



What Green Technologies Mean for Net Operating Income

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SAN DIEGO—Green technologies can improve operations, make buildings more comfortable for their occupants and lower utility and maintenance expenses, freeing up capital, NEO Realty Group's managing broker Brant Smith, CPM, tells GlobeSt.com. We spoke exclusively with Smith about green technologies and the variety of benefits they provide property owners and managers.

GlobeSt.com: How do new green technologies help property managers increase efficiency and sustainability to boost NOI?



Smith: There are two or three major points to make here. Green technologies are products or services related to physical assets that typically improve operational efficiency, make the building more comfortable for the occupants, lower utility and maintenance expenses, and reduce environmental impact. Often, equipment with green technologies lasts longer and

makes for a well-managed building. It reduces operating costs on individual line items (like water, natural gas and electricity) and helps to increase the top line by providing better spaces and getting better rents. This helps to increase NOI. These technologies apply to building systems ranging from lighting, lighting control, and HVAC, as well as interior finishes such as low-VOC paints and flooring, and other technologies and systems that impact tenant engagement such as bike racks and recycling programs. The overall impact is a more environmentally and financially sustainable property.

GlobeSt.com: How do you balance what's good for the environment with what's good for the bottom line?

Smith: The way we've approached it in our business and the way that IREM has approached it through the IREM Certified Sustainable Property program is that a full accounting of green technologies and sustainability programs includes the positive impact on the triple-bottom-line—with social, environmental and financial benefits all considered. Improvements are often planned around NOI, so generally most have financial benefits, in addition to the environmental benefit. Assessing these specifically from a building operations perspective, the Certified Property Manager (CPM) is making decisions according to the owner's financial objectives. So, analyzing how the use of green technologies matches up with the owner's goals for specific buildings is a primary objective. There are social, economic and environmental benefits from green technologies that suit different owners' objectives. Some owners will want a two-to-three-year payback that strictly accounts for cost savings, while others will accept a longer payback for an economic return that is inclusive of intangible benefits such as positive PR and community goodwill.

GlobeSt.com: What's the best way to stay on top of green technologies that will offer the most benefits?

Smith: Being engaged in industry groups such as IREM, IFMA and CoreNet—if you're involved in an industry group, you'll have access to some knowledge sharing about these technologies. I also recommend being involved in something outside of your typical comfort zone. Go to educational sessions, whether through USGBC or 2030 Districts, to get a different perspective on things. This can help you stay leading edge. Additionally, studying and reviewing the different certification programs whether through IREM or ENERGY STAR, to better understand what their benchmarks or guidelines are, will help broaden a property manager's perspective.

GlobeSt.com: What else should our readers know about green technologies?

Smith: Here are some closing thoughts. First, assess things from a total life-cycle cost; there's not only the immediate, direct, utility-expense reduction associated with green technologies, but there are also longer-term reductions in life-cycle costs related to maintenance and repair, which are just as important. Second, review products and services carefully, to ensure they're properly certified. Example certifications for different products and services include Green Seal, Green-e and ENERGY STAR. Lastly, if you're a building owner or management company, look at things strategically. There's a whole level of upside income that can also be derived from green technologies that can be integrated into tenant spaces; as building occupants are more satisfied and comfortable, a property can potentially demand higher rents.

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Property Management Best Practices: Optimizing Maintenance to Increase the Bottom Line

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Property management is a fluid, fast-paced, and dynamic business. One that requires both technical skills, such as financial analysis acumen and a strong understanding of accounting, as well as soft skills such as leadership and effective communication. It is a business that requires robust and often rigid policies and procedures to effectively carry out day to day functions and tasks, especially when related to operations such as cash receivables and contract administration. However, it is also a business that requires flexibility, adaptability, and innovative thinking related to leasing, space design, and tenant retention.

How does a property management firm, the management team, and the individual property manager carry out professional, efficient, and effective services to increase NOI? By developing and following best practices.

The Institute of Real Estate Management (IREM) and the Certified Property Manager (CPM) designation speak to developing and following best practices. IREM's Best Practices: Real Estate Management Service¹ guide book demarcates best practices into four categories:

- 1. The Management Company** – written policies for managing the management company itself.¹
- 2. Client Relations** – ensure the management company identifies and deliver on the owner's financial objectives and goals.¹
- 3. Management of the Property** – property-specific (the management plan) policies and procedures designed to successfully operate the physical asset to meet owner's objectives and goals.¹
- 4. Tenant/Resident Relations** – "a property's most valuable asset is its income stream, and this income stream comes primarily from the rents paid by tenants. Keeping tenants is easier and less expensive than replacing tenants."¹

This author also believes that a fifth, and critically important best practice should be incorporated into the cores business of property management, as-follows:

5. Sustainable Property Management – energy reduction has a direct relation to good management, properties that meet the triple bottom line of people, planet, and profit have a competitive advantage.

How can building and site maintenance be optimized to increase NOI?

Through comprehensive preventative maintenance.

To carry through one example of a best practice as related to building and site maintenance, let's explore an integrative approach to preventative maintenance. Proactive management and preventative maintenance (PM), contrary to reactive maintenance and deferred maintenance, reduces both direct and indirect costs. Direct costs are the actual, measureable financial savings associated with PM, they are the hallmark of a well-run PM program. Indirect costs, such as the impact on tenant satisfaction and goodwill also influence the bottom line. Understanding and analyzing the carry-through of the PM plan back to the annual budget, capital budget, the lifecycle of the property is an example of how a CPM utilizes IREM best practices to optimize maintenance for an increased NOI. Making PM a standalone line item in the budget, it then becomes a specific and quantifiable metric to assess performance of a property.

We all know when we walk into a property with an outstanding PM plan in place: floors shine, elevators are fresh, bathrooms are spotless – meanwhile what may not be immediately evident is that the equipment and mechanical systems are also operating more efficiently, with less energy, water, and dollars being wasted. PM will also extends the life of the property's equipment, thus reducing long-term expenses related to premature repair and replacement. Such a well maintained property can also demand higher rents, and is more attractive to potential tenants. Furthermore, it allows the management team to focus on tactical and strategic directives, rather than disruptive events such as emergency repairs. Utilizing just this one best practice, the building itself become more sustainable – not just in the environmental sense, but also in the financial sense as expenses and energy consumption are reduced, and as NOI improves.

By operating a successful PM program that focuses on the monotonous day-to-day details maintenance, an individual property manager, the management team, and the management company can make a tremendous positive impact on the bottom line, while also reaching for sustainability goals.

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