

Property Management Plans Made Easy - The Gathering Stage

by Eugene Korneluk BA. CPM®

In a previous article, the various stages of a Property Management Plan (PMP) were outlined. This article will focus on the Gathering Stage as we prepare for the writing of our strategic document.

As property managers we all get caught up in the mechanics of our profession – the day to day grind of fixing, keeping clients happy, updating budget forecasts, meeting financial reporting deadlines to the owner, etc. We must not lose sight of why we are doing what needs to be done. We need to pause and reflect periodically on where we are in the overall plan of operating our portfolio buildings. This is when you need to refer to the Property Management Plan (PMP) for guidance. Ask your owner for a copy of their latest plan for the building. If there is no PMP, it is time to recommend producing such a plan for your client. Estimate 300 to 600 hours to produce a comprehensive report depending on the owner's objectives. As the property management experts, this assignment is worth an extra to your regular management fee.

We may have our own vision for the real estate we manage. In reality, we should be working towards your owner's strategy for the building. We need to spend some time with the owner group to obtain their ultimate vision for the subject property – both short & long term. What are their expectations for the property? What is their expected rate of return? Those goals are the targets for your PMP. Without these goals, a PMP becomes a plan of status quo "make it work" to keep your management agreement afloat.

Assemble your PMP team of experts. Parts of your PMP can be started right away, assembling the summary of notes from any reports collected from the owner. An effective PMP is the product of a team of people, each of whom brings knowledge and a different perspective to the management issues surrounding the asset. For example, a good Building Condition Report (BCR) team will provide you with details of their findings by discipline forming the foundation of projects under capital and repair expenditures. The PMP Team should have an appropriate balance of skills, including knowledge of building systems, operational experience of the subject asset, and an understanding of the building's occupants interests or concerns. Skills in financial analysis and the evaluation of options are necessary as well as a good strategic perspective concerning the owner's portfolio.

Two key reports are needed to start forming the foundation for your PMP - A Building Condition Report (BCR) and a Building Appraisal for market value purposes. Your building's condition will impact directly on the property's strength in maximizing value for the owner. The PMP report should be used as a source document to accumulate vital information and results of various tests about a building that may be sitting in other reports from the past.

The BCR should be commissioned first and the report passed on to the appraiser as a base reference for a market evaluation. In the BCR, capital and repair activities should be separated by definition. Repairs pertain to regular maintenance and code related activities whereas capital work is based on replacement and/or improvements to building components. If additional studies are required to inspect for unknown conditions, these studies need to be listed in the timelines for project work. Cost estimates should be marked up to include profit and project costs that may add 20-30% to the value of the project or activity. Look for results from recent or past tests or studies performed on the building. Any Phase 2 Engineering studies on problem building components are important clues on additional expenditures required to rectify the issues.

A market value appraisal needs to be commissioned next to estimate the current market value of the subject property based on a "fee simple" basis, free of environmental contamination. Request the narrative approach (a full narrative or short narrative report) following the guidelines of the Uniform Standards of Professional Appraisal Practice (Canadian USPAP), or references to the, U.S Uniform Standards of Professional Appraisal Practice (USPAP). Other international standards of appraisal, include the Red Book of Royal Institution of Chartered Surveyors (RICS). The "Purpose" and "Function or Intended Use" of the appraisal must be defined for use with the PMP study. Typical appraisal reports are prepared with Cost Approach, Income Approach and Direct Comparison Approach to Value taken into consideration. When available, comparable properties of similar size and effective age need to be analyzed against the subject property, focusing on their physical and income generating characteristics. A Highest and Best Use Analysis is an important part of the valuation analysis which may suggest an alternative use of the property that gives the owners a higher potential investment return.

Another report that may need to be commissioned early in your information gathering stage is an Environmental Assessment of the subject building. Environmental audits focus on the sustainability of the facility relative to recent environmental codes and regulations. If hazards are present in facilities such as asbestos or lead, you need to understand how the hazards are managed to remain compliant with legislation.

Commissioning of a Functionality Assessment Report would measure a facility's ability to adapt to occupants and accommodation needs. A functionality report will provide valuable information to an owner about timing of recapitalization in-



vestment to keep your occupants satisfied with their building space utilization. Your appraisal report may have additional information on comparable buildings with special features designed for occupants. Does your subject building have the capability to expand or adapt to meet changing requirements of your occupants? Is the facility limited by its age and design? Can you support an occupant who wants to optimize their space to changing economic conditions? For example within governments, re-organizations may be as high as 15 -30 % every few years depending on government legislation, program changes and agendas affecting delivery of program services to the public. All these additional studies play a part in the decision making process for building viability.

Continuing with your gathering stage, your team needs to consolidate other sources of information for your PMP. Financial information is available from the finance department of the management company for the subject building. Ask for a detailed line object breakdown of the operating expenses for the facility. The last 2-5 years of expenses will provide adequate information useful in trend analysis. A current rent roll, rents receivable, and any 3rd party revenue sources need to be requested. Ask for a list of tenant inducements that may be outstanding for occupants. Some tenant service work could be timed along with other base building capital or repair upgrades that may be incorporated at the same time. Track the progress of your PMP achieved over the project period gathering any key information that may be useful in the future.

Utility consumption data over the past 5-10 years needs to be analyzed for trends. All contracts for the subject building require reviews to ensure proper care of the facility is being maintained. Look for gaps in service work that may have been differed or neglected.

Arrange for a visit to the subject building to maximize effective use of the building operator, and tenant time. A building tour of the entire building could be arranged for both BCR and appraiser at the same time. Note the state of up-keep in mechanical/electrical rooms. This gives you a clue as to the building status of repairs/improvements. Scheduled visitations with specific tenants would provide an opportunity to understand the functionality of the facility and how the building relates with the occupants' needs.

Take some time and ask some questions of people in the building. Why do they like the building? What are the amenities? What keeps them in this building? What would they improve in the building if possible? Take note of the building's features setting this subject building apart from others. Check-out the

sales/management offices to gather additional information on the facility and the neighbourhood.

Walk the surrounding neighbourhood to obtain a perspective on how the subject building adds to the community. What makes this facility stand-out from others? Walk through comparable buildings in the neighbourhood and view yourself as a prospective tenant deciding on new space for your business service, residence or endeavour.

Looking back at your gathered pile of reports and realms of data, you may have missed asking for an Accessibility Report or the building's population. What about special studies such as energy audits and elevator reports? With all the information now gathered on the subject facility, you should be able to work on your PMP with vigour.

The next article will focus on writing your PMP to create maximum impact to your owner or investor group.

If you manage any of the following specialty buildings, I want to hear from you as a contributing writer to this article series. Your expertise managing unique buildings such as Airports, Medical Buildings, Shopping Centres, Laboratories, Theatres, Convention Centres, Hotels & Motels, Resorts, Schools, Academic Buildings, Libraries, Factories, Heavy Industrial, or unusual Residential facilities would be appreciated. I am also searching for software to teach and write PMPs. Contact me at ekorneluk2@rogers.com and add your colour commentary about your unique facility.



We'd love to hear from you!

If you have something that would be of interest to the membership, we would be happy to consider it for a future issue.

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