. Unit Size: 708 sq. ft.
Date: May 1, 20XX

Projected Average Monthly Occupancy: 83%

Acct No.	Account Description	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	Cost/ sq. ft.	Cost/ Unit	% Gross
Utility Expenses																	
6105	Electricity, Common Area	2,507	2,769	2,494	1,893	1,782	1,838	2,029	2,255	2,471	2,177	1,932	1,851	25,998	0.13	94	2%
6110	Electricity, Vacant Units	1,280	1,330	1,205	1,280	1,330	1,255	1,180	1,105	1,205	1,330	1,180	1,130	14,810	0.08	54	1%
6115	Electricity, Master Meters														0.00	0	0%
6120	Gas	2,637	3,312	2,882	2,580	2,889	2,090	2,359	3,381	1,866	1,499	1,659	4,760	31,914	0.16	116	2%
6125	Sewer and Water	3,765	2,701	2,629	2,571	2,880	3,226	3,323	4,195	4,784	3,554	3,768	4,036	41,432	0.21	150	3%
6130	Trash Removal	443	443	443	443	443	443	443	443	443	443	443	443	5,316	0.03	19	0%
Total Utility Expenses		**10,632**	**10,555**	**9,653**	**8,767**	**9,324**	**8,852**	**9,334**	**11,379**	**10,769**	**9,003**	**8,982**	**12,220**	**119,470**	**0.61**	**433**	**9%**

Excerpt 6: Derivation of the capitalization rate

Derivation of Capitalization Rate

There are several methods available for the derivation of capitalization rates:

1. Rates taken from recent sales of comparable property. The net operating income, at the time of sale, divided by the sale price provides the implicit "going in" capitalization rate. If there is a sufficiently large sales sample, this method is reliable. One limitation of this method is that there are numerous variables that might skew the results. Further, past sales may not portray current market conditions.
2. Rates taken from surveys of market transactions, including buyers, sellers, brokers and lenders.
3. Rates based on a band of investment methodology such as the mortgage equity analysis.

Five recent sales of comparable properties taking place within the last 12 months indicated a range of capitalization rates from 8.7% to 9.75%. See Appendix pages XX to YY for details about the sales.

The Kapp Real Estate Investor Survey for the Fourth Quarter of 20XX (Published by the Kapp Company, Inc.) indicated capitalization rates from 8% to 11.% for the subject type of property with an average of 9.75% and a discount rate of 9.5% to 12.5% with an average of 11.5%. Two leading local brokerage firms active in the sales of the subject type of properties were interviewed and indicated a capitalization rate range for the subject property of 9.25% to 9.75%. See Addendum pages XX to YY for details relative to the interviews.

XYZ Mortgage Company, the largest commercial mortgage company in the area, indicated that financing is readily available for the subject property type based on a capitalization of net operating income at 9.5%. Jim Smith of the mortgage company is familiar with the subject property and offered the opinion that the 9.5% capitalization rate would apply based on a 25 year fixed rate loan at a maximum Loan to Value Ratio of 75% and an interest rate of 7.75%.

Excerpt 6: Derivation of the capitalization rate, continued

The brokerage firm cited above indicated that the cash-on-cash rate of return on a leveraged basis would be 10.5%. Accordingly, utilizing mortgage equity analysis results in the following:

Loan Constant 9.064%				
75% Loan	X	0.09064	=	0.06798
25% Equity	X	0.1050	=	0.02625
Weighted Rate	=	0.09423	=	9.423%

The mortgage equity analysis is not as reliable as current sales data or investor surveys due to the difficulty of determining the typical investor's cash-on-cash rate of return from leveraged purchases. The typical investor for the subject type of real estate is either an REIT or Institutional Investor. These investors focus on overall rates of return since they typically do not borrow against the real estate directly. Further, the method assumes that long term, fixed rate financing is the market norm and that loan rates, loan to value rations, and amortization terms are uniform in the market, which they are not. This method does serve as a check on market derived information.

Investor surveys tend to provide the most current portrait of the market. Based on the investor surveys cited herein, a capitalization rate of 9.5% is selected. The sales data and band of investment tend to support this conclusion.

Excerpt 7: Five-year fiscal analysis of an alternative course of action

Five Year Operating Projection – Alternative 1

Property:	Simple Gardens
No. Units	276
Total Sq. Ft.:	195,400
Avg. Unit Size	708 sq. ft.
Date:	May 1,20XX

	Base Year	**2000**	**2001**	**2002**	**2003**	**2004**
OPERATING EXPENSES						
Insurance	26,380	28,490	29,345	30,519	32,045	33,968
Taxes	128,647	138,939	143,107	148,831	156,273	165,649
Management Fees	50,509	49,387	55,661	65,338	70,792	74,353
Professional Fees	0	0	0	0	0	0
Utilities	104,310	112,655	116,034	120,676	126,710	134,312
Repair and Maintenance	119,355	128,903	132,771	138,081	144,985	153,685
Administrative	23,350	25,218	25,975	27,014	28,364	30,066
Advertising and Promotion	23,046	24,890	25,636	26,662	27,995	29,675
Payroll	96,646	104,378	107,509	111,809	117,400	124,444

Excerpt 8: Matrix that summarizes the test results for alternative courses of action

Summary of All Test Results

Test	**Alternative 1 "as is"**	**Alternative 2**	**Alternative 3**
Cash-on-Cash Rate	9%	7.8%	0
Value Enhancement	$8,643,877	$7,640,733	$1,159,277
Net Present Value	$2,831,181	$2,075,520	-$2,028,667
Internal Rate of Return	14%	11.2%	56.59%

Excerpt 9: Narrative explanations for tests used in evaluating alternative courses of action

Cash-on-Case Rate of Return ($/$%)

This test is calculated by dividing one year's before-tax cash flow by the current equity. The cash-on-cash rate is also useful in measuring the economics of any new capital investment in the property. The increase in NOI resulting from capital expenditures becomes the numerator and the capital expenditures become the denominator. The resulting number is the rate of return attributable to the added capital.

Value Enhancement

This test indicates the increase in value, both in dollar terms and percentage terms, that will result from a given alternative program. The current market value "as is" (at the start of analysis period) is subtracted from the projected market value that will result from the implementation of a given program to determine the dollar value enhancement. The dollar value enhancement can then be divided by the cost of the program (where capital improvements are involved) to determine the percentage return on the capital investment. This rate can be compared to market rates of return.

Net Present Value (NPV)

This test measures whether a specific investment will meet the owner's goal or target rate. The test assumes that the property is acquired for a specific price and that a series of cash flows will be derived including the cash flow resulting from a future sale. These inputs are tested for the specific target rate (discount rate) set by the investor. If the resulting NPV is positive, it indicates that the performance of the property will exceed the owner's expectations. If the resulting NPV is negative, it means the investment will not meet the owner's expectations. When this method is used for a property to be acquired, the initial equity becomes the initial investment for test purposes. When the property being studied has been held by the current owner for a period of time, the current equity must be used as its initial cash flow. If the NPV in a test is equal to ZERO, the tested discount rate is equal to the Internal Rate of Return (IRR).

Internal Rate of Return (IRR)

This test is most useful as a means of discriminating between competing investments (or alternative programs for the same investment). The initial investment, the periodic income streams (cash flows), and the income resulting from sale are the inputs. The result is the implied IRR. When this method is applied to properties to be acquired, the initial equity is used. However, when this method is used to test a property that has been in the same ownership for a period of years, the current equity becomes the initial cash flow. Checking against investor surveys can validate the resulting IRR, but, most importantly, the highest IRR from among the alternatives is one indicator that said alternative is the best alternative all other things being equal.

Recommended Course of Action

(100 total points, 70 minimum points to pass)

Once the alternatives have been tested, a conclusion for a recommended course of action for the client may be reached based on all of the analyses you have done to this point.

Essentially, this becomes your recommended operating plan for the property. Include within the recommendation exactly what you will do with the property, how your will do it, and when you will do it.

Specifically, summarize here any and all of the following that were considered earlier in the Evaluation of Alternatives section:

- A time frame of how and when the changes will be implemented—will changes be phased in or implemented immediately?
- An operating plan for the property
- A revised comparison grid supporting market rents after the alternative cost are implemented
- A description of any perceived risks and exposures pertaining to the recommended course of action
- A recommendation for financing the changes—will the plan be financed out of cash flow, through refinancing, or a cash contribution from ownership?
- A capital budget to show the sources and uses of capital in order to substantiate the recommended financing plan, if applicable
- The marketing and leasing plan necessary to achieve the recommended results, including how recommended rental rates and target occupancy levels will be achieved and validate assumptions of the plan's final goal

In developing the marketing and leasing plan, you should consider the following components:

- A marketing and leasing budget including a public relations and advertising plan
- The property's target market and, if it is a commercial property, the target users (e.g., for an office building–attorneys, accounting firms, etc; for a shopping center–specific anchor tenants, service tenants, etc.)
- Description of the leasing staff
- A lease-up projection justified by projected absorption
- A tenant retention program
- Any additional items necessary to effectively market and lease the property

Close this section of the plan by summarizing your recommendations and explaining why the adoption and implementation of this course of action will be consistent with the owners' goals and is financially feasible within the market. Recommend the adoption of the recommendations, and the associated budget and timing. Conclude that, if adopted, this recommendation will become the management plan for the property.

Tips for Writing this Section

DO Follow the IREM® outline.

Justify your recommendation.

Restate goals and objectives.

State whether the recommended action is in line with the owners' objectives. If it is not, explain why you are recommending it.

Explain how the recommended action best addresses the issues and concerns that you have identified.

Refer to the tests when making your recommendation. If some tests suggest different courses of action, explain your rationale for relying on the tests that support your recommendation.

Provide an anticipated date for implementing the recommended solution and the anticipated date by which the results should be achieved.

Discuss risks to owner/client in implementing the recommended solution.

Discuss how the recommended solution is to be funded.

Describe the recommended marketing and leasing plan necessary to achieve the desired results.

DON'T Don't choose a recommendation that strays from the owners' goals and objectives unless you substantiate your recommendation.

Don't assume that one decision is the best simply because the majority of tests pointed to it.

Don't recommend that your recommendation be a combination of alternatives unless the combination of alternatives is tested as an alternative itself.

Acceptable Samples from this Section (excerpts)

Excerpt 1:Target market narrative

The targeted market for the Regency Building is legal professionals. Neighborhood facilities such as legal support services, and the close proximity of the courthouse and other legal professionals and businesses, make this an ideal location. Additionally, the building includes such amenities as:

- floors that are strong enough to support libraries
- extended building hours
- integrated computer systems
- a restaurant suitable for meetings with clients, and
- a 24-hour print shop in the building

Excerpt 2: Building lease-up projection:

The following outlines the existing tenants with lease expirations in the next two years. Given the high cost of vacancy, and the competitive prices of neighboring properties, the goal is to renew as many tenants as possible by maintaining the parallel rental rate.

Jones, Jones & Brown (1/31/XX) – Tenant has accepted a renewal proposal for 20,000 square feet on a five-year lease at $18.00 per square foot.

Mercury Paralegal (9/30/XX) – No final decision has been made by the firm at this time. However, the district manager has indicated that his preference is to renew and anticipates that the firm will ultimately renew. Their rent will remain at $20.00 per square foot for 7,007 square feet of office space.

Waytogo Travel (7/31/XX) – A short-term, one year lease has been agreed on at a price of $22.00 per square foot. Due to short-term travel contracts, this tenant will likely always have short-term leases.

Excerpt 3: Building tenant retention program

In an effort to maintain positive tenant relationships, management should implement a considerable tenant relations program. First and foremost, management should interact on a day-to-day basis with tenants regarding operational matters. Programs such as a quarterly newsletter and a bi-annual management/tenant quorum can also be designed to keep tenants informed and satisfied. Additionally, special promotions can take place throughout the year which include, but are not limited to: Valentines candy day, a welcome-to-spring golf outing, blood drives, food drives, Fourth of July picnics, Halloween celebrations, and Christmas caroling. These events are an excellent venue to bring tenants together and promote a community atmosphere in the building.

Appendix

(25 total points)

Supporting Material (25 points)
The appendix should be used only if needed, and only what is needed should be included in it. Include in this section any supporting materials that, due to their length and relevancy, were not included in the body of the plan. Do not include any materials in the appendix that were included earlier in the text; likewise; do not include any materials in the appendix that are not referenced in the text. Be sure to reference page numbers of the Appendix items in the text.

The Appendix might include:

- Exhibits, forms, maps, charts
- Additional comparable properties
- Photographs
- Floor plans
- Marketing brochures
- Tenant rent rolls
- Tenant profiles
- Supporting documents such as leases, loan commitments, detailed cost estimates, management agreements

Any exhibit that is included should be clearly labeled, referenced in the body of the plan, and be clearly relevant to the issue at hand and not extraneous material.

Tips for Writing this Section

DO Follow the IREM® outline.

Label and reference all material included in the appendix in the plan itself.

Provide page numbers, exhibit numbers, and tabs for easier reference.

Put a list of appendix exhibits at the front of the appendix.

Identify all maps and plats, and use clear, legible originals or high quality copies.

Only include data pertinent to the property.

DON'T Don't place material in the appendix that should be part of the text (unless the material is too lengthy to include in the text).

Don't include extraneous material to bulk up your plan. Include only information that is relevant to the plan *and* referenced in the plan. Your plan is evaluated on content, not volume. Remember that IREM® recommends a length of 100 text pages plus appendix pages as appropriate. Extraneous information may result in point deductions.

Certificates and Disclosures (0 points)
In this section, you must certify that all analyses, opinions, and recommendations contained within the report are your own unless otherwise disclosed. If any outside resource material was used or outside assistance was received, such contributions should be acknowledged. For example, you might say something to this effect:

> *Although this is the work product of this property manager, specialized professional studies relating to construction cost estimates for rehabilitation were prepared by John Doe and have been relied on in formulating conclusions and recommendations.*

Also, disclose any interest you might have or contemplate having in the property as well as any potential or actual conflict of interest. In this situation, you might say:

> *The property manager acknowledges a 10 percent ownership interest in the subject property but concludes that such interest does not affect his or her professional judgment.*

Finally, and of utmost importance, this section should be signed and dated.

Tips for Writing this Section

DO Follow the IREM® outline.

Sign and date this section.

Give credit where credit is due.

DON'T Don't omit this section—doing so will decrease your credibility.

Qualifications of Analyst (0 points)
Cite your educational background and experience. This should not simply be a resume, but rather should be a narrative summary explaining why you are qualified to prepare this report and make the recommendations it contains.

Tips for Writing this Section

DO	Follow the IREM® outline.
	State why you are capable of preparing a management plan.
	Put your qualifications in narrative form.
DON'T	Don't use your resume for this section.
	Don't express opinions of your performance, just cite your qualifications.
	Don't include letters of recommendation.

An Acceptable Sample from this Section

Qualifications of the Analyst

John D. Smith

Title of subsection

Name of analyst

My work in property management began in 1985 when I joined Sunrise Properties. Sunrise Properties is a full-service commercial real estate development company that has grown at an average annual rate of 35% since its founding in 1974. It recently exceeded $1 billion in assets.

Narrative format

Since December 1985 I have been responsible for the day-to-day management of properties developed and managed by Sunrise Properties in the Chicago area. My duties include preparing budgets for the property owner's approval, assisting in lease renewals, supervising maintenance and secretarial staff, and soliciting and awarding vendor contracts. In 1989 I was promoted to senior property manager and also received a special recognition award from the company for dedication and commitment. In the first quarter of this year I began managing properties the company had acquired in Milwaukee, Wisconsin.

My studies in business accounting at DePaul University prepared me for the many financial aspects of property management. These studies culminated in a bachelor's degree in 1985. In 1986 I joined the Chicago Area Office Building Association and acquired my real estate broker's license. I have been a CPM Candidate since 2003, having completed several IREM courses.

My work at Sunrise Properties, my association with professionals in all facets of commercial real estate, and the training I have received at IREM's courses have prepared me to develop this management plan for Happy Properties.

Description of comparable

- 171 -

Page number

Appearance and Style

(50 total points)

This is not an item on the outline, but it does affect the way your plan is evaluated. Your plan should be typed, double-spaced, on good-quality white paper, and have adequate margins. The appearance of your plan should enhance your presentation and make it more credible, not detract from it.

The report cover should present a professional image and should identify the property and the author. Do not use a three-ring binder, as it is cumbersome and is likely to come apart in shipment. Each major section should be clearly identified with tabs that make it easy to find each section. Photographs, maps, and charts should be of good quality and labeled clearly.

The writing style should be in report format. Avoid reference to first person (i.e., "I" or "we"). The narrative style–grammar, syntax, and choice of words–is an essential ingredient of your management plan. A well written plan flows smoothly and logically and permits the reader to grasp your ideas and objectives readily and precisely. Your plan should be readable and organized in a logical sequence.

Tips for Writing this Section

DO

Follow the IREM® outline.

Take time to think about the visual presentation of your plan. It should be clear and consistent throughout.

Label photos, maps, and charts clearly and neatly.

Use tabs to separate major sections.

Pay careful attention to spelling, punctuation, and grammar.

Use a business writing style.

Have your plan proofread.

Check your math yet again!

Be consistent in your writing style.

Write clearly and logically.

Double space your text.

Number all the pages, including the appendix.

DON'T

Don't use personal pronouns in a business report (i.e., do not write in first person).

Don't use excess verbiage; be concise.

Don't allow typographical errors to remain in your plan.

Don't use a three-ring binder. These binders tend to fall apart during shipping.

Don't handwrite any portions of your plan, including charts, tabs and forms.

Frequently Asked Questions

Nearly every other Candidate, past and present, has been plagued with questions about writing a management plan for CPM® admissions credit. Assembled here are some practical hints to help you in writing your management plan–and hopefully, a passing plan.

Who is providing these hints? The quotations you'll see in this section came from two sources. The first source is Candidates whose submitted plans received grades of "pass superiors." The second source is the numerous other Candidates who have asked questions about their plans. In short, these hints come from "real" Candidates who have written or are writing "real" plans—Candidates just like you.

On Your Subject Property

Q: I'm having difficulty locating a subject property. Where do I look?

A: The first place to look is in your own portfolio. Using a property that you or your firm manages means the information you'll need for your plan will be accessible instantly and easily, even more so if you have the full cooperation of the owner, property manager, and property staff. In addition, the plan will be most meaningful to your everyday business activities.

> *"I saved a tremendous amount of work by using one of my properties. All of the necessary information was right at my fingertips."*
>
> *"I made a deal with the owner. He allowed me to use his property in exchange for a copy of my plan. He received data worth $3,000 to $5,000."*

If you can't find or get permission to use a property in your company's portfolio, try these ideas:

- Contact your local IREM® chapter, which may have a list of properties that may be used for plans.
- Contact CPM® Members or Candidates in your chapter. They may be willing to let you use one of their properties or put you in contact with a property owner.
- Contact a major real estate firm, clients, brokers, property owners, and lenders. These sources may appreciate and benefit from a copy of your completed plan, which you can give them in exchange for permission to use their property. A prospectus about an investment property that is for sale typically will contain sufficient information on which to base a management plan.

Q: Do I need to have IREM® approve my property before I begin writing my management plan?

A: No. The only verification that takes place is at the time you submit your management plan to IREM®. This is when the existence of your property is confirmed. You'll see that on the one-page application for management plan credit at the end of this handbook, which you submit with your plan, you're given a choice as to whom you would like to verify your property: the owner/client or your local IREM® chapter. The purpose of the verification is to make sure that your property is at the address listed and that it meets the minimum size requirements.

Q: My property is an office building with only 32,000 square feet of net rentable space. Can I use it?

A: No. The minimum criteria for subject properties, as outlined in this handbook, are very specific, and no exceptions will be made. So when searching for a property, keep in mind that a property must meet the Institute's minimum size requirement.

Q: Can I use a property that has a combination of residential units and commercial square footage?

A: Yes. As long as the combination of units and square footage meets the minimum requirements as stated in this handbook. You will want to use percentages to determine if the property meets the minimum sizes required. For example, if the property you selected had 35 residential units and 12,000 square feet of commercial space, here's how you calculate the size:

35/50	=	70% of minimum residential
12,000/40,000	=	30% of minimum commercial
		100% of minimum

If the percentage is less than 100%, you cannot use the property.

Q: Can I use a property that has a combination of residential units and commercial square footage and write my management plan using only the residential units?

A: Yes. As long as the number of residential units meets the minimum requirement. In this case, the minimum required is 50 units. You will also need to explain in your plan that you are writing your plan using only the residential units of a mixed-use property.

Q: The property that I want to use is a condominium or homeowners' association. Can I use it? Do I have to include comparables? How do I apply the tests?

A: Yes, you can use a condominium or homeowners' association as your subject property. As with any plan, you first must consider who the client is. The developer? A single unit owner? The owner/investor of a number of units? The homeowners' association? A lender?

In terms of performing the tests, if the client is the developer or an owner/investor, your plan will be very consistent with the plan for any investment property. Perhaps your client is a lender who has acquired title to the project via foreclosure proceedings. More than likely, this clients' objective will be to dispose of the asset, which will make net present value the most logical analytical tool.

As to the inclusion of comparables, this too will depend upon who the client is. In the previous examples, comparables certainly could be done. If the client is a homeowners' association, then this is not a rental situation, which means that comparables may not be relevant. However, recognizing that this is in part an academic exercise, such an analysis nonetheless should be contained within your management plan.

Keep in mind that a homeowners' association can be compared to others by comparing the assessment versus services offered, amenities, condition, and so on, as common in many parts of the country.

Your goal here should be to make it obvious that even though it may not be necessary to do a comparison grid analysis, you fully understand the process. Therefore, include a comparison grid to exemplify this.

Q: What if my building has no debt service?

A: Present as one of your alternatives a scenario wherein the owner would like to implement an improvement project or a similar situation that requires financing. Remember, this is an academic exercise and it is important to reflect that you have the required knowledge to address such a situation if it did exist.

Current debt information should be discussed since the cost and availability of debt affects the liquidity of the asset.

Q: My company just purchased a property that would make an excellent subject. However, I do not have access to historical data. Can I still use the property?

A: Yes you may. By the time you complete your research and inspections you will have some history to report so include whatever information you can. Be sure to indicate the reason for only one year's worth of historical data.

Q: There is a Candidate in my office who is also working on his management plan. Am I allowed to use the same property for my management plan?

A: Yes, as long as the plan itself is different and constitutes your own work. Undoubtedly, at some point in the management plan program, some properties will be used more than once. To be sure that the plans themselves are not duplicated, when a management plan is received at IREM®, the subject property is checked against a database to see if it has been used before. If it has been, the other plan is pulled, and the two plans are compared. If the plans are similar, they will be forwarded to the IREM® ethics department.

We realize that every property manager has his own philosophy, a certain approach to problem-solving, and his own style of writing; therefore, no two plans should be similar even if the property is the same.

On Writing Your Plan

Q: When should I start on my management plan?

A: It is highly recommended that you complete your IREM® education prior to writing your plan.

Q: Do I need the property owners' approval to write a management plan?

A: No. It is not necessary to receive approval from the property owner to write a management plan. However, the process of doing your plan certainly will be much easier if you have the owners' cooperation.

Q: Now that I've found a property that meets the Institute's requirements, where do I begin?

A: Your first step, if you haven't already done it, is to carefully study the outline that appears in this handbook. Then give some thought to what approach will work best for you. Should you do your market research first, or locate your comparables? Should you collect all of your material first, or immediately start writing? Should you develop a detailed outline, or just a general list of topics? There is no one "right" approach. Choose the one that will work best for you.

> *"I organized my material in the way I needed to present it in my plan. It was very regimented. Once I knew the property, I took all my photos and spent a great deal of time doing my market research."*
>
> *"I took each section of the management plan outline and made a separate file folder for it. Then any data obtained from IREM® courses that related to a particular section went directly into that folder. Each time I completed a file folder brought me self-satisfaction, and that really kept me going."*
>
> *"I first found the property, and then it's a step-by-step process."*
>
> *"I was overwhelmed by the thought of preparing a management plan after my initial review of the handbook, but then I took each section one at a time and followed it to the letter. It proved to be a successful method."*

A number of Candidates have successfully used calendars with due dates for completing certain phases of their plans. Try working back from your deadline.

Q: Will I encounter any obstacles while writing my management plan?

A: Probably so, but overcoming obstacles is another test of your abilities as a property manager.

> *"Problems are part of the challenge of doing the plan. The questions that are asked caused no problems for me. The handbook was quite clear and detailed. Isn't conquering the obstacles part of the exercise? That is what being a property manager is all about, solving problems."*
>
> *"Be sure to zoom in on the big picture and don't dwell on little things. It's very important that you pace yourself so you don't suffer from burn-out in the beginning."*
>
> *"I had to determine if a situation was actually an obstacle."*

Q: How long should my management plan be?

A: As stated previously, the recommended length of a management plan is 100 text pages, with additional pages for exhibits. Remember, you will not be graded on the length of your plan, however, points may be deducted if the plan contains materials that are not pertinent to the purpose of the plan. A good rule to follow is to only include information in your plan that you directly refer to.

Q: What do I include in my regional analysis? How large or small is a region?

A: Since you are the one person who is most familiar with your property and the surrounding area, it's up to you to define the region. Many times, a region can be defined at the metropolitan statistical area (MSA) surrounding the property.

Once the region is defined, the outline is quite specific about what should be included in the regional analysis. Essentially, it should include "those physical, social, political, demographic, and economic factors" that affect your property. The key is to show how these factors have an impact on your property.

Q: Where can I find information on the demographics of the region where my property exists?

A: There are a number of Web sites and other sources that provide demographic information. Each state has one or more data centers that you can contact to find the specific information you are looking for. For information on your local data center, visit the U.S. Bureau of the Census Web site at www.census.gov.

Q: Do I have to recreate the entire rent roll within my plan? Likewise, do I have to include the entire company procedural manual within my plan?

A: The answer to both questions is no. You do not have to recreate the entire rent roll within your plan nor do you have to include the entire company procedural manual. You should use only the sections of the rent roll and the sections of the procedural manual that pertain to your plan. If either is still too lengthy, you will want to include them in the appendix and reference their location within the text of the plan.

Q: I have several maps and charts. Is it better to put these in the body of the plan or the appendix supporting material?

A: This is a matter of personal preference and writing technique. If you're unsure, put yourself in the reader's place and think about what would be the most clear. If there are numerous maps and charts, they may deter from the flow of the plan if they are in the body and probably should be put in the appendix. A single map or single chart, on the other hand, may work better in the body of the plan. Likewise, photos of the subject property may fit better in the text – next to the appropriate narrative description.

Remember, if you do put supporting material in the appendix, it should labeled clearly, referenced in the body of the management plan, and be relevant to the issue at hand and not extraneous material. Also, use page numbers in the body of the plan to direct the reader to any exhibits in the appendix.

Q: I've done all the research and I have an enormous amount of material. Should I include it all?

A: You should include any material that is relevant to the subject at hand. This is not a research project where you'll be judged on the number of sources you use or the length of the report. Remember, IREM® recommends 100 pages, plus an appropriate appendix, as a good length for a plan. This is not an opportunity for you to write everything you know about property management.

Your plan will be evaluated based on your ability to collect, analyze, and synthesize information. If you find that some of your research is extraneous, don't include it in your plan. Keep in mind that this plan could be going to a client. Would he or she want to wade through volumes of irrelevant data to get to the salient points? Obviously not.

When it comes to samples and the appendix, use this guide: if you don't refer to it, don't use it; if you do refer to it, is it important or relevant to your property?

> *"I struggled with deciding how much information to actually include. I had to be extremely careful not to include too much information that was not needed. It was important for me to keep on track and not stray from what was asked of each section. You need to concentrate on one section at a time, and follow the handbook to the tee."*

Q: The company I work for has the best comparable properties I can use in my plan. Can I use these as my only comparable properties or do I have to go outside my company to find comparable properties?

A: Part of the exercise of conducting a comparison grid analysis is in selecting the best mix of comparable properties. If you have determined that the best comparable properties are owned by your company, you can use them. However, if possible, it would be good to use a mix of comparable properties–both company owned and non-company owned. This would give a more complete picture of the various rent levels in your region.

Q: I'm having difficulties getting access to information on comparable properties because the owners do not want to divulge this information. What do I do?

A: Contact business associates or CPM® Members in the area where your property is located. They may have comparable properties you can use within your plan or they may know the owners of the properties you would like to use as comparable properties and help you find the information you need. This is an excellent opportunity to develop your networking skills.

Q: In describing the fiscal condition of the property, should I base it on before-tax cash flow or after-tax?

A: The property's fiscal condition should be based on *before-tax cash flow*, defined as net operating (NOI) income minus annual debt service (ADS). This represents the actual cash that the property produces before taxes.

Q: I know that three years of financial history and budget projections for the expected holding period are to be included, but where does the current year's information belong if it is in mid-year?

A: Use three complete years for your history. The current year can be part history, part budget, and can be the first year of the holding period.

Q: I'm trying to test my alternatives, but I don't fully understand how to calculate one of the four financial tests. Where can I turn for help?

A: If you are having trouble performing any of the financial tests, refer to the IREM® course materials you have obtained previously, including:

- "Investment Real Estate: Financial Tools" (FIN402)
- "Investment Real Estate Financing and Valuation—Part One" (ASM603)
- "Investment Real Estate Financing and Valuation—Part Two" (ASM604)
- "Investment Real Estate Financing and Valuation—Part Three" (ASM605)

Q: After I've performed all the tests, in what format should my financial data be presented?

A: It's really up to you to decide the best format to use. However, all of your calculations should be shown, and the results should be thoroughly discussed and presented in a way that makes it easy to compare them. A matrix form works really well for this and is the recommended format. Here is an example showing the results:

Test	**Alternative 1 ("As Is")**	**Alternative 2**	**Alternative 3**	**Alternative 4**
$/$%	8.03%	7.61%	3.9%	5.5%
Value Enhancement	$600,000	$2,541,000	$1,871,000	$856,000
NPV	$1,310,193	$307,361	$246,081	$235,000
IRR	14.69%	12.14%	10.87%	11.01%

Q: After performing all of the tests, what if the results are inconclusive? What if some tests show that my first alternative is better, while other tests suggest that the second alternative is better? What do I do?

A: It's very possible for this to happen. If all of the tests do not clearly point to a single alternative, then you need to decide which of the tests is most valid for your particular property based on the owners' goals and objectives, and explain why. In effect, you need to be analytical and use your experienced judgment in drawing conclusions about the results of the tests.

Q: To what extent can I get help from others on my plan?

A: To some degree, you can get advice and direction from others. But remember, you are the author of your plan. It must be your personal work product. You must do the research, assemble the data, perform the analyses, exercise personal judgment, reach your own conclusions, then put it all in writing.

At the same time, you may obtain data from any source including your own records, your firm's files, other property managers, real estate brokers and appraisers, public records, cost estimates, etc. If you do use outside sources, be sure to credit them in your plan.

You also are encouraged to solicit the assistance of a proofreader to help you catch obvious mistakes.

"I asked friends who have worked on plans, and they were helpful in telling me if sections sounded right and what type of binding to use. Also, fellow Candidates who were going through this created a buddy system for support."

Q: Other than having to do this to become a CPM® Member, what benefit do I get from writing a management plan? What good does it do me?

A: As you've already suggested, the most obvious benefit of writing a management plan is to move one step closer toward becoming a CPM® Member. However, that's not all. You can use your plan to:

- Convince a new or potential client of your ability to manage his or her property professionally and with an eye toward fulfilling client objectives.

  "Knowing that my plan would be passed on to a potential client, it took on a real life identity, which became an added factor in completing my plan."

- Increase your promotability with your current employer. Your management plan reflects your resourcefulness, determination, and know-how.

  "A great exercise that will lead me up the promotional ladder."

- Sell yourself to a potential new employer. Your plan confirms your effectiveness as a communicator, reinforces your analytical and research skills, and vividly illustrates your ability to tie together information and see the larger picture.

  "By showing my plan to a prospective employer, it showed him I had the ability to use my problem-solving techniques to help a troubled property...it was used as a hiring tool...and this Candidate was hired!"

- Personally, when you complete your management plan you'll feel a tremendous sense of accomplishment (as well as relief!). It becomes concrete evidence of your dedication and perseverance to work toward and achieve a goal.

  "I really was very positive about doing my plan, and the results impressed a lot of people."

On Completing and Submitting Your Plan

Q: How long will it take me to complete my management plan?

A: Candidates have spent anywhere from 50 hours to over 150 hours to complete their management plans, with the average being about 100 hours. Of course, the period of time this covers will depend on many factors, some of which are:

- The amount of time each week you can dedicate to writing your management plan. Can you work on it during business hours, or only after work and on weekends?

  "I budgeted nine hours every Saturday for three months to work on my plan, which did not include the time during other business activities."

  "I finally lost track of the hours once I put in over 100 of them on my plan. I decided that it was best to concentrate on completing my plan and not keep track anymore."

  "I was fortunate to be permitted by the owner to work on it a few hours a day during business hours...but I also worked a lot of weekends. It became very intense."

- The accessibility of information. This may depend on whether your subject property is from your own portfolio and whether you gain the cooperation from the owner and other staff members.

Q: What should my management plan look like?

A: This is your personal decision. However, do not put it in a three-ring binder. Binders too easily come apart in shipping. You may want to consider the type of binding your firm normally uses for its presentations and proposals.

Whichever method of binding you use, be sure that it enhances your plan rather than detracts from it.

> *"It is important that you spend time on the presentation of your plan and don't just slop it together."*
>
> *"Make sure you proofread your plan. I would have done it more thoroughly."*

Give as much thought to how your plan will look as you did to the plan's content. Remember that first impressions do count. The presentation of the plan is especially important if you are giving your plan to an existing or potential client or your employer as well as to IREM®.

Q: I started on my management plan ten months ago and I will be completing and submitting it shortly. Is the data in my management plan too old?

A: No. As long as the date of the report and any current data, i.e., market information, in your management plan is no more than 18 months old, you can still submit your management plan. If the data is more that 18 months old, you will want to revise your plan with more current data.

Q: Can I complete my plan on a property that was recently sold?

A: Yes. As long as you still have access to the information you will need to complete your plan.

Q: Can I complete and submit my plan on a property where my recommended course of action has already become a reality?

A: Yes. However, you will need to be careful in how you present your conclusions. If, after you have identified your alternatives and analyzed each, you determine that the best course of action is the one that has actually became a reality, you will need to justify your recommendation. You do not want to simply state that you chose your course of action because it already became a reality. Remember that this is a recommendation you are proposing after careful analysis of your alternatives.

Q: My plan is finished. Should I let my colleagues review it?

A: There are no restrictions on getting opinions of others, and you may pick up some useful ideas. But remember, if you do solicit ideas from others, their opinions may be based on management plans suitable for business purposes rather than on meeting the CPM® admissions requirements.

On the Grading of Your Plan

Q: When will I know the results of my management plan?

A: Allow between 60 days from receipt of materials for your plan to be graded and for your grade to be sent to you. Please do not call to find out your grade, since all results are in writing; no grades are revealed over the telephone, by fax, or by e-mail under any circumstances.

Q: What happens if the grader fails my plan?

A: When a management plan is failed by a management plan grader, it's then submitted for a second review by a second grader. If the second grader agrees with the initial finding, then the plan fails. If the second grader passes the plan, the plan will pass. In such an instance, you will receive both grading sheets to illustrate the quality of the plan.

Q: If my plan fails, what do I do?

A: You have two options. You can either revise and resubmit your plan within one year from the date you received notice that your plan did not pass, or you may complete and pass the Management Plan Skills Assessment (MPSAXM). If you decide to resubmit your plan, keep in mind that graders have identified the strengths and weaknesses of your plan. Use their comments as a guide when you rewrite your plan.

> *"I can't begin to tell you how devastated I was when I found out that my management plan failed. After a week of being depressed, I took your advice and started revising it."*

Q: What if I have a question that still hasn't been answered?

A: If you still have unanswered questions, please direct them to IREM Headquarters at (800) 837-0706. For Canadian Candidates, please direct your questions to the Real Estate Institute of Canada (REIC) at (416) 695-9000.

Forms

The following forms are located at the end of this handbook for your use:

1. Confidentiality Letter
2. Verification of Management Plan Credit

IREM Institute of Real Estate Management

IREM® Headquarters
430 North Michigan Avenue
Chicago, IL 60611-4090

Telephone (312) 329-6000
Facsimile (312) 410-7900
www.irem.org

To Whom It May Concern:

The Institute of Real Estate Management (IREM®) awards the CERTIFIED PROPERTY MANAGER® (CPM®) designation to those individual real estate managers who meet its stringent standards of education, examination, experience, and ethics.

In order to become a CPM® Member, an individual must fulfill a management plan requirement, in addition to meeting other criteria. One option to accomplish this is to prepare a management plan on an actual property of the Candidate's choosing.

In certain situations, a management plan may contain information about the property and its owner that should be regarded as confidential. You can be assured that the management plan on your property will be seen only by IREM® Headquarters staff and at most two trained graders. No further use is made of the plan by IREM®. No other individuals will see the plan or have access to the information contained therein.

We appreciate your cooperation in assisting Candidates to complete this requirement to earn the CPM® designation. Should you have any questions, do not hesitate to contact Customer Relations at IREM® Headquarters at 1-800-837-0706.

Lynn M. Disbrow

Vice President, Membership and Marketing

IREM Institute of Real Estate Management

IREM® Headquarters
430 North Michigan Avenue
Chicago, IL 60611-4090

Telephone (800) 837-0706
Facsimile (800) 338-4736
www.irem.org

Verification of Management Plan

Please photocopy this page and print or type all information

Please enter your name, address, and phone number in the box below

☐ **Check here if the above is a change of address for all IREM mail.**

I am submitting the attached management plan for CPM® admissions credit to the Institute of Real Estate Management as an example of my personal effort for the purpose of securing credit towards the CPM® designation.

____
Name of Property

____
Address of Property

____
City/Sate/Zip

____
Type of Property **Number of Tenants** **Units/Square Feet**

Verification: Verification of information about the subject property can be obtained by (check one):

☐ **Option A:** Verification by Owner (complete information below)

☐ **Option B:** Verification by Chapter (separate photograph must be provided)

____
Name of Property Owner/Agent **Telephone**

____
Address

____
City/Sate/Zip

Affidavit

I hereby certify that I personally assembled all of the data used in developing this management plan, formed the conclusions, and prepared the plan; that any assistance I received or resources I used are fully disclosed in the plan; that the management plan complies with the requirements for such plans as set forth in the Institute of Real Estate Management's rules and regulations; and that the subject of the plan is an actual property at the address specified above. I further understand that if it is determined that the attached plan does not represent my own work as hereby certified, my status as a Candidate or subsequently as a CPM® may be terminated.

____
Signature of Candidate **Date**

Signed and sworn to before me this ____________ day of _____________________________ , 20_______.

____
Notary Public **Commission expires**

For Management Plan Inquiries: (800) 837-0706

Management Plan Handbook