

JPM[®]

Journal of Property Management

IREM[®]
INSTITUTE OF REAL ESTATE MANAGEMENT

January/February 2021 Vol. 86, No. 1

Owners' forecast

*Best practices and
projections for the
road ahead*

- › The rise of industrial demand
- › New HVAC technology
- › Anchor tenants in Shanghai



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Jan.Feb 2021 / Vol. 86, No. 1

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JPM®, *Journal of Property Management* (JPM® ISSN 0022-3905) is published bimonthly by the Institute of Real Estate Management, 430 N. Michigan Ave., Chicago, IL 60611. Internet: www.irem.org. This publication is provided as a medium for the expression of individual opinion concerning management practices and procedures. The articles and advertisements printed herein do not necessarily represent the endorsement of the Institute of Real Estate Management or of the majority of its members excepting such statements that are so designated. The editors exercise only a general supervision of the material and assume no responsibility for claims made in advertisements or for opinions and statements expressed in articles.

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Postmaster: send address changes to JPM®, *Journal of Property Management*, Fifth Floor: 430 N. Michigan Ave. Chicago, IL 60611. Printed in U.S.A.

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Publication Management
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President's letter

After weathering the storms of 2020, as the 2021 IREM President, I'm turning the page over to a new year and a fresh, clean start. The historic challenges we faced? Those are left behind, and we're all back to our own version of the "business-as-usual" state of affairs we'd been pining for throughout the previous year.



Chip Watts, CPM, CCIM

Oh, but if only that were the way of things.

As leaders in real estate management and in our communities, we excel by meeting challenges head on, armed with a clear understanding of the situation and a game plan for how to navigate our way (and our owners' ways) to the best possible outcome. And

this much is clear: As tired as we all may find ourselves (researchers have dubbed this "crisis fatigue"), the challenges of 2020 remain the order of the day as we start the new year. This issue of JPM offers a look at owners' outlooks and the conversations that are top of mind as we take a moment to plan for the year ahead.

Striving to meet our owners' goals and objectives is what defines our work every day as property managers; in that way, this year is no different than any other. You can get a close-up look into one property investor's current view of the market in the owners' goals feature on **P6**. One step we can all take in finding our way through the upcoming year's challenges will be making our spaces as safe as possible for those who use them. Check out the technology column on HVAC on **P24** for an overview of some of your best options for ventilation and airflow systems as part of your approach to building and occupant wellness.

One of the enduring values that IREM offers to our members — where we excel—is in our commitment to institutional learning. The many years that IREM has been serving the real estate management profession have seen a long, unbroken chain of lessons earned from lessons learned. Go beyond industry standards and look to best practices as we all continue to grow as real estate professionals. Read more on **P12**.

Where one sees a challenge, another spots an opportunity; IREM members are opportunity seekers. What better



example of that than completely reimagining the future potential of an underperforming property? In the feature on adaptive reuse on **P16**, you can read about what distinguishes it as a unique form of property redevelopment and how that translates into a need for specialized management experience.

An exciting addition to JPM that I'm proud to see make its first appearance is our new column on diversity, equity, and inclusion (DE&I). Take the opportunity to get a better idea of what DE&I really means and why it's important in this debut installment on **P28**.

As we were finalizing this issue of JPM, we received the sad news of the passing of former IREM President Lloyd D. Hanford Jr. Lloyd was a true pillar of IREM, and you can read about his life and impact in a tribute to his legacy on **P10**. We also remember our other IREM members who passed during 2020 in our annual tribute on **P37**.

Throughout this new year, we'll continue to support you, our members, in the ways you want to be supported. We all stepped up to face real challenges in 2020, and I look forward to making sure we continue to do so in 2021.

W.A. "Chip" Watts IV, CPM, CCIM
IREM President



From mall to “mini city”

Brookfield Property Partners is giving approximately 100 shopping malls new lives as “mini cities.” Brookfield estimates it will spend between \$800 million and \$1 billion annually over the next few years as it adds office and/or residential space to the shopping destinations. Another 25 shopping malls will be refurbished with the intention of selling them. All of the shopping centers were part of Brookfield’s 2018 General Growth Properties (GGP) acquisition.

Source: ICSC, “Brookfield to convert GGP malls to mixed-use ‘mini cities’”

Changing work landscape

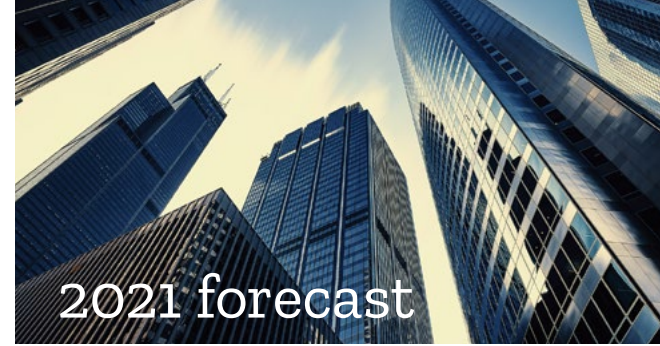
The Urban Land Institute recently released the “Future of Work 2020: A global real estate players’ point of view,” which surveyed 555 real estate professionals worldwide. The report offers professionals’ predictions of what long-term changes they expect to see in work and office spaces.

- 96% expect increased demand for flexible office footprints
- 66% expect flexible lease contracts
- 60% expect more widespread use of coworking facilities by large corporate occupiers

Source: Urban Land Institute, “Future of Work 2020”



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2021 forecast

CBRE recently released its 2021 U.S. Real Estate Market Outlook, looking at retail, multifamily, data center, office, and industrial spaces, among other industry considerations. Below are some of the highlights of the report:

- > Nearly **250 million square feet** of industrial net absorption is expected in 2021, more than the previous five-year annual average of 211 million square feet.
- > U.S. multifamily investment is expected to increase by 33% in 2021 to **\$148 billion**.
(Read more about the demand for industrial properties in the property spotlight column on P32.)
- > After record growth in 2020, e-commerce sales are forecasted to slow in 2021 as brick-and-mortar sales rebound. This predicted decline in the rate of e-commerce sales growth would be the first decrease since 2008.

Source: CBRE

“Learning and innovation go hand in hand. The arrogance of success is to think that what you did yesterday will be sufficient for tomorrow.” —William Pollard

A renter’s market

In cities with historically robust rental markets, landlords are learning to make concessions to fill up their units with desirable tenants.

In New York City, where median rent prices are at their lowest since 2011, here are some ways landlords are attracting renters:

- No fees.** Seeing a lease without a broker’s fee is enticing to potential renters.
- Free rent.** A month or two of free rent is no longer just a nice offering—it may be essential.
- Wiggle room.** Landlords are more open to negotiate on issues like length of the lease or other policies.
- In-unit amenities.** For renters concerned about keeping social distance and reluctant to use a public laundromat, in-unit washers and dryers are becoming hot selling points.

Source: Forbes, “Manhattan’s rental market is all about concessions and more concessions”



Owners' outlook

A reflection and look at what's to come

By William Sheridan, CPM, CCIM

In a world currently filled with more uncertainty than I've experienced in my lifetime, it's only appropriate to write an article discussing how 2021 might look. At first blush, one might very well consider the Ouija board as reliable a source of guidance these days as any other. But upon reconsideration, I find there are some great lessons worth sharing from my perspective as a small owner of multifamily property in Northern California.

My home in Chico, California, has certainly had its share of challenges over the past few years. My wife and business partner, Geralyn Sheridan, and I have been most fortunate to have weathered the storms well. This outcome is thanks in large part to our business and property management decisions, along with, of course, a certain amount of luck.

The lead-up to 2020

We are risk-averse cash flow investors and always have been. Our view is simple: Why purchase an asset for the long term that does not generate an acceptable cash flow? This aversion to risk has led us to be generally cautious when making business decisions. Leading up to 2020, the pillars of our multifamily operations were based on strong underwriting of our residents, responsive facility maintenance, the retainment of strong cash reserves, and an overarching philosophy that if we take good care of our property and our residents, the profits will surely follow.

Our thoughtful and studious approach to the profession has led us to carefully study the practice of being a real estate investor and operator both in professional organizations and within academia. This combination of a solid education and a well-maintained professional IREM network have proven to be invaluable to us and our business strategy.

The decision to transition

In late 2019, we decided to sell our student housing property in Chico and began looking for a new opportunity. The uncertainty being injected into the real estate rental business in California presented a risk that was too great for comfort, so we began to consider investing in other states. Moreover, the city of Chico is essentially a single-industry town, with the primary employer being the California State University, Chico. That reality also presented significant financial risk. As long-term cash flow investors with a goal of achieving stability well into the future, we ultimately determined that investing exclusively in California was no longer looking like a sensible approach.

Search location determination

After careful consideration, we focused our search in two markets: Reno, Nevada, and Denver, Colorado. As previously mentioned, we rely on our professional network of colleagues and mentors for decision support. That cadre is also key to our business continuity strategy. In Reno, several friends I have known for years oversee local management operations and are personally invested in that metropolitan statistical area. Unfortunately, we found nothing there that sufficiently whet our appetite.

We then explored Denver. As an alumnus of the University of Denver's Burns School of Real Estate, where I earned a master's degree in real estate, I have friends and advisors who I knew could provide the local support we would need if investing there. Fortunately, I hold a real estate broker license in Colorado, which we knew would allow for a smoother transition. Each of these factors made Denver an appropriate locale to consider.

Image: iStock.com/Andrei Samescu

Asset class determination

When we went in search of an opportunity, we decided that a pure multifamily asset was not something we wanted to pursue, so we studied various other asset classes. The most desirable was the logistics subclass within the industrial asset class, but that proved to be unfeasible for a couple of reasons. First, it would probably be a single user, and in late 2020 that simply presented too much risk. Second, being a competitive player calls for a large facility, probably over 500,000 RSF. I would have wanted precision-leveled floors, 32 feet or more in clear height, and modern construction. A nice wish, but beyond our means.

Other possible choices included grocery-anchored properties with inline tenants, properties that included essential businesses like medical office and other service-provider tenants, or flex space in great locations. We utilized this search criteria in line with our financial limits and began to explore.

**The search and the purchase**

First, we took a run at a beautiful 65,000-square-foot flex space in Broomfield, Colorado. When studying the tenant rollovers, we consulted with experienced tenant reps who advised that we should budget \$50–\$70 per square foot for tenant improvement allowances—a cool \$1 million in tenant improvements for a 20,000-square-foot space. Then, we obtained the roofing report, which indicated that the 65,000-square-foot roof would need replacement soon at a cost of \$750,000. We passed on that opportunity, as it seemed like a fast track to oblivion.

Next, we found a five-building, mixed-use property in nearby Arvada. It was newer, with buildings constructed between 2002 and 2019. Its construction was top notch—all steel and concrete with brick curtain walls. The tenancy was primarily medical office, professional consultancy, some multifamily,

salon services, the neighborhood bar and grill, and a successful pizza restaurant. We liked the diverse tenant mix, the asset class of the tenants, and the quality of the asset.

After some discussion, we prepared a letter of intent and optioned the property. At the same time, we prepared an offering memo for us to be relinquished of the student property in Chico. Our sale in California consummated in December 2019, and we closed on our new Colorado property in January 2020.

Fast forward—February 2020

In early 2020, we were well postured to address a market cycle. Having said that, nothing could prepare us, or anybody else, for COVID-19.

On Feb. 28, we notified all tenants of the serious nature of this pandemic and sent a copy of the CDC guidelines to each tenant. This was immediately after people from around the nearby Travis Air Force Base tested positive for this new virus.

In the ensuing months following the outbreak of COVID-19, we fared somewhat better than many. We attribute our good fortune to our adherence to applying industry best practices and ethical behaviors toward all tenants and to our careful considerations when making the Arvada purchase.

Post-COVID-19 outcomes

As we enter 2021, I can evaluate just how we have fared.

Our Chico multifamily asset, a conventionally financed 84-unit property, has experienced a normal cycle of notices and re-rents. We did have one COVID-19 request for relief, but that tenant had a capable co-signer; clearly our underwriting policy paid off there. As of this writing, that asset is unaffected by COVID-19, but our concerns for the next few months remain as the impact of COVID-19 benefits phasing out takes hold.

Our decision to diversify outside of California was in part a result of the single-industry community based in Chico, as related to California State University, Chico. On May 12, 2020, California State University Chancellor Timothy White ostensibly closed the entire CSU system, including the Chico campus. In August 2020, when the limited students did return, many proceeded to socialize in groups, and COVID-19 spiked. Immediately thereafter, the campus was again shut down for all on-campus classes. Our old asset appears to be struggling, and we are fortunate to be watching from afar.

Meanwhile, our Colorado asset is at 91% occupancy, with most of the vacancy coming from a brand-new building with space just being finished. We have had only a couple of COVID-19 workouts from commercial tenants. In both cases we agreed to cast the deferred rent across the entire term of their current leases with the incremental income stream subject to the normal bumps to adjust for inflation.

Our management philosophy has served us well in the past and serves us well today, despite industry challenges brought about by the pandemic. And we aren't the only ones. Jeff Lapin, CPM, vice president of property management with Rocklin, California-based Coastal Partners, LLC, echoed this confidence. "We are optimistic about the market prospects in most areas in 2021 based on the strong pre-COVID-19 economy and how quickly the economy is currently recovering." He added, "Our goal remains the same as it was before COVID-19, which is acquiring properties that have significant upside potential based on solving preexisting issues with marketing, market positioning, physical challenges, and large vacancies."

Lessons learned

Claudia Yorton, CPM, of C.Y. Property Management, Inc. in Chico, California, is looking ahead to 2021 with an eye on keeping properties competitive. "Going into 2021, we would advise that property owners and managers keep rents stable, keep a close eye on the competition, focus on tenant retention and satisfaction, cut unnecessary costs, and start planning now for big expansion and new strategies to implement as soon as the market starts to open up again."

I believe the next pandemic is around the corner and will probably occur within our lifetimes. We want to be ready and generally well prepared. Below are a couple of key takeaways from our experience as property owners heading into 2021.

Tweaked asset management criteria

We have changed our search parameters for any future business we may engage in. We now augment our asset class approach to include an essential tenancy consideration. We thoroughly think through questions like: "Does current or emerging technology threaten the tenants' business models?" and "Do COVID-19 or social distancing requirements threaten the viability of the tenants' businesses?"

We thoroughly think through questions like: "Does current or emerging technology threaten the tenants' business models?" and "Do COVID-19 or social distancing requirements threaten the viability of the tenants' businesses?"

This approach will give us more clarity and foresight in decision-making on all levels as we move forward. When looking at a prospective asset, we apply the same asset-class consideration in our search criteria, but we will evaluate the tenancies or potential tenancies to ensure these entities are essential in nature.

Practice restraint

The rush to keep deal flows going can be insatiable for investors, brokers, and lenders throughout the nation. On Oct. 22, 2020, Trepp noted in its podcast that large commercial mortgage-backed securities (CMBS) borrowers, primarily with shopping malls, are now offering and obtaining approval to engage in "deed in lieu" workouts, whereby mall owners hand over the keys and a quitclaim deed, losing all equity. It was reported by Trepp that some \$40 billion in loans are in the pipeline or have already deeded back property. Also concerning, especially with respect to CMBS deals, are the looming maturities that must be refinanced. Lenders will adjust spreads as a risk mitigation on these lower-quality properties and borrowing costs will increase substantially for some.

As we move through the new year, investors would be well advised to curb their desire for deal flow in favor of a more responsible asset-class selection criteria. ▀

William Sheridan, CPM, CCIM, is the 2021–2022 IREM regional vice president for Region 11, encompassing chapters in California and Hawaii. Together with his wife and business partner, GERALYN, he has 36 years' experience in the acquisition, development, operation, and disposition of multifamily and mixed-use assets in California and Colorado.



Tribute to Lloyd Hanford Jr., CPM Emeritus

Honoring the legacy of an IREM icon



IREM lost one of its most inspirational and influential leaders when Lloyd D. Hanford Jr. passed away on Nov. 25, 2020, at the age of 92.

Lloyd Hanford Jr. served IREM in multiple ways—as a leader, an educator, a writer, a mentor, a colleague—along the way elevating the stature of the real estate management profession for the benefit of all engaged in it.

He earned his CPM in 1954 when he was 28, becoming actively involved in the organization before taking the helm as IREM's president in 1969. He followed in the footsteps of his father, Lloyd D. Hanford Sr., who had been president of IREM 11 years earlier. "IREM has lost an extraordinary member whose family laid the groundwork from the beginning for what IREM is today," says Tan Tek Lum, CPM, IREM's 1982 president, who considered Lloyd "a dear friend and mentor."

Lloyd was born in San Francisco in 1928 into a real estate family. After graduating from the University of California, Berkeley, and serving in the U.S. Army, he joined Hanford-Freund & Company, the business his father founded in the 1930s that he would later run. The company remains in operation today and is an AMO-accredited firm. An appraiser who held the MAI designation, Lloyd was also owner of Hanford-Healy, a national valuation and consulting company.

As an IREM instructor, Lloyd was exceptional, both for the intellectual curiosity and knowledge that he brought into the classroom and for his ability to energize and engage students seeking their CPM designation. Teaching at a time when IREM classrooms were often filled with 100 or more students, Lloyd became a mentor and advisor to thousands of newcomers to the field of property management who were fortunate enough to learn from a true master. In 1983, Lloyd was recognized as the recipient of the first Lloyd D. Hanford Sr. Distinguished Instructor Award, named for his father, who also was a highly respected educator. It was a public acknowledgment of the many lives he had touched as a teacher.

When he wasn't imparting his wisdom in the classroom, Lloyd was sharing his expertise through his writings, which frequently appeared in the *Journal of Property Management*, *The Appraisal Journal*, and other academic publications. Indeed, he never stopped studying and writing about real estate. As recently as April 2020, observing the COVID-19 pandemic and contemplating how it might impact commercial real estate, he wrote a blog post entitled "What Is Real Estate Worth Today?"

"Today, we are caught in a worldwide pandemic that has, at least temporarily, locked down most of the global economy," he wrote. "Everything is closed and people are staying at home." After remarking that some retail businesses may not make it through the crisis, that rising unemployment could mean falling demand for office space and missed rent payments, and that any planned travel is likely to be deferred, Lloyd concluded that "These concerns and hundreds more should tell us that no real estate professional has any more than a 'gut feeling' as to the worth of any property. There is no current data to review and no recognizable demand to study. Often, we are able to draw from past experience to develop a view of the future, but the present situation is

He earned his CPM in 1954 when he was 28, becoming actively involved in the organization before taking the helm as IREM's president in 1969. He followed in the footsteps of his father, Lloyd D. Hanford Sr., who had been president of IREM 11 years earlier.

like nothing else we have ever experienced. The only lessons seem to be that eventually things turn around. But the missing data point is 'WHEN!'"

In 2019, when the IREM Global Summit was held in San Francisco, Lloyd was among the past presidents who were on hand to share their perspectives with current IREM leaders and get together for an evening of camaraderie and storytelling. A number of years had passed since Lloyd last attended an IREM Global Summit, and he and his wife, Noel, were warmly welcomed. "As the 2020 IREM president, I was so fortunate to meet Lloyd in San Francisco last September at the IREM Global Summit," says Cheryl Gray, CPM, upon learning of Lloyd's passing. "He was so gracious, and his passion for our industry was ever-present through all the challenges of 2020."

Lloyd was a dedicated tennis player and an avid downhill skier and, later in life, he enjoyed golf and bridge. As he wrote on his Facebook page: "Gave up downhill skiing at age 75 and took up golf. A mistake."

In addition to his enthusiasm for skiing and real estate, Lloyd also had a passion for travel and for helping at-risk youth. The latter he demonstrated through his involvement with The Guardsman, a Bay Area group that provides outdoor education programs and scholarships for disadvantaged young people. His passion for travel led him and Noel to embark on more than 50 cruises to exotic destinations around the world.

Lloyd is survived by Noel, his wife of 66 years, and his two sons, Tim and John, all of whom were with him when he died peacefully at his home in Rancho Mirage, California. He is also survived by two grandchildren and two great-grandchildren. ▀

Tried and true

Adopting best practices can optimize operations and keep tenants and properties safe

By Robert S. Griswold, CPM, ARM, CRE, CCIM, PCAM, CCAM, GRI,
and Ann Reisch, CPM, CRE, CCIM, RPA

A “best practice,”

as defined by Black’s Law Dictionary, is “an optimally efficient and effective mode of proceeding or performing a particular activity in business; it’s a description of such a mode of proceeding or performing prepared so that other people or companies may learn and follow it as a guideline or rule.” In lay terms, a best practice is the best way to perform an activity under optimal conditions and circumstances. As we strive for excellence in the services we provide, best practices can serve as a roadmap on how to provide

those services for maximum benefit and efficiency.

Industry standards, on the other hand, are benchmarks that are used to determine whether there’s been a failure to adhere to the most basic minimum expectations in each situation. Failure to meet these minimum standards is the basis for many of the lawsuits we see in the real estate industry. In litigation against property owners and property managers, it’s critical to determine whether the industry “standard of care” was met.

In some cases in the real estate industry, a best practice can also be an industry standard. In other cases, they may be different—sometimes significantly different. When there are various methods and ways to perform a service, function, or task, sometimes the outcome falls somewhere between these two extremes.

Since 2010, IREM has published best practices for the delivery of real estate management services. These practices are reviewed regularly and updated as needed. IREM has just



released a new and revised edition of this publication that should be reviewed by all property owners and professional property managers.

“Best Practices: Real Estate Management Service” includes 62 best practice statements organized into four categories: Management company, Client relations, Management of the property, and Tenant/resident relations.

Incorporating these best practices into your company’s operations ensures that you are operating in accordance and compliance with other real estate management companies that strive for excellence. They may also serve as an aid to the defense of your case should you find yourself facing a lawsuit filed against your firm.

Adopting these best practices is not just prudent for protecting property owners and professional property managers from the negative results of litigation; it may also give your firm a competitive advantage in the marketplace as you compete for third-party business. Property owners are always interested in minimizing their risk in owning real estate, so having a third-party professional property manager that develops and implements policies and procedures that are consistent with those best practices is certainly a worthy goal.

As the result of a continuously evolving business climate, advancements in operating practices, and additional knowledge gained through mutual collaboration, IREM formed a working group of competent industry professionals from a broad cross section of product types and geographic locales. This working group discussed, debated,

and refined their ideas and incorporated their practical experience to create additional new practice statements while updating others. Included in the newly revised edition are new practice statements on the topics of data security, news media response plan, systems efficiency, contracted vendors, and tenant/resident privacy.

Other significant updates were made to the existing practice statements concerning client property insurance; insurance claims; property security; environmental, health safety and hazard control; and

Data security is critical for companies of all sizes, whether large global corporations or small local firms. It lies at the core of running a successful business.

tenant/resident safety. Let’s explore a few of the practice statements a bit further.

Data security

Data security is the process of protecting digital data from identity thieves, data breaches, or devastating cyberattacks. With the increased use in society—and especially in the real estate industry—of computers, laptops, tablets, smart devices, websites, networks, and other digital equipment, it is extremely important that management companies emphasize the importance of data security and instill a culture of safeguarding the confidential data that is entrusted to real estate management organizations.

Data security is critical for companies of all sizes, whether large global corporations or small local firms. It lies at the core of running a successful business. It gives others the confidence that their data is being collected, transferred, stored securely, and reviewed only as needed. Data security can make or break your organization; one single vulnerability is all that an attacker needs. Many times, these breaches are unwittingly through third-party vendors with access to your systems, so your approach needs to include your vendors and suppliers, too. Data security is important for companies to ensure the safety and confidentiality of their data related to clients, employees, tenants, and others. Implementing data security measures ensures business continuity in today’s data-driven environment. Not only does it help to avoid data breaches, but it also shields your company against unnecessary financial costs, damage to your company’s reputation, and a loss of company profits. Having a broad, technologically up-to-date data security plan in place lowers the risk of a data security breach and is necessary in the current business environment.

News media response plans

In today’s fast-paced information technology environment, we have become accustomed to instant media reporting and the “24-hour news cycle.” We obtain our news through

various sources: broadcast news, print media, and online. When newsworthy events occur on a property we own or manage, news media sources routinely show up on the scene uninvited and with no advance notice to report their own version of the “news.” Their objective is to deliver a fast-breaking news story that will generate clicks, and accuracy may not be their top priority. Recall the old journalistic adage: “If it bleeds, it leads.” The news media, combined with citizen “journalists” in social media, relish bad news that can be sensationalized, and there are rarely any repercussions for the spreading of false information.

Therefore, it is imperative for property management professionals to develop and implement a coordinated approach to addressing the media in a prompt manner at an established location to minimize rumors by providing consistent, accurate, complete, and timely information from verified sources. Recognizing the media as a resource to help you deliver pertinent, critical, accurate information minimizes distractions for emergency responders and can reduce chaos during emergency situations. Advance planning for these events and determining how the company and its employees will represent themselves to the news media is vitally important to ensure the company projects a favorable impression in the community.

Systems efficiency

Advances in technology and evolving business concepts regularly create opportunities for innovation and improved systems efficiency. By reviewing industry journals and publications, management company leaders may identify new ideas and opportunities that could enhance or improve their current practices, capabilities, and performance. By routinely identifying and exploring new ideas and evaluating them, compared to your assessment of the quality and efficiency of current operations, a management company can maximize its efficiency and performance in the delivery of services to its clients.

Contracted vendors

Contracted vendors play an important role in providing the services necessary to operate a property optimally. Providing services beyond those of the employees working on the property, they are an extension of the management team. A property manager is only as good as the entire team, and no matter how good the in-house staff may be, a weak contracted vendor can wreak havoc on even the finest customer service reputation. It is incumbent upon the management company to determine the appropriate scope of work needed from each contracted service provider and to retain the services of a qualified and

experienced company that can best meet those needs while optimizing value.

Tenant/resident privacy

Privacy is a concept that is much discussed, but not often fully appreciated as an important issue in property management, with serious negative implications if proper policies and procedures are not in place. Our residents and tenants have the right to determine whether, how, and to what extent biographical, personal, and/or financial information about them is communicated to others, especially sensitive and confidential information. The business of leasing and managing property requires the collection and storage of a considerable amount of sensitive and confidential information in the normal course of business.

Individuals have the rightful expectation that all the data they provide will be kept private and not shared with others, except as agreed upon in writing in advance for application screening or the like. Failure to protect this information violates a person’s privacy, may be a violation of laws and applicable regulations, and can lead to identity theft or other unintended consequences. The management company should develop, maintain, and enforce policies and procedures on maintaining tenant and resident privacy and determine under what circumstances information must be shared.

Member benefit

The updated “Best Practices: Real Estate Management Service” is included as a member benefit for IREM members, and is available for purchase on irem.org.



Robert S. Griswold, CPM, ARM, CRE, CCIM, PCAM, CCAM, GRI, served as the chair of the Best Practices publication revision working group. He is an author and president of Griswold Real Estate Management, Inc., AMO, in San Diego. He is also an IREM instructor and a member of the IREM Governing Council.



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The latest edition of *Best Practices: Real Estate Management Service* is available now at irem.org.

It seems you can't go a day

without seeing headlines about the creative ways in which an obsolete space is getting a new life, whether it be a retail location turned into a warehouse, an old schoolhouse into multifamily rental units, or a former train station into a shopping destination. These transformations are examples of adaptive reuse (AdRu)—a term that has gained recognition in recent years.

The growth of AdRu has been driven by many factors:

- Declines in developable and entitled land within urban metropolitan statistical areas (MSAs)
- Increased demand for affordable housing alternatives in contrast to cost-prohibitive new construction
- The retail "e-revolution" resulting in thousands of closed retail stores that need a new purpose
- Creation of Opportunity Zones from the 2017 Tax Act
- The evolution of the environmental, social, and governance (ESG) movement bringing capital to vacant buildings or blighted urban areas via "impact investing"

Regardless of the influences that have brought AdRu to the forefront of the commercial real estate industry, it's becoming another core property type, much like multifamily, retail, office, industrial, or self-storage. In fact, according to research I published in a 2018 **paper** with the CCIM Institute, there are more completed and underway adaptive reuse projects nationwide than all of self-storage inventory or construction. So why doesn't AdRu have its own category and ongoing research coverage like other CRE property types?

Adaptive reuse challenges

The challenges to adaptive reuse development and investing are well recognized by those who have ventured to dip their toes into these waters. Among the most common challenges in AdRu are:

- Costs due to the unknown of what might be involved in successfully repurposing a building
- Local government opposition—few cities and counties understand adaptive reuse or maintain a segregated

Art of adaptation

By K.C. Conway, CCIM, MAI, CRE

A property management perspective of adaptive reuse



The Greyhound Bus Terminal in downtown Birmingham, Alabama, will be converted to office space.

zoning ordinance to address the unique issues in repurposing a building, which run the gamut from site utilization/density and setbacks, to parking and life safety

- The absence of data to quantify key metrics needed for financing, such as income and expense ratios, comparable sales to derive capitalization rates, typical absorption, tenant retention and vacancy rates, and allocation of common-area expenses when multiple uses are involved
- Lack of established appraisal methodologies—every adaptive reuse project is unique, and there are few seminars and courses on AdRu to educate appraisers and lenders on how to value or underwrite an adaptive reuse project
- General fear of the unknown by all project participants, from the developer to lenders

The result has been that most adaptive reuse projects are undertaken by local, high-net-worth entities that can devote 50% or more of the needed capital as equity and who are motivated more out of philanthropy or civic-minded goals to address a local blight. These individuals have been the pioneers of AdRu, but now we need AdRu activity to expand to traditional CRE investment and institutional capital channels to truly expand and become mainstream in every MSA. One current project that epitomizes this statement is the adaptive reuse of the legacy Greyhound Bus Terminal in downtown Birmingham, Alabama, by Michael Mouron, chairman of CapStone Real Estate Investments.

In conjunction with my legacy role as the director of research for the Alabama Center for Real Estate (ACRE), I was fortunate to speak with Mouron about not just the story of this unique project, but also his own history with adaptive reuse, in a podcast at **ACRE**. (This conversation is in Episode 71.) These kinds of projects can vary tremendously, and every case must be treated appropriately to reflect the unique qualities of the existing building and the

goals of the redevelopment. The good news is that, as expressed in my conversation with Mouron, we can begin to outline a general framework for how to AdRu projects and maximize a project's chances of achieving long-term operational success.

Adaptive reuse explored

The best starting point is to establish a good understanding of what constitutes an AdRu building, and then examine the issues and challenges confronted by the property managers who eventually will undertake management of these types of assets for owners.

The main distinction in this definition is that to qualify specifically as an adaptive reuse, the property must undergo a change of use. Merely updating or restoring a legacy office building to a more modern office use or a retail store to another retail use—such as a department store to a sporting goods store—are not changes of use. The change of use is key. The following elements are collectively necessary for a project to qualify as adaptive reuse:

• Existing structure

While adaptive reuse projects may involve some level of new construction or an expansion/addition of space, they always start with an existing structure.

• Functional and/or economic obsolescence

All adaptive reuse projects commence with a property in a state of disrepair, high rate of vacancy, or with its highest and best use in transition. In essence, the old use is no longer productive or economically viable, and the relevant tenants have left.

• Change of use

The project must involve a repurposing of a property's prior structure and use, not a mere re-tenanting with tenant improvements. This key point distinguishes our methodology from other industry research on AdRu.

• Economic viability

The new project must pass the ultimate test of highest and best use for the property. Not only does the reuse need to be physically possible and legally permissible, but it also has to be economically viable. Local government incentives are sometimes necessary to make a project economically viable due to the cost of assemblage, higher repurposing costs with a greater cost-overrun risk factor than new construction, and speculative lease-up risks.

Managing an AdRu property

With an established understanding of adaptive reuse and its challenges, let's focus on the property management perspectives of this type of asset—after all, it's a CPM that is likely to be entrusted with the management of such a complex asset. There are essentially three aspects of property management unique to adaptive reuse that are not always fully appreciated.

1. Use combinations and points of friction

Most adaptive reuse properties involve more than one use. Not all uses play well together, and management can be challenging. For example, multifamily and hotel uses, generally speaking, are not complementary. Multifamily residences tend not to be able to absorb their pro rata share of common area and concierge services from an adjoining hotel use. Friction and litigation are common between the HOA and the hotel operating entity and its agreement. However, office and hotel uses are accretive. Before one undertakes the property management of a mixed-use AdRu, understand the friction points that can result between uses. Parking and allocation of common-area expenses are typically the two most contested areas of property management in an adaptive reuse property.

2. Tenant leasing and retention

Tenants that opt to occupy an AdRu property generally have two common characteristics. First, they tend to be younger companies that want something different than a generic office building, but they lack the credit worthiness and time in business to satisfy permanent lending requirements. Large credit tenants tend to stay in traditional and institutionally owned buildings for a variety of liability and security reasons; your leasing success will come from a smaller and less credit-worthy tenant. Second, AdRu tenants tend not to move at lease expiration, as they invest more in tenant improvements. The AdRu building itself is as much a part of their business identity as their name. That translates to higher tenant retention ratios. In my experience analyzing adaptive reuse projects across 40 states and over many years, the average tenant-retention ratio in adaptive reuse projects tends to exceed 85%, regardless of use—office, retail, or residential.

3. Added complexity

Make sure you get paid properly to manage a more complex property. Despite the fact that most adaptive reuse projects' mechanical systems have been recently updated, they are hybrid in nature and are often made

bespoke to specifically fit a particular reuse. Maintaining systems requires knowing who designed them and where parts can be sourced, but perhaps it's more important to know what your Plan B is for restoring a system if it goes down and takes days to repair. Allocation of common-area expense among users will be a perennial challenge, requiring more time to explain and document the fairness of the allocations. Leasing approvals will take longer, as you will likely be dealing with a startup company or smaller business with less credit.

Mouron's bottom line is, "Do your homework and make sure that you get paid to manage an asset to the owner's expectations." From my experience, the traditional 3.5%–5% management fee is inadequate. AdRu owners tend to pay at least a 100-basis-point premium when they hire their second management team to replace the original one that couldn't manage to expectations due to a low management fee. These assets are more complex and require an experienced management team. The message to owners/investors is to budget more for their property management expense—it will pay dividends in tenant retention and overall operations.

Conclusion

Adaptive reuse projects have evolved to a point where they should be considered an asset class of their own, just as we have seen take place with self-storage. The trend is moving toward more AdRu projects as cities struggle to repurpose vacant buildings since the COVID-19 pandemic began. Look beyond retail for adaptive reuse. Think about uses like car dealerships that are going online, along with everything else. Understand the definition of adaptive reuse and that critical change-in-use distinction. ESG and impact investing are finally bringing much needed capital to adaptive reuse opportunities.

Finally, managing adaptive reuse properties is more complex than managing most other properties. Don't underestimate the cost of doing the job right. AdRu profitability is most influenced by property management after cost overruns in repurposing the building. To property owners and investors, my advice is to not go cheap when hiring property manage-

ment firms any more than you would when working with engineering firms in the upfront decision to undertake an AdRu project. ▀



K.C. Conway, CCIM, MAI, CRE, is principal of Red Shoe Economics and CCIM chief economist.



Marketing automation

The next generation of applications for real estate

By Esther Bonardi

Marketing automation is technology that more efficiently manages marketing processes and campaigns across multiple channels automatically. It streamlines repetitive tasks, follows user behavior, and delivers targeted content to get customers into your leasing pipeline.

Although marketing automation has been a buzzword in the real estate industry for a while now, there's nothing stale about it. The technology continues to evolve to help marketers save time and convert leads in a shifting environment.

Let's take a closer look at the applications of marketing automation in property management, then explore implementation best practices and successful outcomes.

Making customers happy

Today's prospects and renters don't want to be limited by office hours and physical locations. They expect automated, self-service tools that new smart technology and websites can offer, including self-scheduled and self-guided tours. With automation solutions like intelligent text response and chatbots, you can provide customized, automated responses to questions from prospects while they are still on your site. This leads to more qualified and rent-ready prospects when they get to your leasing agents.

Recovering missed opportunities

Never lose a lease because someone forgot to follow up or, worse, didn't answer the phone. Marketing automation provides a high level of customer service at all hours of the day with automated follow-up via text or email and automated call routing to a call center when you're away.

Keeping data accurate

At its most basic level, automation eliminates human error and keeps data clean by updating changes to data across your database. One of the best-known forms of real estate marketing

automation is listing syndication. Using up-to-date pricing and availability information from your property management software, automation updates your listings across multiple online rental sites daily.

Increasing staff efficiency

Marketing automation is your secret weapon in an increasingly chaotic digital marketplace. Automating processes saves time, giving back the hours that you would otherwise have had to spend scheduling appointments, responding to text messages, and posting vacancies every week.

Implementation considerations

When adding self-service functionality to your website, getting started with chatbots and automating customer relationship management can sound like a lot—and it is. The good news is that you don't have to do it all at once. The key is to be smart about the process and choose a provider that makes it easy to add on to your automation stack as you feel ready. Get started, evaluate, and then build upon your success.

The bottom line

Property marketers must constantly innovate to keep pace with consumer trends and demands. Marketing automation is one way that busy marketing teams, even smaller ones, can make a big impact. Customers will appreciate the convenience and around-the-clock access to information and assistance. Leasing agents will appreciate the increase in efficiency and the opportunity to focus on high-value activities with well-informed prospects. ▾

Today's prospects and renters don't want to be limited by office hours and physical locations. They expect automated, self-service tools that new smart technology and websites can offer, including self-scheduled and self-guided tours.

Going green

IREM is a proud recipient of a Yardi Energy Efficiency Grant. This grant has allowed IREM to offer programs and resources that support real estate managers in reducing the environmental impact of their portfolios. To learn more, visit irem.org/gogreen.



Esther Bonardi is the vice president of marketing for Yardi Systems, Inc. She is also the head of Yardi's RENT Café Reach business unit.

On solid financial ground

The work of IREM's Audit and Investments Committee

By Renee M. Savage, CPM, CCIM



As property managers, we know what it means to be good stewards of other people's money. We're entrusted with funds flowing in and out of our properties. We must make sure every cent is accounted for, delivered in a timely manner, and put to its best use in pursuit of the owner's goals for the asset.

The Audit and Investments Committee's work serves a similar purpose for your association. The main objective of the committee is to oversee IREM's internal accounting controls, managed investments, annual external audit, and tax filings.

Committee members

The composition of the committee is specified in the Institute's Statement of Policies. Generally, committee members must have broad business and financial experience and knowledge of the Institute's operations.

The committee comprises:

1. The IREM secretary/treasurer as chair
2. A representative from the IREM Foundation
3. A past IREM national president
4. The incoming IREM secretary/treasurer
5. A member with a strong financial background who is employed by a large real estate management firm
6. Up to two additional members, neither of whom is on the Executive Committee

As 2021 Secretary/Treasurer, I serve as this year's chair of the Audit and Investments Committee, continuing the important work of my predecessors in keeping IREM safe, strong, and solvent for the long haul.

Other committee members include:

- John Koss, CPM, vice chair
- Mark Boehnlein, CPM
- Libby Ekre, CPM

- John Gallagher, CPM
- Dee Headley, CPM, IREM Foundation representative
- Cher Zucker-Maltese, CPM

Staff liaisons include:

- Christopher Migala, CPA, IREM CFO
- Donald Ross, CPA, IREM Comptroller

Along with our HQ partners, my fellow committee members and I are dedicated to maintaining IREM's position as a solid and trusted partner in an ever-shifting business landscape. Foundational to this effort is the committee's oversight of the Institute's financial position and policies.

Investment funds

IREM maintains three separate investment funds, defined by the Institute's investment policies. Two of these funds are defined as IREM's Reserve Fund. The Audit and Investments Committee is responsible for the investment funds' safekeeping and general administration. Let's take a look at each of these funds.

Short-Term Operating Fund

The Short-Term Operating account's purpose is to adequately fund IREM's annual operating needs. Therefore, the investment strategy of this account is to emphasize preservation. The duration of the account is considered less than one year.

Intermediate Investment Fund

The Intermediate Investment account's purpose is to adequately fund the upcoming capital needs of IREM. The investment strategy of the Intermediate Investment account is to emphasize total return, or the aggregate return from both capital appreciation and dividend and interest income.

The duration of the account may vary since unforeseen events sometimes require usage of the funds. However, the duration is typically considered as intermediate, or between five and seven years.

Special Reserve Fund

The Special Reserve account's purpose is strictly limited to periods of substantial income decline or unfavorable economic conditions. In such conditions, this account allows IREM to maintain near-normal business operations for a limited period of time.

Executive Committee approval and Governing Council notification are required to use the account, along with a five-year plan for rebuilding the account's asset base. Investments are considered long-term.

Reserve Fund

The 2020 Audit and Investments Committee passed a motion, subsequently passed by the Executive Committee and Governing Council, to change the Statement of Policies to better define the Intermediate Investment Fund and Special Reserve Fund as IREM's Reserve Fund.

The committee felt it was important to continue with the two separate funds (Intermediate Investment Fund and Special Reserve Fund) rather than consolidate them because each fund has a different investment horizon, which can be beneficial in preserving the Reserve Fund's balance.

Oversight of investments

In its stewardship of these investment funds, the Audit and Investments Committee gets regular updates from IREM's investment advisor on the valuation of funds. Regular consultation with the investment advisor allows us to make informed decisions on the portfolio and its composition.

The committee periodically reviews IREM's investment policies so that those policies reflect current best practices for associations. Sometimes these reviews result in policy revisions, like the review in 2020 that led to a better definition of IREM's Reserve Fund. To conduct these reviews, committee members and our staff partners review leading best practices in investment policies for associations from organizations such as the American Institute of Certified Public Accountants (AICPA).

The IREM headquarters finance team also submits for committee review recommendations to move funds between accounts. This oversight is a financial control that

maintains accountability, confirms decision-making, and ensures compliance with the Institute's investment policies.

Annual audit

Another committee purpose is to oversee IREM's annual external audit. The annual audit evaluates IREM's operating and investment accounts as well as financial controls. The committee reviews and operationalizes findings and recommendations from the auditing firm.

The committee also participates in selection of the auditing firm. A key goal here is to maintain efficiency while following leading best practices on auditor rotation. Periodic change in the auditor introduces a fresh perspective and guards against complacency. Either the firm management team assigned to IREM's audit or the firm itself changes periodically, and the Audit and Investments Committee guides that decision-making and firm selection process.

Annual tax filings

IREM is a 501 (c)(6), a type of nonprofit organization as defined by the IRS. The Institute files an annual Form 990, Return of Organization Exempt from Income Tax. On a schedule dictated by the annual U.S. tax filing deadline, the Audit and Investments Committee reviews and approves IREM's Form 990 as prepared and presented by the association's tax accounting firm. Once the form is accurate, finalized, and approved by the committee, it is filed with the IRS, and the Executive Committee and Governing Council are notified.

The Audit and Investments Committee plays an important part in IREM governance. Accountability to the Executive Committee and Governing Council are key to this role. Committee members take seriously our responsibility to ensure the Institute's ongoing stability, success, and long-term viability.

IREM members expect nothing less. Our association must remain financially positioned to produce the education, advocacy, and resources we turn to in managing our properties. A firm, consistent eye on the Institute's investments, financial controls, and tax filings makes that possible. ▀

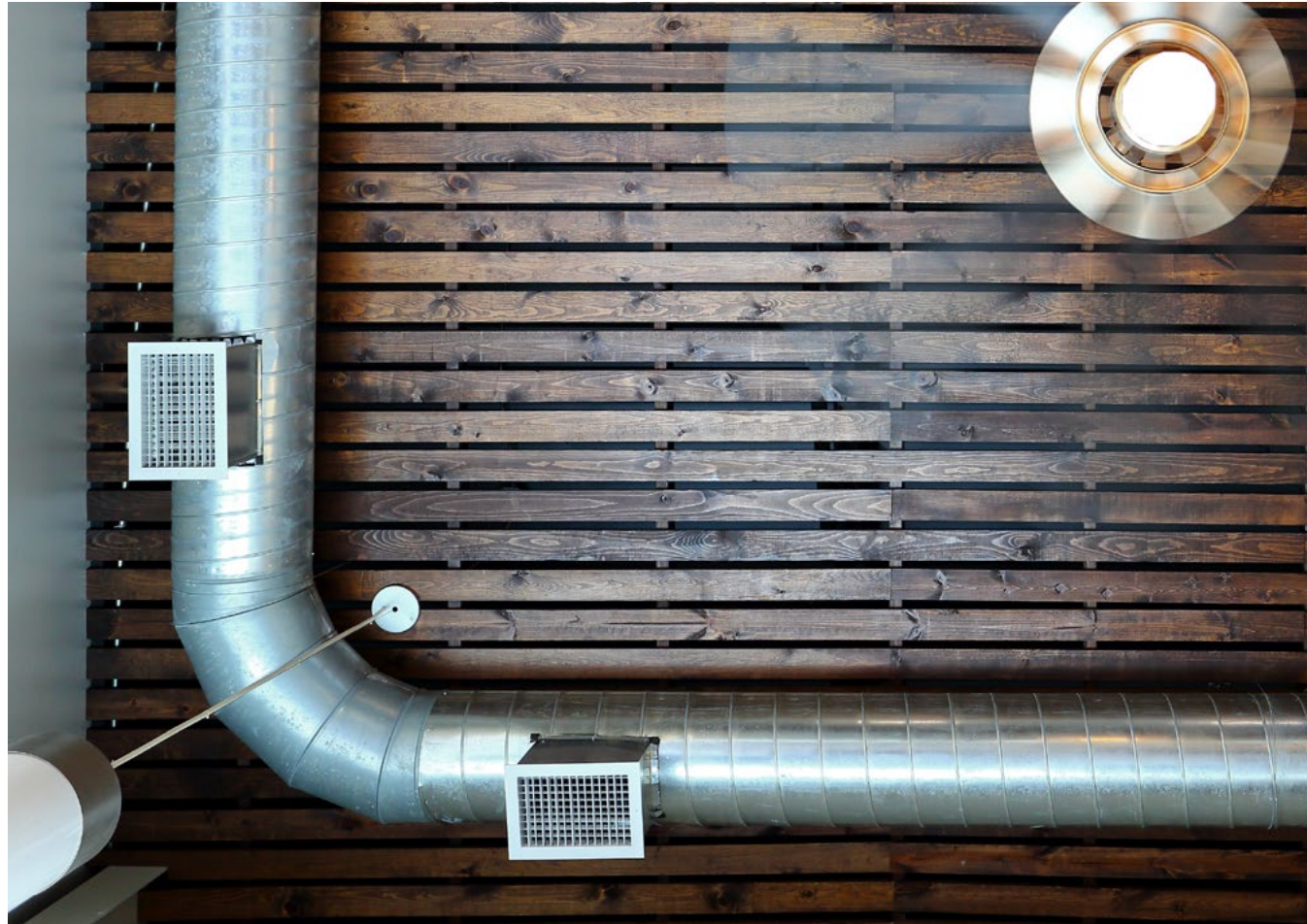


Renee M. Savage, CPM, CCIM, is the secretary/treasurer for IREM and president of CFI-Capital Growth, Inc., AMO, in San Diego, which is a boutique multifamily company. Renee also serves as an asset manager in an affiliate, CFI, a commercial management company.

Come on back, the air is fine!

New technology in HVAC systems may help property managers reassure nervous tenants

By Jeffrey S. Lapin, CPM



“*Building managers, owners, and operating engineers need to carefully research any changes in HVAC design or equipment before attempting to alter the existing HVAC equipment of a building.*

—Wade Conlan, PE, CxA, BCxP, LEED AP, Hanson Professional Services, Inc.

Many of our office tenants still have not returned to the workplace, a full eight to 10 months after the start of the COVID-19 pandemic. One of the concerns that we hear from our tenant contacts about coming back is possibly being infected by coworkers. Therefore, it is not hard to see that until we have a widely distributed vaccine and/or people feel comfortable being in close proximity to others outside their immediate families, it is unlikely that we will see workplace occupancy return to pre-COVID-19 levels.

In response to these concerns, designers and manufacturers of HVAC equipment are busily working on technologies designed to reduce or eliminate harmful pathogenic viruses

and bacteria from the air inside our buildings. One word of caution from IREM member Wade Conlan, PE, CxA, BCxP, LEED AP, of Hanson Professional Services, Inc. and leader of the American Society of Heating, Refrigeration and Air-Conditioning Engineers (ASHRAE) Epidemic Task Force, is that building managers, owners, and operating engineers need to carefully research any changes in HVAC design or equipment before attempting to alter the existing HVAC equipment of a building.

These systems are designed for a specific building application and often cannot be modified without detrimental effects on other parts of the system or on the overall heating and cooling of a building. Conlan also cautions that most traditional HVAC systems found in commercial buildings are often designed to maximize energy efficiency. Now, the goal posts have understandably moved, and the bigger concern is improving indoor air quality (IAQ) to regain our tenants' confidence and allow them to safely return to the workplace.

With those realities in mind, here are some of the most promising new products and emerging technologies to consider.

Improving air filtration on existing systems

According to the National Air Filtration Association (NAFA), air filtration systems within HVAC systems are not a solution all by themselves but can be a part of an effective overall risk mitigation approach. NAFA advises that in most buildings and situations, filters still may be considerably less effective in slowing COVID-19 spread than social distancing, isolating known causes, and hand-washing. NAFA also warns that high-efficiency filters—those with higher Minimum Efficiency Reporting Value (MERV) ratings—can be counterproductive because they often require more frequent filter changes. They also can cause more air to bypass the filter as it becomes occluded with dust particles, diminishing the effectiveness of the higher filtration and potentially causing other problems in the HVAC system, such as dirty cooling coils.

ASHRAE and the Centers for Disease Control and Prevention (CDC) recommend switching to MERV-13 filters to reduce virus transmission in schools, buildings, and homes, but they do not provide specific guidance for office buildings with HVAC systems designed for higher airflows and minimal outside air intake. The challenge with this approach is in design issues of the existing system and the fact that, depending on location, your HVAC system may not use much outside air. In Florida, for instance,

NAFA advises that in most buildings and situations, filters still may be considerably less effective in slowing COVID-19 spread than social distancing, isolating known causes, and hand-washing.

the ambient air is often so hot and humid that many HVAC systems are designed to use close to 100% recirculated air.

Utilizing higher MERV-rated filters (such as MERV-13) or even HEPA-type filters (which are able to capture 0.3µm (micrometers, or microns) particles at a rate of 99.97%) on a system that is not designed for them may cause more problems than they solve. In addition, the cost of the MERV-13 filters is significantly higher than lower MERV-rated filters, and they may require more frequent changes if the air handling unit system cannot handle higher pressure drops. Moreover, installing filters that inhibit airflow can often create a reduction in air delivery to the spaces, change pressure relationships, lead to premature fan failures, or cause occupant discomfort. What sounds like an easy fix may in fact cause a lot of headaches and not solve anything.

Altering the set points for the economizer cycle on air handlers

In parts of the country in which the ambient air is less humid and more

temperate, air handlers are often designed with what is known as an “economizer cycle”. This is a system in which the air handlers are equipped with appropriately sized louvers, ductwork, and dampers to allow increased outdoor airflow to enter the supply airstream if certain conditions are met, such as outdoor air temperature measuring between about 32 degrees and 65 degrees Fahrenheit and space humidity measuring sufficiently low. The dampers are usually controlled by enthalpy sensors that read both the temperature and humidity of outdoor and return air, and as the outdoor air is less than the return air conditions, the dampers adjust to increase outdoor airflow. This also allows the building to use more fresh air without significantly compromising energy efficiency.

The problem here is that if the dampers do not restrict outside air intake when that air is too hot, too cold, or too humid, it can result in the system working much harder to heat or cool the ambient air. It sounds attractive to have more outside air in the building, but unless the system is designed for that, it can cause a lot of problems, just like changing to higher-efficiency air filters can.

Bipolar ionization

Companies like Global Plasma Solutions (GPS) have introduced

technology that is designed to capture microscopic particles and remove them from the occupied space before being breathed in or settling on surfaces where they can later be transmitted to humans. Bipolar ionization works by ionizing, or negatively charging, atoms in the airstream, which then act like magnets, attracting positively charged particles, causing them to enlarge. The larger particles are then captured by the indoor air filters.

Ozone is a byproduct of traditional ionization technology and is associated with myriad detrimental health effects. GPS has introduced a new version of this technology called Needlepoint Bipolar Ionization (NPBI), which is different because it does not use high voltages to ionize the particles, but rather a proprietary low-voltage technology to avoid the production of ozone during the ionization process. NPBI produces both positive and negative ions, which, once produced, have a life span of about 60 seconds, during which they travel with the airflow into the space where finer particles as small as 0.3µm in diameter start sticking to each other, allowing them to be pushed by the airflow to the filters.

According to GPS, NPBI technology has been successfully used in hospitals, offices, airports, schools, and other public venues. Bipolar ionization, and especially GPS’s NPBI technology, is indeed promising, but it is new and may prove to have unknown and unintended consequences over time.

UV (ultraviolet) light technology

Ultraviolet light, particularly UV-C light, is a proven technology for neutralizing certain microorganisms and has been used for over 20 years in various applications. According to an ASHRAE *Journal* article from 2017—and confirmed by Conlan—ultraviolet germicidal irradiation (UVGI) or light in the UV-C wavelength (253.7 nm) has been used in HVAC equipment since the 1990s to deactivate biological growth on surfaces inside air handlers to save energy, boost airflow, and improve IAQ.

UV-C has long been used in the healthcare industry as an effective method of eliminating or neutralizing certain pathogenic bacteria. ASHRAE conducted studies at several healthcare facilities that showed UV-C systems reduced total bacteria and fungus counts and had a “dramatic effect on the



Image: iStock.com/Sisoje

levels of air contamination.” Conlan says that although UV-C is promising for office building applications, continued research is needed in nonhealthcare environments. It appears that UV-C can disrupt virus DNA, sterilizing it and inactivating the virus, even at lower UV-C dosages. UV-C light devices have been shown effective in reducing bacteria, viruses, mold, and fungi on surfaces. According to several studies, UV-C has been proven to kill the SARS-CoV-2 virus that causes COVID-19.

Conclusion

So how should building owners and managers proceed from here? Conlan recommends that we evaluate the specific applications at specific buildings with consideration paid to the design limitations of those buildings’ HVAC systems and not assume that one size fits all. He also suggests that we consider using a team of professionals, such as a

IREM and this author

would like to thank Hanson Professional Services, Inc. (hanson-inc.com), and Wade H. Conlan PE, CxA, BCxP, LEED AP, for their generous contributions to this article and the ASHRAE Epidemic Task Force for creating the guidance materials on this important topic.

building commissioning engineer, building test and balance agent, or others before jumping to a promising technology which may not solve IAQ issues but instead may even exacerbate them.

The COVID-19 pandemic is unprecedented in many ways, including the changes that have occurred in how traditional office users occupy their space. We are all looking for the magic solution that is going to cause our tenants and their employees to regain confidence and reenter the workplace. And despite the pressure that some of us are feeling to do something about the ghost buildings that many of us are experiencing, experts including Conlan caution against jumping on board with a solution that could actually make matters worse. The answer may likely be a combination of some or all of the solutions covered in this article, or it may lie in as-yet untested technologies. ▾



Jeffrey S. Lapin, CPM, is a regular contributing author to JPM and a member of IREM’s Academy of Authors. Lapin has been a property manager for over 36 years and is an IREM-certified Instructor and past president of IREM Chapter 22 – Sacramento Valley.

The problem here is that if the dampers do not restrict outside air intake when that air is too hot, too cold, or too humid, it can result in the system working much harder to heat or cool the ambient air.

A seat at the table

An introduction to DE&I

Along with the COVID-19 pandemic, 2020 will be remembered for the microscope that was put on the deep racial and social tensions in the U.S. Widespread social unrest prompted difficult conversations and led many organizations and businesses to ramp up their efforts to achieve diversity, equity, and inclusion—also known as DE&I.

While an important goal—and one many organizations have had set for years—true DE&I cannot be achieved overnight. It requires rethinking, research, and difficult work. “From the top down, you really have to take ownership if diversity, equity, and inclusion is what you want,” says Shaniece Sanford, CPM, a property manager in the Washington D.C. metro area and a member of the IREM Executive Committee.

And DE&I is something you should consider. The positive environment that DE&I creates reverberates throughout an organization. Diversity can contribute to increased innovation, lift entrenched ways of thinking, and increase financial performance, research from McKinsey & Co. shows. But the benefits are only gained if the diverse workforce feels a true sense of inclusion.



“The most straightforward way to define diversity is, ‘an assortment of individuals from various backgrounds at the table.’”

—Shaniece Sanford, CPM



Image: iStock.com/SrejanPav

Getting started

Before you can effectively implement the principles of DE&I, the three components need to be understood individually and collectively. One important distinction when it comes to understanding DE&I is recognizing that the terms are not interchangeable. Here is a DE&I breakdown:

Diversity

“The most straightforward way to define diversity is, ‘an assortment of individuals from various backgrounds at the table,’” Sanford says.

Kimberly Parker, ARM, CPM candidate, is the 2021 chair of the IREM Diversity Advisory Board and a Boston-based property manager. She says a diverse group encompasses different races, sexes, religions, ages, and sexual orientations.

To begin to assess the diversity in your organization, Sanford suggests taking a look at data. “You could go to your human resources department, tell them that you are evaluating diversity, and you need them to do an audit of employees,” Sanford says. Of the employees who are willing to disclose, find out how they self-identify along the lines of race, gender, age cohort, etc.

Equity

Once you have established the diverse makeup of your organization, you need to look at equity: Is there justice and fairness throughout your organization? Are equal opportunities given to everyone, and are barriers to those opportunities reduced?

“Equity means you have diversity in the C-suite as well as the entry-level positions. You want this so that one linear point of view isn’t making decisions for the masses,” Sanford says. “You need representation at all levels of the organization to make sure the treatment is fair.”

Adds Parker, “Equity requires an investment, so that everyone has these equal opportunities. In the larger picture, that could be everyone receiving the same opportunity to go to good schools or everyone receiving the same standard of healthcare. When IREM invested in me by giving me a scholarship, that’s an example of equity.”

Inclusion

In an inclusive environment, everyone feels welcome, included, and invited to participate and contribute.

“You may have allowed them to come to the table, but did they feel welcome at the table? When you work in any environment—especially one where many of the other people don’t look like you—this is so important,” Parker says.

Evaluating the inclusivity of your organization is impossible without open, honest dialogue.

“You have to have uncomfortable conversations to see what kind of atmosphere [employees] are experiencing,” Sanford says. “You have to have the dialogue, so people feel comfortable to question you about it. You don’t have the mindfulness to know you have excluded me, even if it was unintentional.”

This means being humble and vulnerable enough to say, “I was wrong, and I’m sorry you felt that way.” “It requires that you have a sense of ownership. It requires you to do the nitty gritty,” she says.

Sanford oversees a team of eight, and she says she goes above and beyond to ask them how she can make them feel included. “Because I actually don’t know how I can make them feel included—it’s different for everyone.” For some, it’s being recognized for an achievement, for example, or asking an employee who doesn’t observe Christmas if they would prefer to have a different day off instead of Christmas Day.

“It’s small, but it’s a gesture,” she says, adding that, because of legal or other limitations, you may not be able to accommodate every request, “but the dialogue in and of itself is key.”

A win for all

Along with the benefits found in the McKinsey & Co. research, Sanford says having DE&I written into your company’s framework is becoming a requirement for job seekers—especially millennials and Gen Z candidates.

“DE&I is important because people are important,” Sanford says. “Your company is nothing without the blood, sweat, and tears of your people who make it great. It requires all of the diverse individuals there to feel like when they come to work, the environment is fair and welcomes them.”

Sanford says the concepts are especially crucial in property management because clients, occupants, tenants, and their guests, staff, and customers represent great diversity. “The end users are diverse, so when they come to your asset, you don’t want them to feel excluded.”

Parker agrees. “When we talk about property management, we’re talking about people’s lives, the way they live, and their livelihood. When everyone feels included and welcomed, it creates a great atmosphere, and everybody benefits.”

For the past 35 years, Parker has worked in affordable housing. “This is the area of property management where you experience the most diversity,” she says. “Other areas of property management, such as retail and commercial, are rarely as diverse and typically have higher income standards.”

For Parker, both her work experience and her experiences on IREM’s Diversity Advisory Board have proven how important and impactful open dialogue can be.

“Sometimes it’s just about getting the conversation started,” Parker says. “If we could just talk about it, we could solve it.”



“When you work in any environment—especially one where many of the other people don’t look like you—[inclusivity] is so important.”

—Kimberly Parker, ARM, CPM candidate

Anchored down

Working with key tenants in Shanghai

By Echo Zhang

Finding an appropriate anchor tenant is critical to ensuring the success of a retail property. When looking at anchor tenants, property managers sometimes have the tendency to think in terms of “good” and “bad.” I believe it’s more appropriate to think in terms of suitability: Is this tenant a suitable fit for the property?

I’d like to introduce two case studies from my experience in Hongqiao, Shanghai, that demonstrate how suitability influences anchor tenant selection. These two retail properties provide excellent examples of the role that anchor tenants play in a property, how property managers should work with anchor tenants, strategies for signing anchor tenants, and how to maintain a good relationship with these tenants.

Fostering success

The work does not end once you have signed an anchor tenant. These strategies can help build and maintain your relationship with an anchor tenant:

- **Understand**—The more you know a tenant’s business, the more you’ll know how to offer them something they need. Tenants respect a property owner who understands and cares about their business.
- **Communication**—This is more than just a cup of coffee and a chat. True communication means being able to support them when they’re facing problems.
- **Improving revenue**—This is ultimately every tenant’s goal, and landlords can help achieve this objective, perhaps with sales promotions or by providing space for new products in a common area.
- **Performance analysis**—Not all tenants will be equally successful, but as the property manager, you can analyze why this might be the case and provide feedback for them. Their success is your success.

All of these strategies help build trust, and by building trust, you’ll be able to move forward with tenants together. Once you’ve built trust and helped them secure profits, tenants will be happy to share some of this revenue with you through rent.



Hongqiao is a development outside of Shanghai’s central business district (CBD) that was previously an immature commercial area with limited residential neighborhoods within walking distance.

Go with what fits

The first property we’ll look at had been closed for two years for renovation. One downside was that it was outside of the downtown/CBD area and did not have direct access to a subway line. The landlord had been successful in Hong Kong but did not have a track record in Shanghai. The project was positioned for middle-end family consumers.

The role of anchor tenants in a property like this are severalfold. First and foremost, anchor tenants deliver foot traffic to a property. They draw customers in and then channel those customers throughout the property.

Thus, we need to utilize the anchor tenant to communicate with these customers by identifying to the market the project positioning. An anchor tenant like Zara or Uniqlo is a clear signal that the positioning is middle-end, whereas Prada and Louis Vuitton would signal high-end.

This positioning also helps deliver other tenants to the building. These are smaller and medium-sized brands that will see the anchor tenants and understand whether or not they would be a suitable fit for the property. Usually they wait to see which anchor tenants sign with a property before committing themselves.

One thing to note, however, is that anchor tenants understand the important role they play. They are in a position of relative strength. The result is that they sometimes pay a lower rent. This can mean longer lease terms of up to 10 or 15 years or pure turnover rent based on a percentage of their sales revenue.

Anchor tenants can also require more resources. They may ask for advertising resources such as advertisement space, a higher power capacity than other tenants, or other special considerations.

Image: iStock.com/zorazhuang

Because this first property had been closed for two years, we knew we needed a strong anchor tenant—or perhaps a group of several anchor tenants—to build market recognition.

In this case, we were talking with the fashion retailer Inditex, which runs a number of different brands such as Zara, Massimo Dutti, Oysho, and others. It was definitely big enough for the project. It required a lot of advertising resources, which we could provide, and wanted pure turnover rent, which we could also accommodate. But it wanted to place seven of its own brands in the shopping center.

This gave me pause. I had allocated 28% of the space in the mall to fashion, and including all seven brands would have gone over that allotment. It would have meant less diversity—less room for signing brands in other categories to create something different.

What was my strategy to negotiate with and ultimately sign this anchor tenant? I typically use the following five steps:

1. **Introduction**—Before making any offer, I provide anchor tenants with detailed background information about the project; information such as positioning, brand mix, and trends. The more they understand my project, the more confidence they will have in me and the more willing they will be to work with us.
2. **Needs analysis**—I also make sure to understand tenants’ true needs before making an offer. Do they want to open because the location is good for them? Or because the project has a similar customer base? Or is it because competitors have shops in this area already? I need to know their requirements, so I can offer what they need.
3. **Objection handling**—We also need to understand anything that could prevent them from signing with us. Identifying objections allows me to provide support to handle their concerns or else offer something to change their mind.
4. **Solution**—Once we understand all the requirements, we then work to offer a suitable package. If, for example, a tenant cares about cash flow, perhaps we can offer reduced rent at the beginning of a contract that increases in the second year. We aren’t looking for good or bad, but suitable; something that works for both sides and for the property itself.
5. **Closing**—Once we’ve shown a tenant what we can do and offered them what they need, closing becomes straightforward. The key is to remember that we’re not just selling a space, we’re selling a future—a good future with good business.

In the case of Inditex, I sat down with them to explain what I was seeing: Four of their brands matched the project positioning, namely Zara, Zara Home, Massimo Dutti, and Oysho. The other three brands felt too “young” for the target customer base, and we had concerns about the allocation for fashion. They understood, and we were able to come to an agreement. In the end, the mall reopened, and all of the brands ended up seeing good business performance results.

Giving shoppers what they want

The second case study was in the CBD area of Hongqiao. The positioning here, too, was targeting middle-class families. The demographics nearby included many people from Hong Kong, Taiwan, Singapore, Korea, and Japan. The anchor tenants in the project included Under Armour, Uniqlo, Adidas, H&M, and Zara.

I’d like to look specifically at the second floor of that property. One of the anchor tenants here was Hotwind, a local Chinese fashion brand that targeted younger people spending an average of \$5–\$8 per head. Hotwind tried different strategies, but nothing seemed to work, and after a year revenue continued to decline.

It was clear that we needed to find a more suitable anchor tenant for this part of the property. We decided to go with Muji, a Japanese clothing and houseware brand. Muji was more recognizable to the local residents, and the positioning matched as well, as Muji targets midlevel families spending on average \$8–\$30 per person.

The resulting shift was dramatic: Monthly sales revenue increased by 389%, and monthly rent income increased by 233%. It’s important to note that this doesn’t mean Hotwind was a bad anchor tenant, only that it wasn’t a suitable one in this case.

Finding and securing a suitable anchor tenant is a complex task. A property manager needs to have a full picture of the needs of the tenant, the needs of the owner, the context of the property, and details about clientele. But working with these tenants can be incredibly fulfilling and rewarding. It takes emotional intelligence, financial calculation, and market strategy. These skills combined can bring out the best in your properties for both tenants and owners. ▀



Echo Zhang, CPM candidate, is the general manager of Shanghai Lingfeng Real Estate Development Co., Ltd. in Shanghai, China.

Industrial evolution

Managing a new age of demand in this real estate sector

By John Salustri



a strategic advisor, with services that include property management and brokerage.

Enter the so-called “Amazon Effect,” the impact of e-commerce on brick-and-mortar retail in an era when no one wanted to run the health risk of entering a store. That dynamic has brought obsolete facilities back to life, says Chanin, and raised a new generation of value-add investors who are taking “low, clear-height industrial properties, insulating them, installing a freezer, and jacking rent 45%. Plus, they’re leasing it in a heartbeat.”

That demand has caused serious ripple effects throughout the market, limiting availabilities still further, Chanin explains. For

example, if a large tenant, of say 100,000 square feet, can’t move due to limited space options, the movement of smaller tenants that could have occupied that space is limited. That limitation in turn stifles the movement of yet another potential tenant for that midsize space.

“There’s a definite trickle effect down through the market,” he says. “It’s like a freeway accident. Everyone piles up.”

That intense, COVID-19-driven interest didn’t happen overnight. When the then-booming economy hit the skids in February, the industrial market paused, despite the essential designation of many manufacturing/distribution tenants. Then, as we began to get the measure of the pandemic, the market began again to come to life.

“When COVID-19 hit, activity dropped to 50%,” says Chanin, indicating that these numbers are anecdotal. “Once we started to get a better picture of COVID-19, the market initially went back to 90%,” and the upswing has been slow and consistent ever since. “Year-over-year, I’d put the current activity as high as 20% to 30% above where we were last year.

“We all thought logistics would slow because people weren’t buying from retail centers,” he continues. “Instead, we’ve eliminated the retail centers, and trucks are dropping product off at last-mile depots, then making their way directly to consumers.” In fact, the uptick has been so great that many of his clients are struggling to find drivers.



“Every time we would put together a semblance of a communication on policy or procedure, we’d have to issue revisions to the recommendations.”

—Sam Chanin, CPM

A market like no other?

It’s a unique situation, but not the only one that separates industrial from office or multifamily. “Industrial facilities are used harder than other types of assets,” he says, pointing to the abuse these facilities take from the likes of forklifts, trucks, and skateboards.

Wait—skateboards?

“We had an indoor skateboard park in one of our buildings,” he explains. “The drywall took a terrible beating.” (Chanin explains that when he took the building back, the outgoing tenant did make good on the repairs.)

But that’s not to say that industrial buildings are all rough-and-tumble. In fact, as often as not, today they serve as the scene of highly sophisticated robotics for inventory control as well as for a growing digitally focused tenancy.

“It’s not just smokestacks and oil spills,” he says. Chanin points to manufacturing tenants such as defense contractors, which produce highly sophisticated electronics devices or ones that churn out animatronics for theme parks. “There are always robots walking around. It’s really cool stuff.”



“These sorts of applications demand closely controlled HVAC systems, clean-room facilities, and static-control measures,” he says. And the nature of much of this production also demands finely tuned security measures and access control.

Still, in many respects, industrial is much like the other food groups. Property managers of all sorts still have to deal with broken pipes and flooding. Besides, navigating the shifting protocols of the pandemic was a challenge for all property managers.

“Every time we would put together a semblance of a communication on policy or procedure, we’d have to issue revisions to the recommendations,” Chanin says. “It was very chaotic in the beginning. All the while, we needed to evaluate our procedures and keep a pulse on the safety, comfort, and compliance of our tenants.”

It’s alive!

In his nearly 20 years in property management, Chanin has had his hands on retail, office, and industrial properties.

Now, as he swings into a dedicated focus on the latter, one truth remains: “All buildings are like living entities,” he says. “They have multiple systems, and they have an overall health. They break a lot and need constant maintenance.”

They even have a life expectancy. But thanks to the efforts of the property management industry and value-add investors looking to solve a real and growing need, those assets once dubbed obsolete are finding new life. ▀

John Salustri is a contributing writer for JPM.



New certificate recipients

New CPMs

Alabama

Kelly Chopin, CPM, Birmingham

Arizona

Jamie Hinz, CPM, Phoenix

Arkansas

Blake Hopper, CPM, Rogers

California

Chris Brown, CPM, Sacramento
Kelly Diep, CPM, Garden Grove
Khristina Dundon, CPM, Reseda
David Floren, CPM, ARM, Roseville
Lori Gertsch, CPM, Tustin
Leonard Hamai, CPM, Irvine
Maxwell Igwe, CPM, ACoM, Fremont
Thomas Perfect, CPM, Ramona
Davide Pio, CPM, Pinole
Dennis Szuberla, CPM, ACoM,
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Tamra Villarinho, CPM, Riverside

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Connecticut

Jerome Floyd, CPM, ARM, Stamford

Florida

Edward Bean, CPM, Orlando
Susan Jones, CPM, Naples

Georgia

Jessica Tripp, CPM, Atlanta
Connie Wilson, CPM, ARM, ACoM,
Martinez

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Paris Cousin, CPM, Honolulu

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Lauren Kane, CPM, Indianapolis

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Vickie Hudson, CPM, Norfolk
Korinna Katharos, CPM, Henrico
Jeri Powell, CPM, ACoM,
Newport News

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Brandy Davidson, CPM, Vancouver
Maggie Raicu, CPM, Bothell

Washington, D.C.

Kristine Cranley, CPM

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Nick Russell, CPM, Dartmouth,
Nova Scotia
Philip Sibbald, CPM, Victoria,
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Philipp Petrovskiy, CPM, Moscow

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Waqar Hasan, CPM

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Julia Kelly, ARM, Irvine
Ty Lattimore, ARM, Irvine
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Craig Morrison, ARM, Honolulu
John Wanamaker, ARM, Honolulu

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Kurstie Butcher, ARM, Schaumburg

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China Reynolds, ARM, Zionsville

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Marlon Bascombe, ARM, Millinocket

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Stafford King, ARM, Millersville
Cynthia Major, ARM, Savage
Amelia Mizzell, ARM, Laurel
Donneice Roy, ARM, Millersville

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Tania Gonzalez, ARM, Framingham
Mijin Lee, ARM, Braintree
Maureen Rocheleau, ARM, Worcester

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Shar'Ron Jackson, ARM, McLean
Christina Mitchell, ARM, McLean
Sandra Ogundipe, ARM, McLean
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William Guerra Zelaya, ARM

Wisconsin

Christie Bryant, ARM,
South Milwaukee
Sarah Gulotta, ARM, Greenfield
Kristopher Krumbrey, ARM, Green Bay
Scott Malloy, ARM, Fond Du Lac
Sarah Nazario, ARM, Milwaukee



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Canada

Amy Gamblin, ARM, Ottawa, Ontario
Leann Hoffman, ARM, Weyburn,
Saskatchewan
Justin Mensah, ARM, Edmonton,
Alberta

New ACoMs

Arizona

Whitney Lane, ACoM, Phoenix

California

Maxwell Igwe, CPM, ACoM, Fremont
Dennis Szuberla, CPM, ACoM,
San Diego

Florida

Stuart Thibeault, ACoM,
Fort Lauderdale

Georgia

Darryl Edwards, ACoM, Peachtree City

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Jacqueline Vernon, ACoM,
Silver Spring

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Patrick Lytle, ACoM, Richfield

North Carolina

Trevor Scott, ACoM, Hillsborough

Ohio

Erik Lassiter, ACoM, Toledo

Pennsylvania

Brian Vankirk, ACoM, Trafford

Texas

Ka'Lisia Hagwood, ACoM, Houston

Virginia

Adam Holbrook, ACoM, Mechanicsville
Maj-Lene Keech, CPM, ARM, ACoM,
McLean
Gretchen Mitchler, ACoM, McLean
Paul Thoms, ACoM, Richmond

New Certified Sustainable Properties (CSPs)

California

Sunvalley Shopping Center, Concord
Rancho San Diego Towne Center,
El Cajon
Grossmont Medical Terrace, La Mesa
The Shops at Montebello, Montebello

Alexan ALX, San Diego

One Sansome Street, San Francisco
Canyon Woods Apartments,
San Ramon
Fallbrook Shopping Center, West Hills

Colorado

Cherry Creek Shopping Center, Denver

Florida

Pembroke Lakes Mall, Pembroke Pines

Hawaii

Keola La'I, Honolulu

Minnesota

Excelsior Crossings, Hopkins
Pondview Plaza, Minnetonka

New York

Project Hope Senior Housing, Bronx
Adams Station Apartments, Delmar

Virginia

The Madison at Ballston Station,
Arlington
Cognac Fair Lakes, Fair Lakes
Tysons Galleria, McLean

Washington

The Preserve at Cedar River, Renton

Washington, D.C.

1015 Half

In memoriam

Mr. John W. Ayre, CPM

Mr. Lee D. Corbin, CPM Emeritus

Mr. John R. Dorenkamper, CPM

Mr. Robert J. Downs, CPM

Ms. Margaret M. Gay, CPM

Mr. Lloyd D. Hanford Jr.,
CPM Emeritus

Ms. Sara M. Sneen, CPM Candidate

Mr. Eric B. Storey, CPM, CCIM

Ms. Gloria R. Tillery, CPM



Image: iStock.com/Warchi

Member updates

Disciplinary action

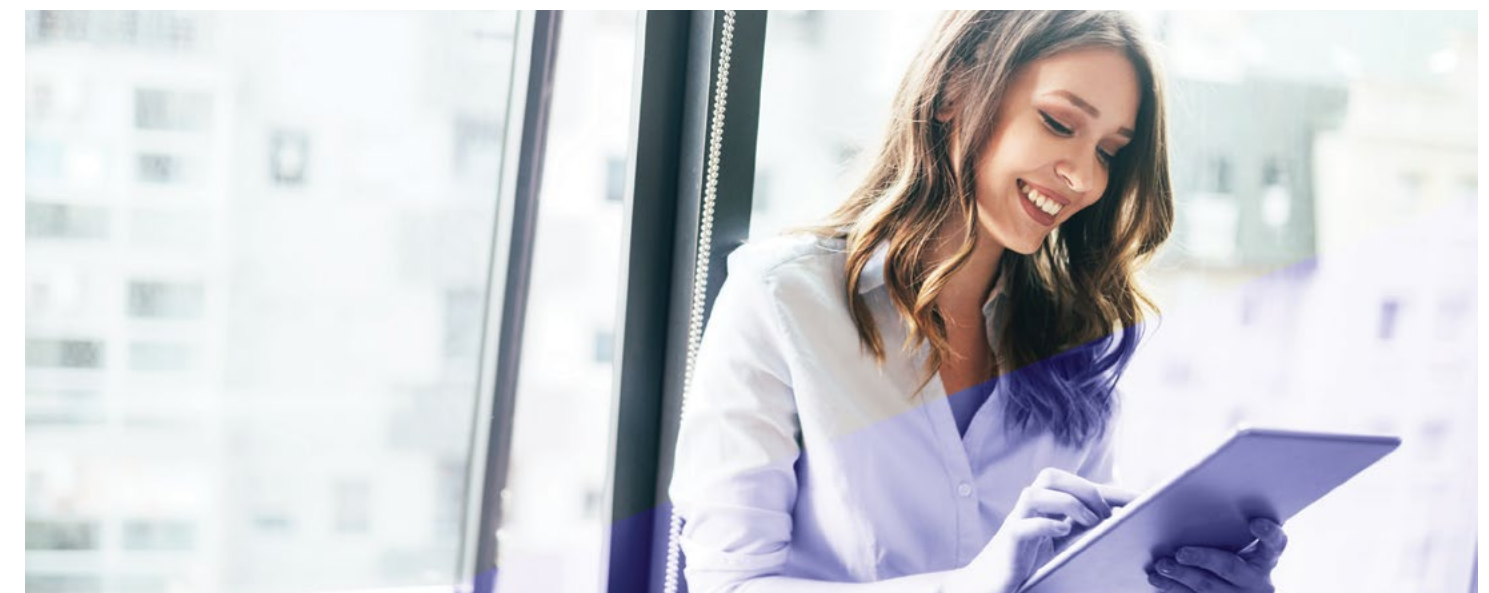
The IREM Ethics Hearing & Discipline Board upheld the decision of the IREM Ethics Inquiry Board to suspend Gina Champion-Cain's IREM membership and status as a CPM for three (3) years, and conditioned upon Champion-Cain obtaining a valid real estate license in California and meeting all eligibility requirements for IREM membership.



Image: iStock.com/thinsight

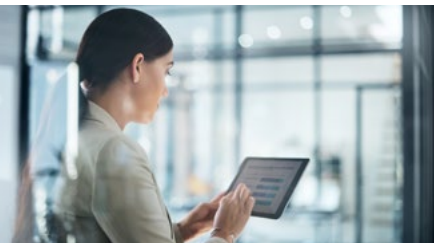


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Find your next applicant on the IREM® Job Board



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Data security can make or break your organization; one single vulnerability is all that an attacker needs. P14



The message to owners/ investors is to budget more for their property management expense—it will pay dividends in tenant retention and overall operations. P19

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Marketing automation is your secret weapon in an increasingly chaotic digital marketplace. P21



“

We had an indoor skateboard park in one of our buildings. The drywall took a terrible beating. P33

I believe the next pandemic is around the corner and will probably occur within our lifetimes. We want to be ready and generally well prepared. P9

”

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The IREM[®] CSP Volume Program allows you to certify the environmentally-friendly conventional and medical office buildings, multifamily and senior housing communities, and shopping centers in your portfolio. You can also obtain a gap analysis on corporate sustainability programs through the Volume Program enrollment process, which results in streamlined CSP applications for you and your team.

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▶ To learn more and enroll, visit irem.org/csp-volume-program.