



Management Plan Handbook

IMPORTANT: You must register with REIC for Independent Management Plan (MPLIND) prior to completing and submitting your plan for IREM credit.

This handbook is to be used in conjunction with the MPLIND Tutorial. When you register, you will receive access to this online tutorial with detailed requirements and best practices for writing your independent plan.

In addition, you will find a link to the IREM MPLIND Spreadsheet, which is *highly recommended* for use in your plan. If you do not use the IREM MPLIND Spreadsheet, a comparable financial analysis tool must be used and submitted.

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1: Overview

Before exploring the components of a real estate management plan in depth, let's discuss the definition of a management plan and the administrative information around writing a plan to fulfill the CPM® Designation management plan requirement.

IN THIS SECTION

What is a Management Plan?

Selecting a Property

Submitting a Plan

Required Financial Tools

Fulfilling Plan Requirements

WHAT IS A MANAGEMENT PLAN?

A real estate management plan is an operating plan developed to maximize a property's potential and support ownership objectives. The plan is created by you, the real estate manager, based on data and stated assumptions. Just as with any other business plan, it outlines measures to maximize the return to investors. The plan is not static and should be reviewed and revised as needed to maximize the value of the property for the owner.

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

Developing your management plan will allow you to display your research and analytical skills, illustrate your ability to synthesize a vast range of facts and opinions into a coherent whole, and confirm your effectiveness as a communicator.

The skills achieved in successfully completing a management plan can be used as you prepare this plan of action for existing clients, take on the management of new properties, or make proposals to potential clients regarding how you would meet their goals as a real estate manager.

The underlying philosophy of the Institute of Real Estate Management is that a property is best managed when managed by plan.

Management by plan benefits:

- Owners
- Investors
- Real estate management companies
- Residents or tenants

There are many benefits to managing a property by plan, including:

Benefit	Description
Strategic Planning	<ul style="list-style-type: none"> ▪ Uses sound physical, market, and financial data to guide the management of the property including any capital improvements ▪ Is rooted in ownership goals for the asset ▪ Helps with strategic asset management decisions (e.g., buy, sell, or hold)
Communication Vehicle	<ul style="list-style-type: none"> ▪ Articulates ownership goals so that all parties can discuss and agree upon them
Business Promotion	<ul style="list-style-type: none"> ▪ Serves as a new business development tool for a management company expanding the portfolio ▪ Assures prospective clients that key data is analyzed and management of the property is comprehensive and in line with goals
Employee Development and Evaluation	<ul style="list-style-type: none"> ▪ Protects ideas of manager and documents his or her efforts on behalf of the firm and the subject property ▪ Serves as a benchmark to measure the success of all property management staff ▪ Provides objectivity for staff performance evaluations

SELECTING A PROPERTY

Management plans submitted to REIC/IREM® for the purpose of fulfilling the CPM® management plan requirement must conform to the following property type and size requirements. Mixed-use properties of the types and sizes listed here may be used.

Property Type	Minimum 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

Common-interest developments (condominiums, PUDs, etc.) are not permissible as subject properties as they do not allow the author to meet all section requirements.

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

The subject of your plan must be an existing building. You may not do a management plan on a property which is to be developed. This would be, in effect, a feasibility study.

The plan must be presented in the current year and a pro forma statement of cash flow for the next 5 years for the As Is and Alternative must be provided. Prior capital improvements are not permissible.

SUBMITTING YOUR PLAN

You must register with REIC for Independent Management Plan (MPLIND) prior to completing and submitting your plan for credit toward the CPM designation. When you register, you will receive access to an online tutorial with detailed requirements as well as best practices for writing your plan. In addition, you will find a link to the IREM MPLIND Spreadsheet, which is strongly recommended for conducting analyses of your subject property.

When you submit your plan, ensure that two copies of your management plan are included:

- One original, with high-quality colour images
- One copy, which may be in black and white

If the plan is a rewrite—a check for the rewrite fee made payable to IREM®

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

Real Estate Institute of Canada (REIC)
Education Department
208-5407 Eglinton Ave West
Toronto, ON M9C 5K6

You will be sent an electronic acknowledgement confirming the receipt of your plan. REIC/IREM® recommends that you keep a copy of your plan for your own records. You have one year to submit a plan from the date of registration.

REQUIRED FINANCIAL TOOLS

There are two required financial tools to use when writing your plan:

1. HP 10bII+ Financial Calculator or App
 - The calculator can be purchased for approximately \$45. Several similar apps are also available for around \$5-12 on the App Store (iPhone) and Google Play (Android).
2. MPLIND Financial Analysis Spreadsheet or comparable tool
 - **The IREM MPLIND Spreadsheet is highly recommended for use in your plan.**
 - If you do not use the IREM MPIND Spreadsheet, a comparable financial analysis tool must be used and submitted as part of your plan.

FULFILLING THE PLAN REQUIREMENT

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. To pass, your plan must receive at least 700 points overall. In addition, certain sections are so critical to the entire plan that you must receive a minimum score on these sections in order to receive a passing grade overall.

Section	Subsections	Total	Minimum to Pass
Introduction to the Management Plan	Title Page (5) Table of Contents (5) Executive Summary (50) Purpose and Client Objectives (15)	75	--
As Is Property Analysis	Physical Description (50) Management Description (50) Summary and Conclusions (25)	125	--
As Is Financial Analysis	As Is Financial Analysis (200) Summary and Conclusions (25)	225	--
As Is Market Analysis	Region Analysis (50) Neighbourhood Analysis (50) Summary and Conclusions (25)	125	--
Alternative Scenario	Issues and Concerns and Identification of Alternative (50) Alternative Comp Grid Analysis (50) Alternative Financial Analysis (200)	300	210
Recommendation	Recommendation	75	52
Appendices	Supporting Material (15) Certification and Disclosures (5) Qualifications of Analyst (5)	25	--
Appearance and Style	--	50	--
TOTAL		1,000	700

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 REIC/IREM®. **All students are notified in writing of 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 plan 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.

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

1. Revise and resubmit your plan within one year from the date you receive notice that your first plan failed. Include the "Rewrite Request" form and a check for the rewrite fee made payable to REIC . Resubmitted plans should be revised per grader's comments and notes, but should stay in the same analysis time period of the original plan.
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. Re-register for the management plan independent option (MPLIND). You will need to choose a different property for which to write your plan and begin the process again.
2. Complete and pass the Management Plan Skills Assessment (MPSAXM).

If you are an REIC/IREM® Member, you may register for either option at a 50% reduced rate.

2: Introduction to the Management Plan

A professional real estate management plan begins with fundamental components such as a title page and table of contents, as well as a summary of the entire plan and an overview of ownership objectives. This introduction sets the stage for the descriptive material and analysis to follow.

IN THIS SECTION

Title Page

Table of Contents

Executive Summary

Purpose and Client Objectives

TITLE PAGE

5 points

The title page is the first page that the reader will see. This page provides an opportunity to create a favorable first impression.

Include the following items:

- Identification of the property, including name, street address and if appropriate, the name of the neighbourhood
- Brief description of the property (e.g., a 50-unit apartment building)
- Date of report
- Identification of the client and property owner with name of person who will accept delivery
- Your name and contact information
- A high-quality photograph of the property, either on the title page or the page immediately following

TITLE PAGE: SAMPLE

Management Plan
May 20XX

Executive Center
123 State Street
Walnut Creek, California



The Executive Center is a two-story, 75,000 sq. ft. garden-style office building.

Presented to:
James Jackson
Real Properties
200 Palm Street
Anaheim, California

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

TABLE OF CONTENTS

5 points

The table of contents is a complete, sequential list of the title of each section of the management plan and its corresponding page number. Ensure that section titles used in the table of contents match the section titles used in the body of your plan. You are advised to use the outline in this handbook to create your table of contents.

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. You may consider delineating the sections of your plan with tabs or dividers as an aid to the reader.

TABLE OF CONTENTS: SAMPLE

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EXECUTIVE SUMMARY

50 points

The executive summary is a synopsis of the plan and its recommendations that draws the reader's attention to the significant sections of the report. This summary is typically three to four pages in length. In essence, the summary is a condensed version of the plan designed to appeal to the reader who needs a snapshot view of the project. It can be duplicated from the Summary and Conclusion comments of each section.

Because the executive summary is a condensed, but still complete, version of the management plan, it should be the last part that you write, even though it appears first.

Include the following items:

- Identification of ownership objectives
- Summary of As Is property analysis
- Summary of As Is financial analysis
- Summary of As Is market analysis
- Summary of issues and concerns
- Alternatives scenario selected for testing
- Highlights of Alternative scenario financial analysis
- Results of four tests for As Is and Alternative
- Recommended course of action and reasoning
- Summary of implementation plan

EXECUTIVE SUMMARY: SAMPLE

*Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. **Samples are condensed and are not necessarily representative of the page total expected for each section.***

Executive Summary [Excerpt]

The following management plan analyzes the current condition of the Executive Center office building (As Is) and introduces an Alternative course of action consistent with the owner's goals and objectives for the property, which are to retain ownership on a long-term basis, and to achieve a cash-on-cash rate of return of 8% or more in the stabilized year and no less than a 12% IRR while enhancing the value of the property. With long-term ownership in mind, a viable Alternative scenario has been recommended, along with a timeframe for implementation, which would allow ownership to achieve property objectives.

The property, a 75,000 square foot office building, is located at the corner of Main and State Streets in Walnut Creek, California, a 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 of 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 Executive Center 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, and current mortgage balance of approximately \$12,230,000, the owner's equity as of the date of this plan is estimated to be \$1,459,600.

Two concerns relative to the operation of the property will be addressed in this report: 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 EMS results in high energy and maintenance costs as well as discomfort to tenants. By increasing efficiency of energy using systems, an energy cost savings estimate 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 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 and State Streets for high volume service that would feature both lobby and street access. As a result, annual revenue would increase by \$41,400.

The As Is scenario and an Alternative course of action have been evaluated and tested to determine which 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.

Each were 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, the Alternative best meets ownership 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.

The Alternative scenario suggests that the owners invest a total of \$263,044. Design and installation of an EMS should be immediately implemented with the owners investing \$44,294 and the local utility company rebating approximately \$10,386. Commitment from a credit worthy retail tenant, such as Interstellar Coffee, should also be pursued immediately as it is a requirement of the existing lender to fund 100% of the project. The sooner ownership takes 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. This leads to an increase in NOI of \$108,831 to \$1,534,668 by 20XX. The proposed recommendation yields a \$/\$% in Year 5 of the analysis period equal to 8% and a net value enhancement of \$2,493,802.

PURPOSE AND CLIENT OBJECTIVES

15 points

In this section, identify the client(s) and the owner(s) of the property (if the client is not the owner), the purpose of the report, and ownership goals and objectives. It is critical that, throughout the plan, these client objectives remains consistent and that the final recommendation supports these objectives for the property. Both the As Is and Alternative scenarios will be compared to these goals and stated in the findings.

Sometimes, the results of the management plan suggest that the goals of ownership are unrealistic given property, financial, or market information. If this is the case, work with the owner to clarify and modify goals to bring them to within the realm of reasonable expectations.

Although there may be multiple owners, there should be one unified cash-on-cash rate of return and internal rate of return (IRR) goal.

PURPOSE AND CLIENT OBJECTIVES: SAMPLE

*Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. **Samples are condensed and are not necessarily representative of the page total expected for each section.***

Purpose and Client Objectives [Excerpt]

The purpose of this management plan is to formulate and analyze various courses of action for the Executive Center based on property, market, and financial analyses as well as ownership goals. This is done in order to arrive at and recommend the best course of action and associated implementation plan that for the property.

The objectives of Real Properties, owners of the Executive Center, are:

- Retain ownership of the building for at least five years
- Achieve a cash-on-cash rate of return of at least 8% in the stabilized year
- Achieve an IRR of at least 12.5%
- Enhance the value of the property by \$3,000,000

With these objectives in mind, this management plan describes to the owners various options for the property to achieve desired rates of return as well as increase the property value while retaining ownership of the building.

3: As Is Property Analysis

A management plan property analysis includes a description and analysis of the property as it currently exists, from a physical and managerial including any issues and concerns in these areas.

IN THIS SECTION

As Is Physical Description

As Is Management Description

Summary and Conclusions

AS IS PHYSICAL DESCRIPTION

50 points

In the physical description, present a verbal picture of the property to the reader. Assume that the reader has never been to the area and has never seen the property. Include a general description of the land and the improvements.

Be sure to include site plan(s), floor plan(s), and labeled photographs of the building interior and exterior in the either in this section or as an appendix.

In the description of the land, include information such as:

- 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

In the description of the improvements, include information such as:

- Age of improvements
- Architectural design and style
- 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 is 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 age and condition
- Description and condition of common areas and amenities
- Relevant information about the grounds, parking, landscaping, and detached structures
- Overall physical condition, including deferred maintenance or obsolescence

PHYSICAL DESCRIPTION: SAMPLE

*Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. **Samples are condensed and are not necessarily representative of the page total expected for each section.***

Physical Description [Excerpt]

The subject property is Caraway Arms Apartments, located at 456 Parkway Rd. in Pittston, Texas. There are 2 entrances along the front of the property off of Parkway Rd. Curb cuts were not allowed when the street was reconstructed and access is limited when traveling south, requiring either a U-turn at the stoplight or left turn on Elm Hollow Rd. U-turns are not allowed during morning or evening rush hours. There are three entrances from the side street Elm Hollow Rd. plus a horseshoe access limited to a few buildings. The frontage view along Parkway Rd. is hampered by telephone poles and lines.

The site has an area of 16.164 acres and is a rectangular configuration with a gently sloping 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 23 years ago. The gross building area is 295,240 square feet and the rentable floor area is approximately 291,976 square feet in 22 buildings.

Given the 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 been started to trim shrubs or remove them if needed.

The roofs are pitched with flat areas that hold the exterior air conditioning condensers. With the exception of eight buildings, all roofs were replaced over the last seven years. The property is budgeted for to replace the roofs on the last eight 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 because it does not colour-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 two years ago on the chimney chases; only 10 of the 164 have been completed. The patios/balconies are dated with the 4' cedar enclosures.

There are 1.5 parking spaces per unit. The parking lots were all repaved within the last seven years and are in good condition.

HVAC, plumbing, and electrical systems are original with minor updates made on an as needed basis over the years.

There are 120 one-bedroom, one-bath units that are 705 square feet each, all with the same floor plan. There are 60 units on the ground floor known as the A1. These units all have fireplaces. The remaining 60 units are known as the A2 and are located on the second floor.

There are 208 two-bedroom, one-bath units that are 997 square feet each, all with the same floor plan. There are 104 units on the ground floor known as the B1. These units all have fireplaces. The remaining 104 units are known as the B2 and are located on the second floor.

The interior of the apartment units is dated with original light fixtures, hardware, cabinets, and countertops. Carpet has been replaced with a higher grade Berber carpeting 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. All units have dishwashers, washers, and dryers that were installed 10 years ago.

Common areas include the main leasing office and clubroom, which are located on the ground floor of one of the buildings, three small playgrounds, and a community pool which is in good condition. Office and clubroom furniture is outdated and showing wear. Vinyl pool furniture was purchased for the pool in the last summer season. Another amenity that residents find useful is a bus stop near to the property.

**A1 Unit One-Bedroom, One-Bathroom
705 Square Feet**

Note: The physical description should include several labeled site and floor plans.



Property Exterior from West Side

Note: The physical description should include several labeled exterior photos.



A1 Unit Interior Bedroom

Note: The physical description should include several labeled interior photos.



AS IS MANAGEMENT DESCRIPTION

50 points

In the management description, detail all personnel involved in the management of the property, including:

- Job descriptions with roles and responsibilities
- An organizational chart, if applicable
- Information about the management company itself
- Management policies and procedures for both on-site and off-site operations
- Management fees, contract term
- A synopsis of the current management contract and management fees
- An assessment of the overall effectiveness of management staff and policies including any deficiencies noted

MANAGEMENT DESCRIPTION: SAMPLE

*Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. **Samples are condensed and are not necessarily representative of the page total expected for each section.***

Management Description [Excerpt]

Caraway Arms is managed by Star Management, LLC a management company active in this region of the state. Star Management has been in business for 17 years. On-site staffing at Caraway Arms consists of a Property Manager, Assistant Manager, two Leasing Consultants, Service Manager, Service Tech, Painter, Porter, Housekeeper, and Summer Help. The corporate Regional Supervisor visits the property at least once per week 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 four 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 two interviews prior to hiring. All paperwork is completed by corporate personnel on the first day of employment.

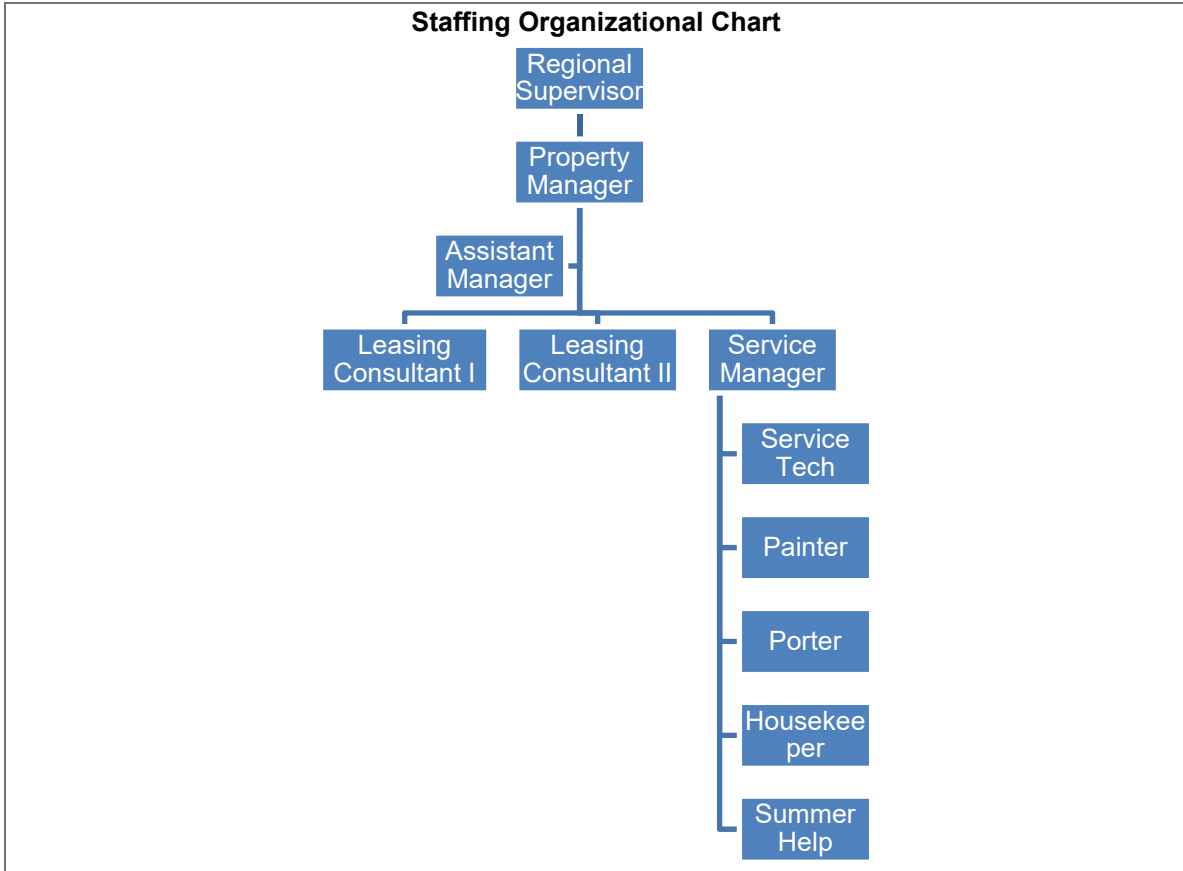
The Property Manager is ultimately responsible for all property operations and supervision. The Assistant Manager's main responsibility is to bill, post, and collect all revenue. All office personnel are expected to lease apartments and provide proper orientation to new residents, but this is the main 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 of this year and was not replaced until July 9. The Property Manager position has not been stable. Due to this turnover, 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 making excessive use of personal leave; his termination has been requested. The Service Manager position was occupied by an employee for over five years who 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.

Purchase Orders are processed on-site, ultimately with the Property Manager's approval. The 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 Wednesdays, 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 in place requiring the forwarding of 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 used at the property is Yardi Voyager. This requires a high-speed internet connection at all times for access. A computer is available at each of the four on-site office desks and Outlook e-mail is on three of these. The management company IT department is in the process of converting all computers to the latest Windows operating system as well as an upgraded version of Yardi which includes a desktop banking option. 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, processing all vendor payments, maintenance bank accounts, balance of bank statements, cash management, and submission of 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.



SUMMARY AND CONCLUSIONS

25 points

Close the As Is Property Analysis with a synopsis of the physical and management descriptions and, most importantly, relevant conclusions drawn from this information.

Review the status of the property in its current condition including issues and concerns that have arisen. Most likely, these issues and concerns will be addressed through the Alternative course of action that you identify and test later in the plan.

4: As Is Financial Analysis

An As Is analysis will also include a thorough analysis of the property's financial condition including operating history and pro forma projections, current value and equity, loan analysis, and the results of the four tests.

IN THIS SECTION

As Is Financial Analysis

Summary and Conclusions

AS IS FINANCIAL ANALYSIS

200 points

In the financial description, present the property's As Is financial picture. Because it provides the starting point for analyzing the property as a real estate investment, testing an Alternative course of action, and formulating recommendations, this section of the plan is extremely important.

It is highly recommended that you use the IREM® MPLIND Spreadsheet to perform your financial analyses. This tool is available through your online tutorial. Webinars on using this tool are also available at www.irem.org or gain additional instruction through the IREM ASM course series.

If the MPLIND Spreadsheet is not used, a comparable financial analysis tool must be used and submitted with your plan.

Operating History

Some financial issues can be identified and addressed by performing a line item analysis of a property's recent operating statements. A review of historical financial data will reveal trends in specific income and expense categories. These can lead to many conclusions, such as problems from deferred maintenance, excesses in expenses, or missed opportunities in income generation—all of which impact net operating income (NOI).

In addition, you can compare individual line items in the subject property's operating history to industry standards. Through this comparison, you may conclude that the property's performance can be enhanced in one or more areas. Or, it may be apparent that the property is functioning optimally for its location, type, and condition. All of these observations will provide a basis for projecting future year's income and expenses over the anticipated holding period.

Pro Form Statement of Cash Flow

The pro forma statement of cash flow is an annual statement that lists income and expenses for the property. It includes all revenue and operating expenses through net operating income (NOI).

Managers with experience planning for different owners and property types know that there are unique requirements for handling fiscal considerations such as replacement reserves or capital expenditures in each situation. Because of this, managers create multiple versions of these statements according to the needs of property ownership.

Shown here is the standard IREM® pro forma statement. Please refer to your **Management Plan Independent Option Tutorial** for assistance with determining and projecting each figure.

Gross Potential Income (GPI)	Rent
- Loss to Lease	
- Vacancy and Collection Loss	
= Net Rent Revenue	
+ Miscellaneous Income	Non-Rent
+ Expense Reimbursements	
= Effective Gross Income (EGI)	
- Operating Expenses	
= Net Operating Income (NOI)	

Current Market Value and Equity

The income capitalization approach, or “IRV” formula, estimates the current market value of a property by applying a capitalization rate to the annual net operating income (NOI) the property is expected to produce. Always capitalize next year’s NOI, since you are selling future benefits. Since capitalization rates reflect a nature of risk with a real estate investment, there is an inverse relationship between capitalization rates and value. Remember that this is a midstream analysis, so your analysis begin month will be greater than one.

In any test for value over time, the real estate manager is required to make assumptions about the cap rate at the starting point of the test (i.e., the going-in cap rate), and at the terminal point of the test (i.e., the going-out cap rate). Capitalization rates are influenced by changes in market conditions and economic cycles of recession, depression, recovery, and prosperity. Accurately projecting going-out cap rates is difficult because it is a long-term forecast.

Going-out cap rates may be lower, equal to, or higher than going-in cap rates. The going-out cap rate is generally, though not necessarily, higher than the going in-cap rate because there is a greater risk in estimating the income at the end of the holding period, and the remaining economic life of the property will be reduced unless capital improvements are made.

Current equity is further calculated as follows:

Current Market Value
–Cost of Sale
<u>–Current Loan Balance</u>
Cash-Out Potential
<u>+ Capital Improvements</u>
= Current Equity

Loan Analysis

The property's loan terms and ratios must also be analyzed.

- **Loan-to-Value Ratio (LTV%)** compares the amount of the loan principal to the market value of the property. This ratio attempts to ensure that if market values decline and default or foreclosure is necessary, the property will be worth more than the balance due on the loan.
- **Debt Coverage Ratio (DCR)** compares the annual net operating income (NOI) to the annual debt service (ADS) of the loan. The closer the DCR is to 1, the riskier the loan. Likewise, the greater the DCR is, the safer the loan is for the lender.

Free-and-Clear Rate and Cash-on-Cash Rate are compared to determine the property's leverage position. Leverage position is at a point in time and can change.

- **Free-and-Clear Rate** measures return when there is no loan.
- **Cash-on-Cash Rate** measures return when there is a loan.

The Four Tests

Now that you have determined the current market value of the property and ownership equity and have conducted a loan analysis, the four tests of investment return can be calculated to determine the overall financial health of the property in its current state.

These are four common rates of return used to measure property performance. Only net present value and internal rate of return take the time value of money into account. Ownership does not always state goals in each of these areas. It is up to you to determine which is most important.

- **Cash-on-Cash Rate of Return:** measures a one-year return on invested dollars. It is a single-year "snapshot" of performance, and thus does not consider the effects of time on the investment. This test is most commonly used to show year-to-year trends in performance.
- **Value Enhancement:** is the expected value at the end of the holding period less the initial value of the investment and the cost of implementing the improvements. Though it measures what occurred over a holding period, it does not take into account the effect of time by discounting future value. Note that the value at the end of the holding period will automatically be calculated by the MPLIND Spreadsheet by capitalizing the following year's NOI using the going-out cap rate entered.
- **Net Present Value (NPV):** is calculated by subtracting the present value of the equity investment from the present value of the expected cash flow returns. NPV is most useful when the required rate of return is known. In essence, NPV tells you how much more or less you can increase or decrease the initial equity investment to meet the desired yield.
- **Internal Rate of Return (IRR):** What if an investor does not have a required rate of return in mind? In such a situation, using the IRR will be effective in evaluating an investment. In the simplest of definitions, IRR is the rate of return that makes the money coming out of an investment equal to the money that went into the investment. IRR is a calculation that can be applied to even or uneven cash flows.

Supporting Documents

Include in the appendix all of the following and reference page numbers in the narrative:

- Operating statements for the last three years (one of which may be the current year), including all income and operating expenses
- Current operating budget showing all income and operating expenses presented on a line-item basis
- Current rent roll, including tenant name and profile, square footage, monthly rent, annual rent, square foot rate, expiration date, options, pass-throughs, and any other pertinent lease terms

FINANCIAL DESCRIPTION: SAMPLE

Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. Samples are condensed and are not necessarily representative of the page total expected for each section.

Financial Description [Excerpt]

Ownership purchased the property ten years ago for \$12,250,000 with an original loan of \$9,800,000. The property was refinanced in June, 20XX for \$13,200,000 and proceeds were used to purchase another property. The loan balance on January 1, 20XX was \$12,311,493 with an interest rate of 6.96% and a 30-year amortization period. Payments of principal and interest are \$86,465.61 per month. Taxes and insurance are escrowed each month. There is also a \$7,927 monthly reserve for replacement escrow.

A modified accrual accounting is used for all properties and monthly operating statements reflect delinquencies, prepaid rents, taxable income (loss), and show the increase or decrease in cash for the month and year to date. Monthly operating statements also show monthly and year to date comparisons to the prior year.

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

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

Current year operations ending June, 20XX 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 but is offset by a variance of \$11,507 in Loss to Lease.

Operating expenses have exceeded budget by only \$1,580 for the first 6 months, indicating that management has controlled expenses; however, the budgeted insurance expense jumped 87% from the prior year actual. Recent changes in payroll including the hiring of a new manager are reflected in the increased Administrative costs.

Recurring replacements have taken their toll on operations by exceeding budget \$14,857. This overage is completely due to carpet replacements and subfloor repair that were done at the end of the year as units were made ready. A qualified person was placed on staff to focus on subfloor repairs rather than continuing to contract this expensive need.

Although there has been slight improvement over the last four 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. Current year operations will not meet the existing budget.

Cap rate based on market data is estimated at 9%. Therefore, valuation of the property derived by capitalizing the NOI of \$1,109,121 is \$12,323,566 with owner's equity at \$1,700,000.

SUMMARY AND CONCLUSIONS

25 points

Close the As Is Financial Analysis with a synopsis of the property's financial picture and, most importantly, relevant conclusions drawn from this information.

In addition to the summary, you may find it appropriate to comment on such factors as:

- Potential opportunities to reduce expenses, especially those that appear higher than average
- Potential opportunities to increase income
- Implications you can draw from trends in historical data
- Other concerns about the financial status of the property such as cash flow or financing terms
- Be sure to relate any concerns back to ownership objectives for the subject. In addition, this is a summary—no new information should be presented.

SUMMARY AND CONCLUSIONS: SAMPLE

Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. Samples are condensed and are not necessarily representative of the page total expected for each section.

Property Analysis Summary and Conclusions [Excerpt]

Caraway Arms is 23 years old and is showing its age, both in the exterior and grounds as well as in the interior of the units and common areas. Staffing consists of four office personnel, five permanent service staff, one summer temporary staff person, and one staff person added for temporary subfloor repairs.

Issues include:

- Ponding in parking lot and sidewalk with erosion of dirt
- Lack of grass where there are shade issues
- Obsolete siding, patios, and balconies
- Roof replacement needed in eight buildings
- Outdated interior lighting, cabinets, and countertops
- Worn office, clubroom, and model furniture
- Instable Property Manager position which requires a longer-term candidate
- Leasing Consultant who needs to be replaced due to performance issues
- Service Manager position which needs to be permanently filled

Total Revenue over the last four years has grown an average of 2.7%. Expenses have averaged a 1.4% growth. Insurance rates almost doubled in the current year compared to last year. Recurring Replacements have averaged a 19% increase over four years due to carpet replacements and subfloor issues. Gross Potential Income is \$227,472 currently. GPI has been flat or declining due to the existing physical condition of the property. Thus, rents cannot be raised, vacancy loss continues to be higher than acceptable, and concessions are necessary to capture prospects.

The property cannot continue in its current state and be financially viable for the owners, let alone produce a return that is close to what the ownership is seeking. A well-planned rehab is necessary to increase performance against competitors. Operations do not support an outside loan and owners are willing to fund reasonable improvements—however, they expect to see an 11% return on their investment. Holding onto the property and implementing these capital improvements will also be in line with the ownership goal of keeping this property as a long-term investment.

5: As Is Market Analysis

A management plan market analysis moves from the property itself to the relationship of the property to the surrounding region and neighbourhood. It includes reasoned conclusions about market rental rates for the subject based on comparable properties.

IN THIS SECTION

Region Analysis

Neighbourhood Analysis

Summary and Conclusions

REGION ANALYSIS

50 points

In the regional and neighbourhood analysis, provide a verbal picture of the immediate environment surrounding the property, an analysis of the area, and its relationship to 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. Next provide a complete and concise description of the region and draw conclusions regarding the impact of the regional market on the subject property.

Include information such as:

- A map delineating the region
- Population figures
- Employment
- Income levels
- Residential and commercial development
- Transportation
- Public improvements and utilities
- Education and culture
- Climate
- Trends and potential impacts to the subject property
- Supply, demand, and market share
- An absorption analysis
- A vacancy analysis
- Any other considerations germane to the region

Emphasize physical, social, political, demographic, and economic factors that have a direct bearing on the subject property and state how these outside influences will affect the future occupancy and rents of the property.

REGION ANALYSIS: SAMPLE

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Regional Analysis [Excerpt]

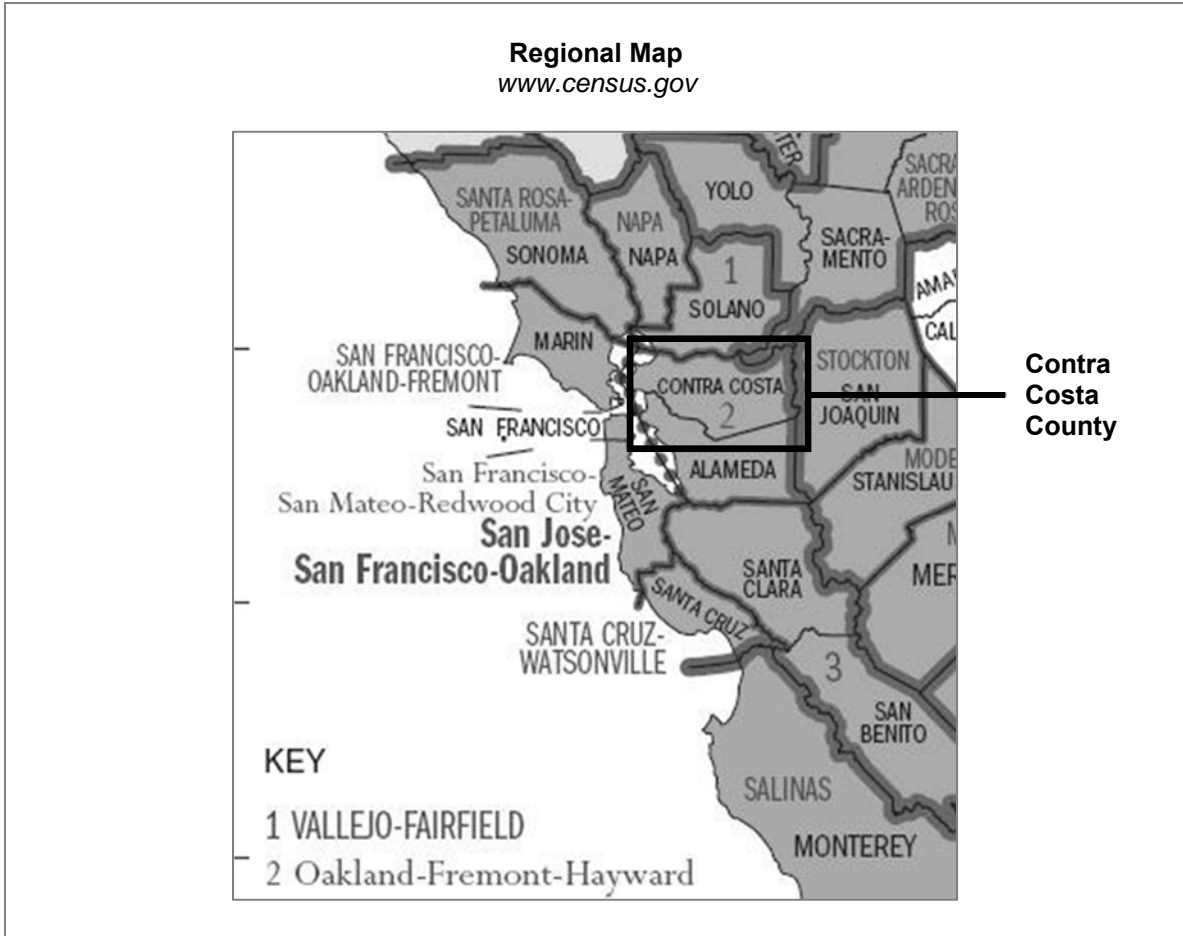
The Executive Center is located in the City of Walnut Creek, County of Contra Costa. The county is strategically located near San Francisco and the Silicon Valley. Contra Costa County is one of eight counties encompassing the Greater Bay Area. The City of Walnut Creek, located 25 miles east of San Francisco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

Contra Costa County, CA, gets 20 inches of rain per year. The U.S. average is 37. Snowfall is 0 inches. The number of days with any measurable precipitation is 58. On average, there are 260 sunny days per year in Contra Costa County, CA. The July high is around 83 degrees. The January low is 38. The comfort index, which is based on humidity during the hot months, is a 54 out of 100, where higher is more comfortable. The U.S. average comfort index is 44.

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.



NEIGHBOURHOOD ANALYSIS

50 points

After analyzing the broader region, describe the property's more immediate surroundings in the neighbourhood analysis. Provide a thorough picture of the neighbourhood, emphasizing characteristics and trends that will have a bearing on the future performance of the subject property. Be sure to include information regarding the existing supply and demand for rental space and the market rents of that space.

Include information such as:

- A map identifying the subject property and showing the boundaries of the neighbourhood
- Classification of the neighbourhood in terms of land use patterns (i.e., residential, commercial)
- Stage in the neighbourhood's life cycle
- Relevant information about population, municipal services and facilities, transportation, shopping, neighbourhood income levels, and political considerations
- Trends and potential impacts to the subject property
- Any other considerations germane to the immediately surrounding area

Include within both the regional and neighbourhood analyses concrete conclusions that relate back to the subject property. Indicate how regional and neighbourhood influences affect the subject property.

NEIGHBOURHOOD ANALYSIS: SAMPLE

*Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. **Samples are condensed and are not necessarily representative of the page total expected for each section.***

Neighbourhood Analysis [Excerpt]

The subject property is located in Walnut Creek, CA, specifically in the neighbourhood bordered by Highway 680 on the west, Oak Rd. on the north, Civic Dr./Broadway on the East and Mt. Diablo Blvd. on the South. The neighbourhood contains both residential and commercial properties.

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.

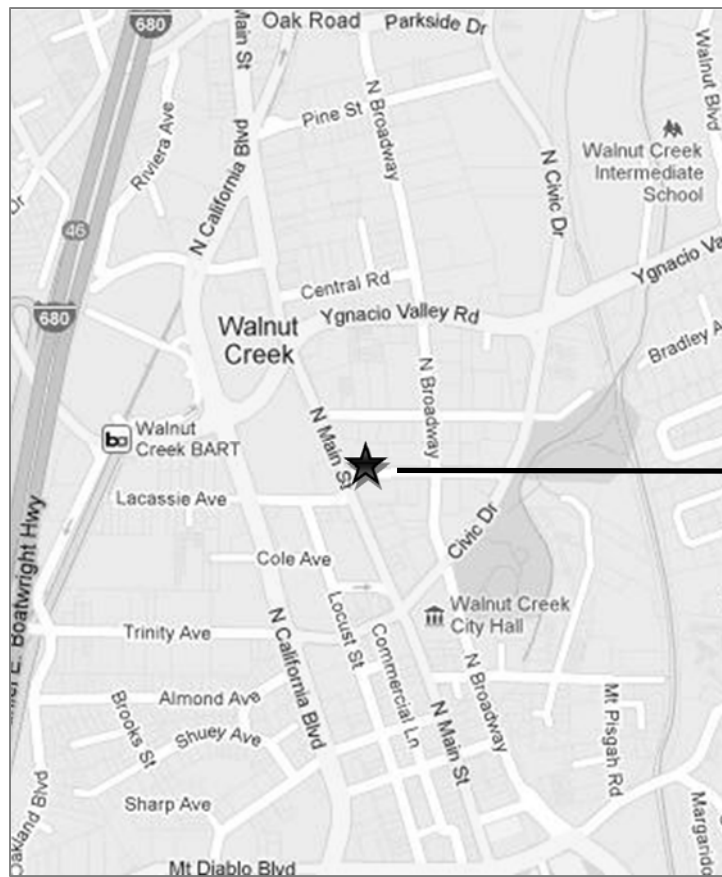
Knots Landing, the one and only new office project constructed in the past five years, recently broke ground in the Tri-Valley area of the market, just south of Walnut Creek. Knots Landing is a 195,000 square-foot office building and part of four, five-story building complex of 780,000 square feet. The 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 Executive Center within the past year. As of July 20XX, the 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 Executive Center is located in a market which has shown signs of recovery from the recent recession with decreasing vacancy rates and fewer concessions given by Landlord. A proposal was recently submitted by the exclusive broker on the Executive Center 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 Executive Center 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.

Neighbourhood Map
www.google.com



**Subject
Property**

SUMMARY AND CONCLUSIONS

25 points

Conclude the As Is Market Analysis with a summary of the salient points of the section, a recap of the competitive position of the property when compared to similar properties, and recommended rental rates for the property. As this is a summary, no new information should be presented in this section.

Continue to identify issues and concerns that may need to be addressed in order to maximize the owners' goals and objectives, which will be addressed through your Alternative course of action in your plan.

SUMMARY AND CONCLUSIONS: SAMPLE

*Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. **Samples are condensed and are not necessarily representative of the page total expected for each section.***

Market Analysis Summary and Conclusions [Excerpt]

- Overall market 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 Executive Center has remained high averaging between 90 - 100%, which competes with the neighbourhood 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 be set at \$17.50 per square foot.

6: Alternative Scenario

In this section of a management plan, you'll identify a specific Alternative course of action for the property. This scenario is developed to address the issues and concerns at the property in order to meet ownership objectives.

IN THIS SECTION

Issues and Concerns and Identification of Alternative Course of Action

Alternative Comparison Grid

Alternative Financial Analysis

ISSUES AND CONCERNS AND IDENTIFICATION OF ALTERNATIVE COURSE OF ACTION

50 points

Now that you've analyzed the property itself and the market around it, provide a synopsis of the issues you've identified that are relevant to the future operations of the property. These concerns may be problems that the property is currently experiencing, 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.

This might include the physical condition, management and staff, market trends, tenant mix, environmental concerns, financing, operating expenses, or missed opportunities for additional income.

Discuss issues and concerns that have arisen in the course of your analysis, list them in order of priority along with their cost, and explain why each is of concern to the property's future performance, given ownership goals. Describe the Capital Improvements, operational changes, and/or repositioning needed.

Do not introduce any new concerns in this section. All issues and concerns discussed here should be those that you have already identified in the course of your analyses.

This section should include:

- Discussion of issues in order of priority
- Cost of each item, if applicable
- Explanation of why each is a concern
- Identification of the Alternative scenario(s) to test cures
- Description of capital improvements and/or changes associated with the Alternative(s)
- Source of funding for all capital improvements

ISSUES AND CONCERNS: SAMPLE

*Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. **Samples are condensed and are not necessarily representative of the page total expected for each section.***

Issues and Concerns [Excerpt]

Upon conducting a complete analysis of the subject property, two major issues have been identified: an inadequate Energy Management System (EMS) and the absence of a marketing/leasing plan.

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 touch plate 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.

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 concern which should be further addressed for system efficiency.

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 result in higher operating expenses, lower rental income, and reduced occupancy. Thus, this prevents the owner from achieving the desired 10% internal rate of return investment goal, as well as the goal to increase property value by \$1,200,000 or more.

Two courses of action have been examined in response to the identified issues and concerns at the subject property:

1. Do nothing and continue to operate the property As Is
2. Install new Energy Management System (EMS) controls

As Is

To continue operating the subject property 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 alternative may 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, a 10% IRR, or improving the property's value over the five year holding period.

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.

Alternative: Install 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. 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.

ALTERNATIVE COMPARISON GRID ANALYSIS

50 points

The comparison grid of the IREM® MPLIND Spreadsheet allows you to draw conclusions about market rents for the subject property by examining comparable buildings. You must include a comparison grid in your plan using the IREM® MPLIND Spreadsheet.

After completing the comparison grid, provide narrative to explain the adjustments you made and the rent at which you arrived. It should include an analysis of the data as it relates to the subject property. The Comparison Grid must be included in the Appendices.

Use this rent figure and multiply it by units or square footage to determine the property's Gross Potential Income (GPI) of the As Is pro forma statement of cash flow.

Compare at least three comparable properties, including:

- Descriptions and photographs of each
- Degree of comparability between the subject and comparables
- Explanation of subject market rental rates

For more information on comparison grid analyses, refer back to your IREM Marketing and Leasing course, or visit www.irem.org for more resources.

COMPARISON GRID ANALYSIS: SAMPLE

*Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. **Samples are condensed and are not necessarily representative of the page total expected for each section.***

Comparison Grid Analysis [Excerpt]

There are 19 Class B mid-rise buildings totaling 1.6 million square feet of space within a 10-mile radius of the subject property. Although some of these locations have space availability that can compete with the subject, the majority can be discounted as direct competition because of inferior location, physical plant differences, or lack of available parking to accommodate the increased occupancy. The following information summarizes three office rental properties that are physically comparable to the subject property.

Comparable One



Comparable One is a three-story building containing 43,200 square feet of gross floor area. It is located approximately one-half mile east of the subject property and is very comparable to the subject property. The building is 25 years old with single-pane inoperable windows set in pre-cast concrete panels. The building is all electric and the tenants are metered for their individual electric use. HVAC is provided by a variable air volume (VAV) system. Cost associated with the VAV system is an operating cost of the building and included in the asking rent of \$18.00 per square foot. The property has 215 parking spaces, none of which are designated as visitors' spaces. Vacancy (as of last year) was 600 square feet or 1.39%. This property sold 6 months ago for \$63/sq.ft. based on an NOI of \$246,000.

Comparable Two



Comparable Two is a four-building complex of three floors each, with a total gross floor area of 60,000 square feet. The project is located less than one-half mile north of the subject property and is comparable to the subject property. The property is 14 years old with thermal-insulated double-pane windows set in a concrete block wall with a brick façade. The building is all-electric and the tenants are metered for their individual electric use. HVAC is provided by a variable air volume (VAV) system. Cost associated with the VAV system is an operating cost of the building and is included in the asking rent of \$19.00 per square foot. The property has 300 parking spaces. A suitable portion of these spaces is marked for visitors only. Vacancy (as of last year) was 9,600 square feet or 16.0%. This property sold 8 months ago for \$66/sq.ft. based on an NOI of \$365,000.

Comparable Three



Comparable Three is a three-story building containing 70,000 square feet of gross floor area. It is located approximately 1 mile from the subject property and is somewhat comparable to the subject property. The building is 24 years old with single-pane non-operable windows set in an all-brick exterior façade. The building is all electric and the cost of this utility is included in the building operating cost. HVAC is provided by a variable air volume (VAV) system. Cost associated with the VAV system is an operating cost of the building and is included in the asking rent of \$16.00 per square foot. The property has 245 parking spaces, none of which are marked for visitors only. Vacancy (as of last year) was 6,658 square feet or 9.5%. This property sold 2 years ago for \$58/sq.ft. based on an NOI of \$325,000.

The comparison grid analysis brought to light some differences between the comparable properties and the subject property. Comparables 1 and 2 were superior to the subject property in a few categories such as common areas and elevators and were therefore adjusted downward. Comparable 3 was inferior in the categories of exterior, common areas, office space, and visitor parking and was therefore adjusted upward in these categories. Ultimately, the average adjusted effective market rent for the subject, according to the comp grid, should be \$17.50 per square foot.

ALTERNATIVE FINANCIAL ANALYSIS

200 points

The Alternative course of action you've identified will have a financial impact to property income, expenses, or both. In this section, evaluate and explain the financial impact of the Alternative scenario you have chosen, including the following:

- Alternative Pro Forma Statement
- Alternative Current Market Value and Equity
- Alternative Cap Rates
- Alternative Four Tests

Again, it is highly recommended that you use the IREM® MPLIND Spreadsheet to perform your financial analyses. This tool is available through your online tutorial and at www.irem.org and is free for Members. Webinars on using this tool are also available at www.irem.org or gain additional instruction through the IREM ASM course series.

If the MPLIND Spreadsheet is not used, a comparable financial analysis tool must be used and submitted with your plan.

Like with the As Is financial analysis, provide a detailed discussion for the Alternative financial picture:

- Completed Alternative pro forma statement
- Explanation of escalation percentages used
- Discussion of Net Operating Income
- Capital improvements costs
- Current market value
- Current equity reflecting cost of improvements
- Alternative going-in and going-out cap rates
- Alternative four tests
 - Cash-on-cash rate of return (\$/\$%)
 - Value enhancement
 - Net present value (NPV)
 - Internal rate of return (IRR)
- Relationship to owner goals

Summarize your test results for both the As Is and Alternative scenarios in a matrix such as this:

	Year 1 \$/\$%	Value Enhancement	Net Present Value (NPV)	Internal Rate of Return (IRR)
As Is Scenario				
Alternative Scenario				

The goal of these tests is to demonstrate the cost-benefit relationship of each scenario. Sometimes, however, all tests will not point to the same scenario. For example, NPV could point to the As Is scenario as the best option, while the value enhancement points to the Alternative scenario. When this occurs, state which analytical method or methods are preferable given the ownership goals and provide your reasoning.

ALTERNATIVE FINANCIAL ANALYSIS: SAMPLE

*Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. **Samples are condensed and are not necessarily representative of the page total expected for each section.***

Evaluation of Alternatives [Excerpt]

Both the As Is and Alternative scenarios were tested to determine their suitability and adherence to the following ownership goals:

- Retain ownership of the building for at least five years
- Achieve a cash-on-cash rate of return of at least 8% in the stabilized year
- Operate the property to achieve an IRR of at least 10%
- Enhancing the value of the property

As displayed in the pro forma statement, GPI was estimated by grossing up the market rental rate which was determined by the comparison grid analysis. Based on lease escalations already in place, GPI is projected to rise by 3% per year. Expense line items in the categories of utilities, maintenance, administration, taxes, and insurance were also estimated based on historical data. Utilities are projected to continue rising at a rate of 5% each year. Maintenance contracts for landscaping, janitorial service, and painting have built-in 3% increases. Payroll costs are estimated to increase by 4% per year based on cost of living and merit adjustments as well as the rising cost of benefits. Insurance and real estate taxes have risen at 3% and 5% respectively and thus are expected to continue to do so.

As part of the before-tax cash flow analysis, all loan variables were entered including the loan amount, interest rate, and amortization period. The owner's desired return was provided at 10%. The current capitalization rate was determined by examining the local market. Five recent sales of comparable properties taking place within the last 12 months indicated a range of capitalization rates from 7.7% to 8.25%. The Kapp Real Estate Investor Survey for the Fourth Quarter of this year indicated capitalization rates from 7% to 8.5% for the subject type of property with an average of 8%. Two leading local brokerage firms active in the sales of this type of property were interviewed and indicated a capitalization rate range for the subject property of 7.85% to 8.15%. Based on all of this date, a going-in cap rate of 8% was used. The going-out cap rate was estimated slightly higher at 9%, due to taking into account risk over time.

The results of the four tests in the as-is scenario are as follows:

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

This test looks at a one year snapshot in time and is calculated by dividing one year’s before-tax cash flow by the current equity. The cash-on-cash rate is useful in measuring the return of any new capital investment in the property. In the as-is scenario, cash-on-cash for Year 1 is equal to \$77,532 / \$875,000 or 8.86%.

Value Enhancement

This test takes the expected value at the end of the holding period and subtracts the initial value and the cost of any capital improvements. It is a measurement of return over two periods of time—acquisition and disposition. It does not take into account the effect of the time value of money. In the as-is scenario, value enhancement is equal to \$2,608,500 minus \$2,500,000 which is \$108,500. There are no capital improvements to take into account in the as-is scenario.

Net Present Value (NPV)

This test measures whether a specific investment will meet the owner’s goal rate of return. 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 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. If the NPV is equal to zero, the tested discount rate is equal to the Internal Rate of Return (IRR). In the as-is scnearion, NPV is (\$38,734) indicating that the desired discount rate of 10% was not met.

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 IRR. The highest IRR among the alternatives is one indicator that the Alternative scenario is the best option if all other factors are equal. In this case, we know the IRR is less than 10% since NPV was negative. The IRR test shows us that it is equal to 8.82%. This means that ownership would achieve a return of 8.82% on this investment over time.

Results Matrix

Results of the four tests of investment return for both As Is Scenario and Alternative Scenario are shown in the matrix below. The As Is Scenario has higher Year 1 cash-on-cash return. This is due to the capital investment of \$300,000 made in the Alternative Scenario, which raised the owner’s equity.

However, the Alternative Scenario has higher overall value enhancement and a positive NPV, which indicates that the owner’s desired return of 10% was exceeded. The Alternative Scenario IRR is projected at 12.75% compared to just 8.82% in the As Is Scenario.

Test	As Is Scenario	Alternative Scenario
Cash-on-Cash Rate of Return	8.86%	6.60%
Value Enhancement	\$108,500	\$469,681
Net Present Value (NPV)	(\$38,734)	\$135,359
Internal Rate of Return (IRR)	8.82%	12.75%

7: Recommendation

Once the As Is and Alternative scenarios have been tested, a recommended course of action is reached based on all analyses and ownership goals.

IN THIS SECTION

Recommended Course of Action

RECOMMENDED COURSE OF ACTION

75 points

Now that you've conducted a property and market analysis, identified issues and concerns, and tested several courses of action, it is time to make a recommendation to ownership based on your findings.

Summarize the courses of action that were tested and explain why the adoption and implementation of your recommendation will be consistent with ownership goals. Be sure to restate these goals. Discuss how the recommendation will address issues and concerns at the Subject and refer to the results of the four tests to support your decision.

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

Use the following list to assist you:

- What is the implementation timeframe? Will changes be phased in or implemented immediately?
- What are any potential risks and exposures pertaining to the recommended course of action?
- Will the plan be financed out of cash flow, through refinancing, or via a cash contribution from ownership?
- What are the capital budget and sources and uses of capital?
- What is the marketing and leasing plan necessary to achieve the recommended results? Who is the target market? How will recommended rental rates and target occupancy levels be achieved?

RECOMMENDED COURSE OF ACTION: SAMPLE

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Recommended Course of Action [Excerpt]

Throughout this management plan, the as-is scenario and a second potential course of action were analyzed to determine the best plan for the subject property. Based on the findings of the analyses, the recommended course of action is to implement the Alternative Scenario, the installation of energy management system (EMS) controls.

Implementation of EMS controls would decrease annual energy costs therefore increasing before-tax cash flow over time. This leads to a greater value enhancement and a higher return on investment throughout the five year holding period. This Alternative Scenario exceeds the long-term goals of ownership which are an IRR of 10% and enhancement of the Subject's value. Specifically, the Alternative Scenario will bring ownership an IRR of 12.75% and will enhance the value of the subject property by \$469,681. While Year 1 cash-on-cash return is slightly lower in the Alternative Scenario, this measure is not as critical given that ownership plans to hold the property for the longer-term.

It is recommended that the EMS controls be implemented within the current year, specifically within the next three months so that the benefits can be immediately realized. A minimum of three vendors will be explored and a bid will be requested from each. After an evaluation of each vendor and the associated bids by ownership and management, the project will be awarded and implementation will begin. The implementation should not be disruptive to ongoing business operations and should take 4-6 weeks.

The project will be funded via a 50% cash contribution from ownership and from 50% capital improvement funds out of the capital budget. No financing will be involved.

Going forward, the property will be able to market more efficient energy systems to potential tenants. As seen in the revised comparison grid, this capital improvement is projected to contribute to a rental rate increase of 2%. This, coupled with the decreased utilities expenses will continue to increase NOI and value of the subject property over time, meeting the goals of ownership.

8: Appendices

A typical management plan may contain appendices at the end with additional information to support the body of the plan.

IN THIS SECTION

Supporting Material

Certificates and Disclosures

Qualifications of Analyst

SUPPORTING MATERIAL

15 points

Include in the appendix any supporting material that, due to length, was not included in the body of the plan. All material should be clearly labeled and referenced in the body of the plan.

Printed versions of your MPLIND or comparable spreadsheet for the As Is and Alternative Scenarios can be included here

You may wish to include a list of appendix exhibits at the front of the appendix and reference page numbers of each item.

Don't include extraneous material to bulk up your plan—include only information that is relevant. Your plan is evaluated on quality of content, not length.

- Comparison Grid(s)
- Operating statements for the last three years (one of which may be the current year), including all income and operating expenses
- Pro forma statement of cash flow for As Is and Alternative scenarios
- Before-Tax Cash Flow worksheet for the As Is and Alternative scenarios
- Current rent roll, including tenant name and profile, square footage, monthly rent, annual rent, square foot rate, expiration date, options, pass-throughs, and any other pertinent lease terms

Supporting material might include:

- Exhibits, forms, maps, charts
- Photographs
- Site and floor plans
- Marketing materials
- Additional comparable properties
- Leases
- Management agreements
- Detailed cost estimates
- Detailed financing terms

Historical Data [Excerpt]

Note: The financial description should include a complete current operating budget, three years of operating history, and the rent roll.

	Account Number	Current Year	Year -1	Year -2	Year -3
Income					
Rent Income	5045-001	868,200	828,086	829,081	812,635
Miscellaneous	5125-001	0	18,096	0	0
Total Income		868,200	846,182	829,081	812,635
Operating Expenses					
Real Estate Taxes	6011-001	84,100	78,934	75,004	69,008
		84,100	78,934	75,004	69,008
Utilities					
Water	6021-001	8,000	3,816	4,598	6,588
Sewer	6022-001	4,500	2,890	4,162	2,935
Electricity	6040-001	186,544	204,994	200,678	174,999
Gas	6031-001	0	0	0	0
Total Utilities		199,044	211,700	209,438	184,522
Services					
Janitorial Contract	6130-001	51,447	48,938	44,331	48,555
Janitorial Supplies/Misc.	6132-001	2,448	7,601	5,651	5,438
Landscape Contract	6082-001	6,196	8,211	7,054	6,803
Landscape Supplies/Misc.	6083-001	6,232	4,295	3,807	3,666
Trash Removal	6120-001	3,600	5,641	5,434	5,009
Recycling	6121-001	1,050	390	388	309
Snow Removal	6122-001	4,362	8,800	10,616	7,760
Security/Fire Monitoring	6100-001	2,406	63	2,190	2,207
Security/Misc. Expense	6101-001	0	2,183	0	0
Interior Plant Maint.	6080-001	3,600	2,449	5,788	2,189
Window Cleaning	6131-001	3,600	1,773	1,646	1,554
Exterminating	6072-001	780	509	509	509
Miscellaneous Services	6181-001	0	2,165	0	0
Total Services		85,721	93,018	87,414	83,999

Rent Roll [Excerpt]

Note: The financial description should include a complete current operating budget, three years of operating history, and the rent roll.

SUITE	TENANT	RENTABLE SQUARE FEET	PRO-RATA SHARE	YEARS LEFT ON LEASE	LEASE DATE	MONTHLY RENT	ANNUAL RENT	RATE/ SQ. FT.	OPERATING COST	MISCELLANEOUS
102/104	Tenant One	6,725	10.68%	4	Current Year	7,285	87425	13.00		1. Security deposit of \$6,000.00 2. Electric separately metered
					Year +1	7,426	89106	13.25		
					Year +2	7,566	90788	13.50		
					Year +3	7,706	92469	13.75		
					Year +4	7,846	94150	14.00		
106	Tenant Two	3,800	6.26%	4	Current Year	6,257	75088	19.76		1. Security deposit: None 2. Electric separately metered 3. 2 – 2 yr options at market rent
					Year +1	6,413	76950	20.25		
					Year +2	6,574	78888	20.76		
					Year +3	6,736	80826	21.27		
					Year +4	6,891	82688	21.76		
202/204	Tenant Three Expansion space	6,131	9.80%	3	Current Year	6,642	79703	13.00		1. Electric separately metered 2. 1 - 5 yr option w/9 months notice at market rent + \$8/sq. ft. TI 3. Security deposit of \$1,500
					Year +1	6,765	81174	13.24		
					Year +2	6,902	82830	13.51		
					Year +3	7,025	84301	13.75		

As Is Comp Grid

	Subject	Comparable 1	Comparable 2	Comparable 3			
Property Name	A Property	B Property	C Property	D Property			
Base rental rate		\$12.00	\$13.00	\$13.00			
- Concessions							
+ Exp. pass-throughs							
+ Tenant-paid improv.							
= Effective rent		\$18.00	\$19.00	\$16.00			
Categories	Description	Description	+/- Adj	Description	+/- Adj	Description	+/- Adj
Location/accessibility	Great	Great		Great		Great	
Age	22	25		14	-\$0.75	24	
Market presence	Good	Good		Good		Good	
Building condition:							
Exterior	Good	Good		Good		Fair	\$1.00
Grounds	Good	Good		Good		Good	
Common areas	Good	Great	-\$1.00	Good		Fair	\$1.00
Office space	Good	Great	-\$1.00	Great	-\$1.00	Fair	\$1.00
Other							
Building systems:							
Elevators	Good	Great	-\$0.75	Good		Good	
HVAC efficiency	Fair	Fair		Fair		Fair	
After hours charge							
Life safety	Good	Good		Good		Good	
Other							
Available space:							
Location							
Floor plate							
Window modulation							
Other							
Parking:							
Type							
Visitor space	Good	Poor	\$0.50	Good		Poor	\$0.50
Cost to tenant							
Total rent adjustments			-\$2.25		-\$1.75		\$3.50
Adjusted effective rent			\$15.75		\$17.25		\$19.50
Average adjusted effective rent	\$17.50						

All figures are per annual rentable square foot.

Pro Forma Statement [Excerpt]

Note: The evaluation of each scenario should include a complete pro forma statement. The excerpt shown here is for sample purposes.

Income	Annual Increase	←-----				
		Year 1	Year 2	Year 3	Year 4	Year 5
Gross Potential Income (GPI)	3.00%	\$825,000	\$849,750	\$875,243	\$901,500	\$928,545
- Loss to Lease	0.00%	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
- Vacancy and Collection Loss	0.00%	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
= Net Rent Revenue		\$750,000	\$774,750	\$800,243	\$826,500	\$853,545
+ Miscellaneous Income	0.00%	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000
+ Property Tax Reimbursement	0.00%	\$0	\$0	\$0	\$0	\$0
+ Utility Reimbursement	0.00%	\$0	\$0	\$0	\$0	\$0
+ CAM Reimbursement	0.00%	\$0	\$0	\$0	\$0	\$0
+ Other Reimbursement	0.00%	\$0	\$0	\$0	\$0	\$0
= Effective Gross Income (EGI)		\$785,000	\$809,750	\$835,243	\$861,500	\$888,545
Operating Expenses						
<i>Utilities</i>						
Heat	5.00%	\$50,000	\$52,500	\$55,125	\$57,881	\$60,775
Electric	5.00%	\$30,000	\$31,500	\$33,075	\$34,729	\$36,465
Water and Sewer	5.00%	\$24,000	\$25,200	\$26,460	\$27,783	\$29,172
Total Utilities		\$104,000	\$109,200	\$114,660	\$120,393	\$126,413
<i>Maintenance</i>						
Landscaping	3.00%	\$55,000	\$56,650	\$58,350	\$60,100	\$61,903
Janitorial	3.00%	\$35,000	\$36,050	\$37,132	\$38,245	\$39,393
Painting and Decorating	3.00%	\$10,000	\$10,300	\$10,609	\$10,927	\$11,255
Maintenance Labor	0.00%	\$0	\$0	\$0	\$0	\$0
Maintenance Contract	0.00%	\$0	\$0	\$0	\$0	\$0
HVAC	0.00%	\$0	\$0	\$0	\$0	\$0

Before-Tax Cash Flow [Excerpt]

Note: The evaluation of each scenario should include a complete before-tax cash flow analysis. The excerpt shown here is for sample purposes.

ANALYSIS VARIABLES	
Loan Amount	\$1,875,000
Loan Interest Rate	6.00%
Loan Amortization Period (years)	25
Analysis Begin Month	0
Owner Required Return	10.00%
Going-IN Capitalization Rate	8.00%
Cost of Sale	3.00%

BEFORE-TAX				
	Year 1	Year 2	Year 3	Year 4
NOI	\$222,500	\$225,340	\$228,005	\$230,478
- Loan Principal	\$33,376	\$35,434	\$37,620	\$39,940
- Loan Interest	\$111,592	\$109,534	\$107,348	\$105,028
- Capital Expenditures	\$0	\$0	\$0	\$0
= BTCF	\$77,532	\$80,372	\$83,037	\$85,510

PROCEEDS				
	Year 1	Year 2	Year 3	Year 4
Sale Price	\$2,500,000	\$2,533,392	\$2,560,863	\$2,585,976
- Cost of Sale	\$75,000	\$76,002	\$76,826	\$77,579
- Loan Balance	\$1,841,624	\$1,806,190	\$1,768,570	\$1,728,630
= Net Sale Proceeds	\$583,376	\$651,200	\$715,467	\$779,766

5 Year T-BAR	
N	\$
Current Equity	(875,000)
BTCF Year 1	77,532
BTCF Year 2	80,372
BTCF Year 3	83,037
BTCF Year 4	85,510
BTCF Year 5 + NSP	931,789

FOUR TESTS OF INVESTMENT RETURN: Year 5			
Year 1 \$/\$%	Value Enh.	NPV	IRR
8.86%	\$108,500	(\$38,734)	8.82%

INITIAL ANALYSIS	
	Initial Value
Purchase Price	\$2,500,000
+ Acquisition Expenses	\$0
+ Points, Fees	\$0
= Original Basis	\$2,500,000
- Loan Amount	\$1,875,000
= Initial Equity	\$625,000

MIDSTREAM ANALYSIS (if applicable)	
	Value
Current Market Value	\$2,750,000
- Cost of Sale	\$0
- Current Loan Balance	\$1,875,000
= Cash-Out Potential	\$875,000
+ Capital Improvements	\$0
- New Loans	\$0
+ New Points, Fees	\$0
= Current Equity	\$875,000

	Year 5 BTCF	Sales Proceeds
BTCF Year 5 + NSP	931,789	844,019

CERTIFICATES AND DISCLOSURES

5 points

You must certify that all analyses, opinions, and recommendations contained within the management plan are your own unless otherwise disclosed. If any outside resource materials or assistance were 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 referenced to formulate conclusions and recommendations.

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

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

Finally, be sure to sign and date any statements.

QUALIFICATIONS OF ANALYST

5 points

Cite your educational background and experience that supports your ability to write the management plan. This should not simply be a resume, but rather a narrative summary explaining why you are qualified to prepare the report and make the enclosed recommendations.

Because you are preparing this plan for an owner, it should not be stated that the plan is completed as a CPM requirement or “for REIC or IREM.”

QUALIFICATIONS OF ANALYST: SAMPLE

*Note that font size has been reduced and page numbers omitted for the purpose of providing samples in this handbook. **Samples are condensed and are not necessarily representative of the page total expected for each section.***

Qualifications of the Analyst Michelle A. Smith

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.

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 20XX, 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 from IREM have prepared me to develop this management plan for the subject property.

9: Appearance and Style

50 points

While appearance and style are not items in the plan outline, a management plan will be evaluated on these elements.

IN THIS SECTION

Format

Organization

Length

FORMAT

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 narrative style—grammar, syntax, and choice of words—is an essential ingredient of your management plan. Avoid using first person narrative (i.e., “I” or “we”). Instead, use a professional business writing style. Pay careful attention to spelling, punctuation, and grammar. Use the spelling and grammar checking function of your software. Consider having your plan proofread by a colleague.

Be sure to number all pages, including those in the appendices. It is highly recommended that you have your plan professionally bound. Please do not use a three-ring or loose leaf binder, as it is may come apart in shipping.

ORGANIZATION

A well written plan flows smoothly and logically and permits the reader to readily grasp your ideas and objectives. Follow the IREM® management plan outline, including all components in this handbook. Start each major section on a new page—make it “user friendly.” Many Candidates choose to identify major sections with tabs.

LENGTH

A plan is not judged on length—it is quality, not quantity that the reader is looking for. A rough estimate of the suggested length of a management plan is 100 pages. Brevity, but clarity, should be sought whenever possible. Omit extraneous material and emphasize what is important and relevant.

10: Frequently Asked Questions

ON SELECTING A SUBJECT

Q: I'm having difficulty locating a subject property. Where should 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 easily accessible, even more so if you have the full cooperation of the owner, property manager, and property staff. In addition, the plan will be more 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." –CPM® Candidate

"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." –CPM® Candidate

If you cannot obtain permission to use a property in your company's portfolio, you might consider these options:

- 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, client, broker, property owner, or lender—these sources may appreciate and benefit from a copy of your completed plan, which you can provide in exchange for permission to use their property

- A prospectus about an investment property that is for sale will typically contain sufficient information on which to base a management plan

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

A: No. The minimum criteria for subject properties, as outlined in the Management Plan 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 meet the minimum requirements stated in the Management Plan Handbook. Calculate the percent of minimum requirements for each individual property type to determine if the property meets the total minimum size required.

For example, if the property you have selected has 35 residential units and 12,000 square feet of commercial space, you would calculate the total size as follows. As long as the figures total 100% or greater, the property may be used.

Number of Units/SF	Percent of Minimum Requirement
35/50	70% of minimum residential
12,000/40,000	30% of minimum commercial
TOTAL	100% of minimum

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. Also, explain that you are writing your plan using only the residential units of a mixed-use property.

Q: What if my building has no debt service?

A: If there is no debt on the subject property, present as one of your options as a scenario in which the owner would like to implement an improvement project 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. Discuss information about current loans in the market.

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. To be sure that the plans themselves are not duplicated, when a management plan is received at REIC and 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 REIC or IREM® Ethics department.

Every property manager has his or her own philosophy, approach to problem-solving, and style of writing; therefore, no two plans should be similar even if the property is the same.

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 write a thorough management plan.

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

A: Yes, as long as it is current. However, you will need to be careful about how you present your conclusions. If, after you have identified and analyzed your scenarios, you determine that the best course of action is the one that has become 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 has already been implemented.

ON WRITING THE PLAN

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

A: First, carefully read through all of the IREM® Management Plan 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 "right" approach. Choose the one that will work best for you.

"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." –CPM® Candidate

"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." –CPM® Candidate

A number of Candidates have found success by using a project plan—set milestones with deadlines to break the large project into more manageable tasks.

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

A: Possibly, but overcoming obstacles is another test of your abilities as a 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." –CPM® Candidate

"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." –CPM® Candidate

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

A: The answer to both questions is no. You do not have to recreate the entire rent roll 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, include them in the appendix and reference them 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?

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 most clear. If there are numerous maps and charts, they may deter from the flow of the plan and probably should be put in the appendix. A single map or chart, on the other hand, may work well 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 include supporting material in the appendix, label it clearly and reference the material and its page number in the body of the plan. Supporting materials should be relevant and not extraneous.

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 plan. 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 roughly 100 pages as a good length for a plan.

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. If you don't refer to an item in the appendix, don't include it.

"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." –CPM® Candidate

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

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

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 a business associate or CPM® Member in the area where your property is located. A colleague may have comparable properties you can use in your plan or may know the owners of properties you would like to use. This is an excellent opportunity to develop your networking skills.

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

A: Your analyses should be based on *before-tax cash flow*, defined as net operating income (NOI) 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 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 don't fully understand how to perform a comparison grid analysis or calculate one of the four financial tests. Where can I turn for help?

A: Please refer to your IREM® course materials, including those listed below. In addition, there are several resources such as interactive learning modules and other skill builders available on the IREM® Web site: www.irem.org.

- Marketing and Leasing (MKL404, MKL405, or MKL406)
- 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 performing all of the tests, what if the results are inconclusive? What if some tests show that the As Is scenario is better, while other tests suggest that the Alternative scenario is better?

A: If all of the tests do not clearly point to a single option, you need to decide which of the tests is most valid for your particular property based on ownership goals and objectives, and explain why in the report.

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, and reach your own conclusions,

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.

"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." –CPM® Candidate

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

A: Candidates have spent anywhere from 50 hours to over 150 hours completing their management plans, with the average being about 100 hours. Of course, the amount of time you spend on your plan will depend on many factors, such as:

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?

The accessibility of information. Is the subject property is from your own portfolio? Do you have the cooperation of the owner and other staff members?

"I budgeted nine hours every Saturday for three months to work on my plan, which did not include time doing other business activities." –CPM® Candidate

"I was fortunate to be permitted by the owner to work on my plan a few hours a day during business hours...but I also worked a lot of weekends." –CPM® Candidate

Q: I started on my management plan ten months ago and 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 such as market information in your management plan is no more than 6-12 months old, you can still submit your management plan. If the data is more that 12 months old, you will want to revise your plan with more current data.

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. In addition, students may request guidance from a CPM® Member while preparing a management plan. Contact the Instructor and Grader Administrator at (312) 329-6047 for additional information.



PLEDGE OF CONFIDENTIALITY

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 REIC National and IREM® Headquarters staff and at most two trained graders. No further use is made of the plan by REIC or 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

Chief Operating Officer