

**SAMPLE
COMMERCIAL
PROPERTY
MANAGEMENT PLAN**

**LISC Commercial Development
Training Series**

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**SAMPLE PROPERTY MANAGEMENT PLAN FOR
COMMERCIAL PROPERTIES LEASED OR OWNED
BY ACME CDC**

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This plan has been developed to set forth the scope of activities relating to property management for Acme CDC. It will outline responsibilities of Management Staff as described below, and detail the policies and procedures to be observed in the management of the properties owned and/or managed by Acme CDC.

Comment [KF1]: Page: 1
This plan has been developed for modification by different organizations. Those areas which most likely require specific customization are identified by being underlined and italicized. Needless to say, the name of the organization will need to be changed from "Acme CDC".

I. STAFFING (Management Staff)

Comment [KF2]: Page: 1
The staff positions outlined in this sample management plan may not reflect those of your organization. The purpose of this section is not to specify every activity of these staff members, but to simply identify which staff positions will be involved in commercial property management. The descriptions can be somewhat general, since staff positions are identified specifically for each of the management activities later described.

- A. Acme CDC will employ a *full-time DIRECTOR OF MANAGEMENT* who will be responsible for overseeing the effective operations and financial health of all of Acme CDC's commercial properties. The Director will train and supervise the *FACILITIES MANAGER*, and will report directly to the *Executive Director* of Acme CDC, or such other individual, board or committee as may be designated by the *Executive Director*. (See Job Descriptions - Exhibit A)
- B. Acme CDC will employ and train a *part-time FACILITIES MANAGER* who will be responsible for overseeing the day-to-day operation of Acme CDC's commercial properties. This includes tenant/landlord relations, lease administration and, for those properties owned by Acme CDC, it includes leasing activities. The *FACILITIES MANAGER* will be responsible for development and implementation of a program for the ongoing maintenance and routine repair of buildings and systems. Such responsibility shall include management of staff performing maintenance and repair work, as well as management of outside contractors hired to perform such work. (See Job Descriptions - Exhibit A)
- C. Acme CDC will employ a *full-time MAINTENANCE PERSON* who will be responsible for carrying out all maintenance and repair work in accordance with the property management plan. *This person will divide his/her time between residential and commercial properties.*
- D. Acme CDC will use the services of its *Accounting Department* for collection of rent and preparation of financial reports relating to the management of the commercial properties. Within the *Accounting Department*, *one bookkeeper* will be designated the *COMMERCIAL PROPERTIES BOOKKEEPER* and this person shall be responsible for the accounting and reporting activities required by this Management Plan.

II. GENERAL POLICIES AND PROCEDURES

- A. It shall be the responsibility of Acme CDC to establish the general policies under which the commercial properties will operate. The Management Staff shall implement the policies and carry out the day-to-day operations for the commercial properties.

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B. Acme CDC shall review this Management Plan on an annual basis. Changes to the plan shall be submitted to any regulatory agencies from which approval is required prior to implementing such changes.

Comment [KF3]: Page: 2
While the management plan need not be reviewed every year, it should be reviewed at least every two years. This review should incorporate changes to management structure, changes in procedures and any other modifications relating to commercial property management.

C. The following procedures shall be followed to ensure effective ongoing operation of commercial properties:

1. The Facilities Manager will, by means of quarterly status reports, advise the Director of Management on the operation of the commercial properties. Such status report shall include, at a minimum, the following:

Comment [KF4]: Page: 2
These status reports should be timed to meet the needs of the organization, but should not be scheduled too far apart or they lose some of their effectiveness. Reports can be written or verbal. This is an opportunity to provide upper management with a view of what is going on at the property, and also an opportunity for the site managers to obtain feedback, ideas and suggestions.

- Recent or upcoming tenant changes or changes to commercial leases
- Recent or upcoming capital improvement requirements including tenant improvements
- Updates on current vacancy rates, operating costs and comparable market rental rates

2. The Facilities Manager will meet regularly with the Director of Management for the purpose of reviewing policies, management procedures and discussing problems or concerns related to the commercial properties.

III. BUDGETING

1) At least 60 days prior to the beginning of each new fiscal year, the Facilities Manager shall develop a schedule of projected revenues, expenses, vacancy rates, debt service and cash flow for the commercial property for the following fiscal year. Such projections shall be developed in consultation with the Maintenance Person to determine potential maintenance and capital improvement costs for the upcoming fiscal year, and feedback may be sought from staff who has experience with other commercial properties.

Comment [KF5]: Page: 2
The budget should be developed in consultation with staff who work directly with the project under consideration and input should be solicited from other staff members who have relevant experience with commercial properties (i.e. development staff).

2) The schedule of projected commercial operating and capital expenses developed as a part of the cash flow projections, shall be submitted by the Facilities Manager to the Director of Management for approval. After approval by the Director of Management, the Property Owner and any regulatory agencies requiring such approval, these projections shall become the approved Annual Operating Budget.

3) Each commercial property shall have reserve accounts to be funded from operations and included in the Annual Operating Budget. These commercial reserve accounts are described as follows:

i) Operating Reserves - These reserves shall be set aside to cover operating expense overruns for the property. This fund should be budgeted as 3% of the

Comment [KF6]: Page: 2
The Operating Reserves can be budgeted and funded in conjunction with residential operations. There must however, be a tracking mechanism for determining how much of these funds are allocable to residential and how much to commercial.

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annual operating and administrative expenses for the commercial component of property.

- ii) Capital Replacement **Reserves** – These reserves shall be set aside for capital improvements and replacement during the life of the property. The level at which these reserves are funded annually will depend upon the condition of the property. For a new property, annual reserves should total at least .02% of the construction cost. For older properties this figure should increase.

Comment [KF7]: Page: 3
The Capital Replacement Reserves can be budgeted and funded in conjunction with residential operations. There must however, be a tracking mechanism for determining how much of these funds are allocable to residential and how much to commercial.

The *Director of Management* will develop a schedule of capital replacement needs for the property over a 30 year time frame. Costs should be attributed to the repair/replacement of capital items, and the reserves should be funded at a level to cover these anticipated costs.

- iii) Leasing Reserve – These reserves will be used to pay brokers’ commissions for leasing space as it becomes available for lease. Although Acme CDC will not always use the services of a broker in leasing commercial properties, when the instance arises it can be quite costly.

These reserves should be funded annually at a level equal to approximately 1-2% of gross rental income. Since brokerage commissions typically average 3% over the life of a lease, and may be required even for lease renewals, this will provide funds to at least partially offset brokers’ fees for future leasing.

- iv) Tenant Improvement **Reserves** – This reserve fund is used to set aside funds that may be required to attract and secure new tenants in the future. Frequently, the landlord is expected to pay for at least a portion of the improvements to commercial space that may be required by a tenant. Since this can have a significant cost, it is prudent to save for these costs in advance.

Comment [KF8]: Page: 3
These reserves are set aside to fund construction of tenant improvements by the Landlord. Since these improvements may be required to attract a new tenant when space turns over, and since the costs may be significant, it is better to budget ahead than to try to pay these costs from the operating budget. Without this type of reserve account, tenant improvements are frequently funded from residential operations, or from some other source not meant for this use.

Reserves to this account may change from year to year, based upon changing tenants, lease terms and market conditions. These reserves should be funded at a level calculated after the taking the following into consideration:

- The cost/ sq.ft. of tenant improvements expected to be provided by the landlord in the current market.
- The type of commercial space in the property under consideration. Is the layout generic enough that a new tenant could occupy space with few modifications or is it specialized to such a degree that significant changes may be required?
- The average frequency of tenant turnover, quality of tenants and anticipated market conditions. Even though you may have 3-5 year (or

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longer) leases, if the market changes you may lose some tenants before their leases expire. Likewise, small marginally capitalized businesses are likely to turnover more frequently than the lease terms would indicate.

IV. ACCOUNTING, BOOKKEEPING AND FINANCIAL REPORTING

- A. Financial accounting, reports and records shall be in conformance with standard accounting procedures, and responsive to the guidelines provided by any regulatory agencies with reporting requirements related the commercial properties. Accordingly, the Commercial Properties Bookkeeper will maintain accurate files of all tenant/landlord transactions, revenues, and expenditures and prepare the following monthly reports for each property:

Reporting for Properties owned and/or managed by Acme CDC

1. Cash balance in property account
2. Operating/cash flow statement for each separate property (this may be combined to show residential and commercial as long as commercial operations are shown separately):
 - A. Revenues collected
 - B. Operating expenses for the month
 - C. Debt service paid for the month
 - D. Reserve accounts funded during the month
3. Monthly and year-to-date budget comparisons
4. List of disbursements for the month
5. List of accounts payable
6. Vacancy report
7. Rent Roll showing tenant name, address, lease commencement, lease expiration, current rent, rent escalations, space size, other charges (i.e. NNN, CAM, utility surcharges).

These reports shall be prepared and submitted to the Director of Management for review by the 20th of the month following the report period.

- B. The following accounts shall be established, and the Commercial Properties Bookkeeper shall be responsible for all bookkeeping related to these accounts.

1. General Operating Account into which rent, carrying charges, fees and other miscellaneous income will be deposited and from which the commercial properties' operating expenses will be paid. This account may be combined for commercial and residential components of a property as long as income and expenses are allocated clearly to one of these uses.

Comment [KF9]: Page: 4
The following reports can be created as part of an overall property report. The commercial operations should however, be differentiated in such a way that it is possible to evaluate the financial health of the commercial space on its own.

Comment [KF10]: Page: 4
The General Operating Account, Operating Reserve Account and Replacement Reserve Account can be managed through the same method used for residential accounts. Make sure that commercial income, expenses and reserves can be identified as separate from the same types of residential funds.

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2. Operating Reserve Account to be funded initially by Acme CDC in an amount determined by calculating the negative cash flow projected during the initial years of operation. Subsequent monthly deposits to this account shall be made from the Operating Account in amounts as specified in the initial year's Annual Operating Budget and subsequent approved Annual Operating Budgets. See Section III.C. for funding levels. Funds may be transferred from this account only to cover actual operating expenses in excess of the approved budget amount or to compensate for vacancy and bad debt losses in that approved budget amount. Use of funds from this account must receive pre-approval from the Director of Management.

Comment [KF11]: Page: 5
Commercial Operating Reserves can be combined with residential operating reserves, but recordkeeping should be adequate to identify how much has been set aside for commercial vs. residential. Without this type of breakdown there is no way to evaluate the financial health of the commercial operations.

Comment [KF12]: Page: 5
This is primarily applicable to new construction or acquisition.

This account may be combined for commercial and residential components of a property as long as income and expenses are allocated clearly to one of these uses.

3. Replacement/Leasing Reserve/Tenant Improvement Reserve Account to be funded through regular contributions from the Annual Operating Budget, based on a capital improvements schedule of anticipated useful life and replacement needs of major items, projected lease commissions, and tenant improvement expenditures by landlord. Deposits shall be made to this account on a quarterly basis from the General Operating Account. (See Section III.C. for funding levels)

Comment [KF13]: Page: 5
Replacement Reserves may be combined with residential accounts as long as there is a mechanism for tracking balances between residential and commercial operations.

4. Security Deposit Account to be funded by tenants' security deposits. Policies and procedures for administering this account are noted in Section VIII below.

- C. Commercial Properties Bookkeeper shall maintain a General Ledger program which shall be continually updated to meet the accounting and reporting needs of the commercial properties and to produce a quality audit trail.
- D. The Commercial Properties Bookkeeper shall maintain the Commercial properties' files and records in accordance with reporting and accounting requirements established by Acme CDC, and the requirements of any other agencies administering funds contributing to the development and operation of the commercial properties.
- E. In order to ensure strict compliance with the requirements noted above in Section IV. C. the Director of Management will systematically review all pertinent Regulatory Agreements and establish a manual of instructions, schedules and tickler files indicating relevant deadlines, reporting formats, etc. This manual will be distributed to the Facilities Manager, to the Commercial Properties Bookkeeper and to any accounting

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firms hired to provide audits or other reports for the commercial properties. The Director of Management shall monitor and assure compliance with the reporting requirements of the any regulatory agencies and funding sources as outlined in the regulatory agreements with those entities.

- F. Vacancies and monthly rent losses will be noted and recorded in the accounting reports summarizing monthly financial activities for the commercial properties. Such losses will also be noted in the monthly variance reports indicating budgeted versus actual income (see Section IV.A. above).

V. LEASING AND OCCUPANCY

- A. All recruitment and screening of tenants for commercial properties will be the responsibility of the Facilities Manager and will be handled in accordance with policies and procedures for such activities.

1. Prior to approving a new commercial tenant, Facilities Manager shall obtain and review the following:
 - a. Tenant Application
 - b. Tenant Credit Report
 - c. Landlord Reference
 - d. Copy of Tenant's bank statements from prior three months
2. Facilities Manager shall provide a copy of the information described in Section V.A.1. to the Director of Management for final approval before drafting lease for a new commercial tenant.

Comment [KF14]: Page: 6
Some organizations designate leasing tasks to the property management staff, while others keep it within the purview of development staff. However this activity is delegated, there must be a specific individual who is responsible. Without this individual accountability it is very easy for the process to become muddled and for opportunities to fall between the cracks.

Comment [KF15]: Page: 6
In some cases the Landlord may want to review a business plan from a new start-up, or in situations when the Landlord is providing additional business services to commercial tenants.

- B. Upon receiving approval from the Director of Management, the Facilities Manager shall complete a commercial lease for the new commercial tenant and provide it to tenant for review.

Comment [KF16]: Page: 6
The commercial lease is critical to the smooth operations and financial health of the property. Make sure that your organization uses a professional commercial lease and includes a lease abstract which summarizes all of the pertinent points for ease of use by property management staff.

- C. Facilities Manager and Director of Management shall participate in any negotiations with potential commercial tenants as deemed necessary.

- D. The Facilities Manager will send a welcoming letter to all new tenants and provide all tenants with written orientation material including general information about the property, a list of emergency numbers and other information regarding emergency procedures.

- E. The Facilities Manager will provide all new tenants with a tour of the facilities in

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order to acquaint them with the physical layout of the commercial properties and the location of fire alarms, fire extinguishers, and fire exits, as well as a review of fire precautions and evacuation procedures.

- F. The *Facilities Manager* will meet with new tenants to thoroughly review Rules and Regulations for the commercial property and each tenant will be provided with a copy of the above documents.

VI. MOVE-IN PROCEDURES

- A. *Facilities Manager* shall conduct a walk through and orientation for all new commercial tenants. The walk through and orientation shall include the following:
1. *Facilities Manager* and new tenant(s) will inspect tenant's commercial space prior to occupancy. A checklist of the unit's condition will be signed by both parties.
 2. *Facilities Manager* will show the new tenant person the location of all emergency equipment and alarms. Tenant/agency staff will be provided with a security code for any alarm systems and will be informed of procedures for locking and alarming the facilities. *Facilities Manager* will provide all tenants with keys and alarm codes as appropriate.
 3. *Facilities Manager* will provide new tenants with written documents explaining the use and care of the facilities and equipment in their commercial unit as well as maintenance and service request procedures, security systems and emergency procedures.
- B. Tenant shall not be provided keys to tenant's commercial space until the *Facilities Manager* has received a copy of tenant's certificate of insurance showing coverage limits stipulated in tenant's lease, and additional insured named as required by lease.

VII. MOVE-OUT PROCEDURES

- A. At the time a tenant moves out of its leased premises, the *Facilities Manager* shall conduct a walk through with the tenant to identify any "Tenant Caused Damage", the costs for which will be charged to the Tenant. *Facilities Manager* shall complete an Inspection Report and obtain the tenant's signature confirming the "Post Occupancy" condition of the premises. This inspection shall be conducted within three days of a tenant vacating the space. *Facilities Manager* shall also note on the Inspection Report, items which must be repaired prior to re-leasing, but which are not the responsibility of the tenant. *Facilities Manager* shall schedule such work to be completed within 10 days of tenant vacating the space.

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- B. At the time the tenant moves out of its leased premises the Facilities Manager shall undertake the following:
1. Collect all keys to the premises which have been provided to the tenant.
 2. Cancel any alarm code which has been used by the tenant and have a new alarm code assigned to the space in question. The new alarm code shall then be provided to the new tenant leasing the vacated commercial space.
- C. Facilities Manager shall make sure that tenant has had all signage removed from the building, and if the tenant has not performed this task, then the Facilities Manager shall have the signage removed and shall charge tenant for the cost of such removal.
- D. Facilities Manager shall prepare the commercial space for leasing to a new tenant in accordance with the items listed in the Procedures for Vacancy Preparation and Repair.

VIII. SECURITY DEPOSITS

- A. Tenants shall be required to make a refundable security deposit in accordance with the terms of their leases. The security deposits shall be held in a separate account with a depository insured by an agency of the federal government of a comparable federal deposit insurance program. The balance of this account shall at all times equal or exceed the aggregate of all outstanding deposits.
- B. Interest earned on the Security Deposit Account shall accrue to the tenant's account if so required by the terms of the lease. If the lease does not require interest to accrue to tenant's account, then interest earned on security deposits shall be transferred into the Replacement Reserve Account twice a year.
- C. When a unit has been vacated, the Facilities Manager will perform a move-out inspection to determine any damages to be corrected or cleaning necessary over and above normal wear and tear, which shall be charged against the security deposit. A tenant may, but will not be required to, participate in this inspection. The move-out inspection form will be compared to the move-in inspection form to determine the extent of tenant caused damages.
- D. Within 14 days from the date of move-out, the Commercial Bookkeeper shall prepare a security deposit refund form indicating:
1. Security deposit on hand

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- 2. Amount of rent or unpaid charges owing as of the date of move-out
 - 3. Amount of damage or cleaning charges to be assessed. An itemized list of work and actual costs will be attached to the forms for repair, cleaning, or replacement of items above normal wear and tear.
- E. The balance of the security deposit after deductions for outstanding rent, fees, charges, cleaning and damages will be refunded to the tenant with this form and itemization of costs.
- F. As part of the tenant orientation, tenants shall receive an explanation of the use of security deposits.

IX. RENT/AGENCY FUND COLLECTION POLICIES AND PROCEDURES

The tenant orientation information (both written and oral) for the commercial properties shall address monthly rent collection policies and procedures. Such policies and procedures shall be strict, consistent, easily understood and firmly enforced. This information will be provided to all tenants at move-in as well as to all Management Staff.

- A. The Commercial Properties Bookkeeper shall collect and record all rent and tenant charges and shall promptly deposit daily receipts to the appropriate property account(s).
- B. All monthly rents will be due and payable on the first day of the month but in no event later than five (5) working days after the due date. Method, time and place for payment will be made clear to the tenants and will specify that payment is to be made to Acme CDC' office at 1234 Smith Street, San Francisco, California either by check or money order. No cash may be accepted from tenants.
- C. Tenants who do not pay their rent by the tenth (10th) of the month shall receive a three (3) day notice to pay or quit.
- D. Partial monthly rent payments (except for pro-rated fees involving a mid-month move-in date) will only be accepted in very special cases approved by the Director of Management.
- E. Tenants having financial problems that affect payment of their monthly rent shall be referred to the Facilities Manager. Facilities Manager shall evaluate the tenant's situation and determine whether to pursue some alternative payment method with the tenant in question. If the Facilities Manager determines that, based upon the history and actions of the tenant, such an alternative payment plan should be considered, he/shall develop such a plan and submit a written proposal to the Director Management for approval. Upon receiving written approval of such plan from the

Comment [KF17]: Page: 9
In this case, tenants will be mailing their rent if the management organization is not located on site of the property in question. This can also be set up in such a way that rent is collected and recorded by a staff person on site and then forwarded to the bookkeeping/accounting department.

Comment [KF18]: Page: 9
The amount of time which must pass before a notice to pay or quit is issued may vary from organization to organization. It should not be too long after rent is due however, because this creates a larger risk of rent loss in case of an eviction.

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Director of Management, the Facilities Manager shall proceed to formalize and document such arrangements with tenant.

Until such time as alternative payment arrangements are formalized and documented with the tenant, the Facilities Manager shall continue to follow all policies and procedures for rent collection and eviction in the event tenant has not paid rent in full.

- F. Rent increases shall be anticipated in the Annual Operation Budget and implemented in new leases as the needs of the commercial properties and current market conditions dictate. Rent increases shall be implemented in conformance with the requirements of the leases. The Facilities Manager shall be responsible for calculation of new rent levels and shall be responsible for providing notice to tenant of rental increase at least thirty (30) days prior to the adjustment date as defined in tenant lease or earlier if required by the terms of the lease. Facilities Manager shall notify Commercial Properties Bookkeeper of the date and amount of any rent increase.
- G. Should a tenant cause damage to the premises in the course of his/her occupancy, the tenant will be billed for the repair of such damages when they occur in order to avoid using the tenant's security deposit for payment. Facilities Manager shall make the Commercial Properties Bookkeeper aware of such damage and shall provide the Commercial Properties Bookkeeper with an invoice for repairs from the vendor. Upon receiving a copy of the vendor's invoice, the Commercial Properties Bookkeeper will prepare an invoice to the tenant for such charges and the Facilities Manager will send the invoice to tenant. These damage charges will appear on the tenant's monthly rent ledger card and will show as a balance due until paid in full. However, should these charges still be owed when the tenant vacates the unit, such charges will be deducted from the security deposit refund. Remaining charges for damages in excess of the security deposit will be recovered by referring the case to an attorney or professional collection service.
- H. Tenants will be charged for tenant-caused or tenant-requested replacements and repairs. Charges for these items will be at a rate which does not exceed the actual cost paid for labor and materials.
- I. A service fee of \$20.00 will be charged for returned checks. Following the occasion of two (2) checks being returned by the bank, rent payment by cashier's check or money order will be required. Legal costs incurred in pursuing collections of fees and/or eviction procedures shall be shall be paid out of the General Operating Account and repayment by tenant shall be pursued in accordance with tenant's lease.

Comment [KF19]: Page: 10
This amount can be established by the individual organization and language to this effect should be included in the lease.

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- J. Commercial Properties Bookkeeper shall maintain a "Monthly Rent Roll" for each property, regularly updated, indicating commercial unit number or address, name of tenant(s) or agency occupying space, principals of tenant's business, lease commencement and expirations dates, leasable sq.ft., rent amount, other monthly charges, and current payment status for each of the units in the commercial properties.
- K. Payment of rent from a tenant for whom eviction proceedings have been instituted shall be accepted only under the terms and conditions advised by the attorney handling such eviction proceedings and acceptance of such rent must be approved by the Director of Management.

X. UTILITY SURCHARGE AND COMMON AREA MAINTENANCE CHARGES

Commercial Properties Bookkeeper shall keep track of all expenses which are operating expenses to be allocated to tenants or affiliated organizations occupying commercial space, in accordance with lease terms or operating agreements. Some of these expenses may include the following: **THE FOLLOWING CHARGES CAN ONLY BE ALLOCATED TO THE TENANT IF THERE IS A PROVISION FOR SUCH IN THE TENANT'S COMMERCIAL LEASE.**

- A. Utility Surcharge. Facilities Manager shall keep track of all utility charges not separately metered, so that such charges can be prorated and billed to tenants in accordance with tenant lease terms.
 - 1. On a quarterly basis, the Commercial Properties Bookkeeper shall calculate each tenant's prorata share of utility costs, and at the end of each quarter, shall send tenants a statement of Utility Charges, containing the following information:
 - a. The actual prorata share of utility costs to be paid by tenant broken down by utility type (gas, electric, sewer/water, rubbish removal, etc.).
 - b. The utility costs which have already been paid by tenant.
 - c. Calculation of the difference between "a" and "b", and an indication of the amount owed to/from tenant from the preceding quarter.

The above information shall be provided to the tenant within 30 days of the end of the quarter or of the final date of their lease term, whichever is applicable.

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- C. Common Area Maintenance Charges. Same as above for all charges which are appropriately charged to tenants on a prorata basis as indicated in the tenant lease.
- D. Specially Allocated Charges. In the event that a tenant is misusing resources (i.e. water, electricity, trash collection) from the commercial properties, the Facilities Manager shall document such misuse of resources. If, after issuing a warning to tenant, such misuse continues, Facilities Manager shall calculate the approximate cost of such misuse and shall notify tenant in writing of the approximate cost associated with their misuse, and the fact that they may be charged for these costs if the misuse continues. In the event that tenant continues misusing resources after receiving the above two notices, Facilities Manager shall issue a bill to tenant for the cost of such misuse subsequent to the second notice. At the time such bill is issued, these charges become additional charges under the term of the tenant's lease, and failure to pay shall be handled with the same collection methods as described for nonpayment of rent. NOTE: THESE CHARGES CANNOT BE COLLECTED FROM TENANT UNLESS PROVISIONS FOR SUCH CHARGES ARE INCLUDED IN THE TERMS OF THE TENANT'S LEASE.

XI. CONTRACTS AND DISBURSEMENTS

- A. The Facilities Manager will consult with the Director of Management before making any departures from the Annual Operating Budget as approved in the beginning of each year or any change of procedures which will affect either the tenants or the management program.
- B. All line items in the budget shall be paid as commercial property expenses, including payroll expenses for Management Staff when such expenses are directly related to the operation and administration of the property. Such payroll expenses shall be allocated to specific properties based upon the actual allocation of hours, or based upon a predetermined percentage allocation of time for administrative activities.
- C. Bills will be paid in accordance with the following procedures:
 - 1. A purchase order system will be used to document all commercial property expenses with the exception of items and services provided on a regular contractual basis (utilities, trash removal, service contracts, etc.)
 - 2. All purchases shall be pre-approved by the Facilities Manager. Purchases over \$500 shall be pre-approved by the Director of Management, unless the expense was specifically included in the approved Annual Operating Budget.

Comment [KF20]: Page: 12
This benchmark shall be established by each individual organization.

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3. Invoices will be matched with outstanding purchase orders by the Commercial Properties Bookkeeper, reviewed for accuracy and approved by the Facilities Manager. Once approved, payment will be made by Commercial Properties Bookkeeper. Invoices shall be paid monthly or semi-monthly, but in any event in a timely manner so as not to incur any late fees or penalties.
- D. Procurement of equipment and/or contract services:
1. At least three estimates or bids will be sought for equipment or contract services over \$750 (this includes janitorial and landscape jobs).
 2. The Facilities Manager shall prepare such bid specifications and supervise the bid proposals and acceptance procedures. Specifications and bid procedures shall be approved by the Director of Management.
- G. Disbursements may be made from the General Operating Account in accordance with the approved Annual Operating Budget, and shall be disbursed, applied, or reserved and set aside for payment when due, in the following priority, to the extent available:
1. Salaries, wages and any other compensation due and payable to the Management Staff, along with all withholding taxes, insurance premiums, Social Security payments and other payroll taxes or payments required in connection with such employees.
 2. All charges incurred in the operation of the commercial properties in connection with utilities, real estate taxes and assessments, and liability, fire and other hazard insurance.
 3. Payments of required interest, principal, impounds, fees and charges, if any, on loans which are secured by liens on the commercial properties.
 4. All other expenses incurred to cover operating costs, including any extraordinary expenses, in accordance with the approved Annual Operating Budget.
 5. Deposits to the required reserve accounts.
 6. Any surplus shall be added to the Replacement Reserve Account.
- H. In the event that items need to be purchased that either were not budgeted or that

Comment [KF21]: Page: 13
The number of bids required can be established by the individual organization, or in some cases this number will be established as a requirement by funders (i.e. HUD).

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would bring a commercial property over budget, the *Facilities Manager* will promptly inform the *Director of Management*. The *Director of Management* will determine the appropriate course of action to address the circumstances.

- I. Major budget variances shall be reviewed by the *Director of Management* with managers of other departments and agencies and appropriate actions shall be taken to ensure that monthly cash flow is sufficient to meet the commercial properties' operating expenses and deposits to the Reserve Accounts noted above.

XII. INSURANCE

- A. The *Facilities Manager*, with Acme CDC's approval, shall arrange for the commercial properties to be insured against loss by fire and such other hazards, casualties, liabilities and contingencies, and in such amounts and for such periods as required by Acme CDC and/or lenders for the Commercial properties.
- B. Competitive bids will be sought to ensure the most cost effective coverage available, and both the coverage and the carrier(s) will be reviewed regularly.
- C. All insurance policies and renewals thereof shall be issued by a carrier and in a form acceptable to Acme CDC and commercial property lenders. In addition to naming the Owner as primary insured under any property or liability policy, the following shall be named as Additional Insured:

- 1. Acme CDC (assuming this entity acts as manager but is not the Owner)
- 2. Lender

The *Facilities Manager* will also report, investigate and pursue the resolution of all accidents or claims in connection with the operation of the commercial properties.

- D. Tenant shall provide evidence of insurance as required by lease terms, prior to occupying tenant's unit. In addition to naming the tenant as primary insured, tenant's insurance shall name the following as additional insured if required by the lease terms:

- 1. Acme CDC
1234 Smith Street
San Francisco, California
- 2. Lender

Comment [KF22]: Page: 14
Insurance will typically cover the whole project. In mixed use projects this means it will cover both residential and commercial uses. In this case, a pro-rata share of the insurance premiums should be allocated to the commercial operations. Management staff should discuss any special requirements of the insurance company for coverage of commercial space.

Comment [KF23]: Page: 14
Naming additional insured on a policy used to be a free service but can now cost \$100 or more for each name added. The individual organization should determine whether the benefits offered by this structure warrant the extra cost to the tenant, or conversely, if the Landlord might be willing to pay this charge.

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- E. The *Facilities Manager* shall send written notice to new tenants prior to occupancy, reminding them of their insurance requirements, and informing them that they will not be allowed to occupy their unit until evidence of such insurance is provided in the form of certificates of insurance showing all named insured as required by lease.

XIII. TENANT RELATIONS

Relations between property management and tenants or agency staff, shall be based on a policy of cooperation and communication. Occupants of commercial properties shall be encouraged to understand that their involvement is important and therefore their ideas, priorities, suggestions and concerns, are both sought and valued. The *Facilities Manager* shall work closely with the tenants and agency staff and shall enlist their support and participation in the following areas:

- A. Problem Solving: *Facilities Manager* shall solicit tenant participation in solving problems generated by other tenants, such as excessive noise or other disturbances. *Facilities Manager* will encourage tenants to act as a cohesive body to see that policies affecting the community as a whole are enforced. Tenants with a complaint against one another may present their situations to the *Facilities Manager* who can work directly with tenants.

- B. Ongoing Communication: Tenants and agency staff shall be encouraged to offer suggestions to the Management Staff in a variety of areas of concern, such as security, maintenance, and operations. Tenant and agency staff involvement in planning can result in more relevant, sensitive and effective management policies and also recognizes the principle that "participation brings commitment." *Facilities Manager* shall schedule periodic meetings with tenants to encourage tenant involvement in the development of effective policies and procedures.

- C. Tenants will be provided copies of the Rules and Regulations and other materials pertaining to policies governing their occupancy in a particular commercial property. Management Staff will provide the tenants and agency staff with a list of emergency numbers, as well as the phone number of the management office and back-up information in the event of emergencies when the office is closed. Tenants and agency staff will also receive information about energy conservation and what each tenant can do to reduce energy waste, along with information about recycling office materials.

- D. A copy of the Emergency Response Plan which has been developed for the Commercial properties will be provided to all tenants. This plan is designed to maximize the health and safety of the tenants or agency staff in the event of an emergency such as a fire, earthquake, mudslide, or power outage. The plan will be distributed to all tenants and agency departments at the time of initial occupancy and periodic drills may be scheduled to give occupants the opportunity to practice their response to an emergency situation.

Comment [KF24]: Page: 15
This tenant participation includes residential as well as commercial tenants. In many cases, the differing uses in the same property can cause problems that may be mitigated by working closely with both groups of tenants.

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XIV. MAINTENANCE AND SECURITY

A. Post-construction procedures

Comment [KF25]: Page: 16
These procedures are the same that should be followed for the residential portion of a mixed-use project.

Once Acme CDC has determined that construction is completed and that the commercial property is ready for occupancy, the *Director of Management* along with the *Facilities Manager* and the *Development Manager*, shall be responsible for a final punch list for each commercial unit and the common areas.

1. All equipment shall be tested to assure it is functioning properly.
 2. Incomplete work and missing or non-functioning items will be duly noted.
 3. *Facilities Manager* shall notify the *Development Manager* of items to be completed or corrected. *Development Manager* shall refer the items to one of the following:
 - a. The general or sub-contractor (if under warranty);
 - b. An outside contractor or firm recommended by the general contractor;
 - d. In-house staff or contractor, if appropriate.
 4. Mechanics' liens shall be resolved between Acme CDC' *Development Manager* and the General Contractor and sub-contractors. *The Director of Management* shall be kept informed by the *Development Manager* regarding the resolution of these matters.
 5. The *Facilities Manager* shall work with the *Project Manager and General Contractor* to make sure that all warranty information and operating manuals for equipment and fixtures in the Project are delivered by the contractor. **Such information shall be kept in an accessible location and access provided to Management Staff as needed. The *Facilities Manager* shall be responsible for maintaining the filing system for such warranty information and operating manuals.**
- C. Ongoing Maintenance Program
1. The *Director of Management* shall develop a long term capital improvement and

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maintenance schedule which will act as a general outline for capital replacement and maintenance. The *Facilities Manager* shall, review the long term capital improvement schedule to make sure it conforms with the with manufacturers' recommendations and the requirements of equipment operating manuals. The *Facilities Manager* shall use this schedule to prepare an *five year* plan for preventive maintenance and repair of installed equipment. This work will be performed by skilled contractors or *Maintenance Person* who has received training in the type of services required, including record-keeping of regular repairs and maintenance.

1. Routine repairs of appliances, electrical, plumbing, and heating equipment will be performed by *Maintenance Person*, or independent contractors as needed.
2. Preventive annual unit inspections shall be undertaken by *Maintenance Person* and *Facilities Manager* to regularly and consistently ascertain the condition of each occupied commercial unit. Maintenance problems discovered during these inspections shall be handled according to the work order procedures as described in Section X.
3. Preventive regular inspections and inspections of common areas and equipment, shall be undertaken by *Facilities Manager*, and regular schedules (daily, weekly, monthly, quarterly, annually) for maintaining same shall be prepared by the *Facilities Manager* and submitted to *the Director of Management* for approval.
 - a. Maintenance of exterior areas shall include keeping grounds free of litter, trash and paper. Parking areas will be maintained in good repair and free from dirt and litter.
 - b. Common areas such as restrooms, lobbies, and interior corridors will be swept and cleaned daily and kept free of trash and other debris.
4. Garbage removal will be effected through arrangements with a contractor service company. The trash areas will be swept periodically and scrubbed with disinfectant when necessary. Tenants will be instructed in the proper placement of rubbish in the bins provided.
5. Extermination services will be contracted as necessary, so as to provide a high level of sanitation and cleanliness.
7. The maintenance of the grounds, except landscaping, shall be provided by the *Maintenance Person*.

Comment [KF26]: Page: 17

It is up to each organization, appropriate to each property, to decide whether certain activities will be handled by in house maintenance staff or contract service providers. This should be spelled out in the management plan so that management staff knows proper procedures.

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C. Security Systems

The security system for the Project incorporates standards applied to other high quality commercial projects. Specifically, the security system shall include:

1. Entries - Entry to the offices spaces of the building, and retail spaces with common entries shall be kept open to the public during regular business hours, but shall be locked at all other times. Each tenant will have a set of keys to the building, as well as to the tenant's offices. Visitors can gain access to the building after hours only if provided access by a tenant or Management Staff.
2. Locks - Doors to offices and industrial space shall have locks of steel construction with a five pin tumbler, and auxiliary burglar resistant dead bolts with cylinder ring guards. Acme CDC and Management Staff will have master keys, and the Facilities Manager will be responsible for a key schedule to monitor all keys issued. Doors to any balconies or decks will be equipped with dead bolt locks that can only be opened from the outside with a key.
3. Lighting - Security lighting shall be provided for all parking lots, entry doors, alcoves, hallways, and adjacent outdoor areas. Such lighting shall operate at a minimum 1/2 hour prior to opening or commencing operations and 1 hour after closing or ending operations, when these times fall before sunrise or after sunset. It is recommended that all security lighting be operated from dusk until dawn, independent of the operating hours of the building.
4. Windows - All accessible windows will be secured on the inside with a locking device capable of withstanding prying or wrenching.
5. Alarms – Acme CDC shall determine whether or not to provide entry alarm systems within office or industrial space for tenant use.

The Facilities Manager will consult regularly with tenants and agency staff to discuss the need for any special security provisions which may arise.

D. Preventive Maintenance Schedule

1. Interior painting of individual units shall occur as occupancy changes, as required by lease terms or as the Facilities Manager may otherwise deem necessary. Such painting shall be pre-approved by Director of Management.

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if it does not accompany an occupancy change.

2. All items needing repair or replacement, whether reported by the tenants or agency staff, or discovered by Management Staff, shall be recorded on a Maintenance Work Order form by the Maintenance Person or Facilities Manager.
 - a. The form shall be completed in triplicate; one copy each shall be given to the tenant or agency staff person, one copy to the service provider (Maintenance Person or outside contractor), and one copy shall be retained by the Facilities Manager in a suitable ledger for follow-up as the work proceeds.
 - b. The Maintenance Work Order form shall indicate the costs of labor and materials and the Facilities Manager shall determine any charges to tenant or agency for damages beyond normal wear and tear. Facilities Manager will bill tenants or agency promptly for damages they cause, and tenant or agency will be required to reimburse the Project within the time period stipulated in the lease or operating agreement.
 - c. Once the work is completed and the tenant or agency staff person has acknowledged this by signing a copy of the work order, the ledger copy shall be placed in the permanent file assigned to the tenant's or agency's commercial unit.

Comment [KF27]: Page: 19

This process may conform to processes already in place within a given organization. The procedures outlined in this plan aim primarily to create a sense of accountability and provide an easy method of tracking work. This is particularly important since many commercial leases bind the Landlord to completing repair work on a stringent schedule and allow tenants to make their own repairs if the Landlord does not meet this schedule. This can be costly and hampers good tenant relations.

E. Maintenance Response Schedule

1. Routine maintenance requests will be completed within 72 hours, unless prevented by unavailability of parts, disaster, or Act of God.
2. All emergency repairs or replacements, regardless of the time of day they occur, shall be handled promptly. Emergency needs shall be defined as those situations posing immediate threat to the health and safety of tenants or agency staff and/or the integrity of the grounds, buildings, and equipment, including: the interruption of services, hot or cold running water, electricity, gas, adequate heat and plumbing; glass breakage which deprives tenants or agencies of security or heat; or repairs that if not performed would expose them to injury. In case of an emergency after business hours, a 24-hour answering or paging service will be maintained to notify the Facilities Manager.

Comment [KF28]: Page: 19

See KF26

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The *Facilities Manager* will establish a system that assures tenants and agency staff will have the ability to reach an individual from the Management Staff during all hours in the event of an emergency related to the properties.

F. Major Projects and Capital Improvements

Major redecorating of common areas, exterior painting and projected replacements to building infrastructure, heating and ventilation systems shall be integrated into a capital improvements schedule which shall serve as a basis for computing and establishing the Replacement Reserve Fund and adequate contributions from the annual operating budget.

XV. LEASE ADMINISTRATION

- A. The *Facilities Manager* will keep a "Tickler File" with the lease termination date, or anniversary of the commencement date for all tenants and for leases in which Acme CDC or its affiliates are lessees.
- B. Ninety (90) days prior to a tenant's lease termination date, *Facilities Manager* shall notify *Director of Management* of such upcoming termination date. Upon such notification, *Director of Management* shall review tenant status and shall instruct *Facilities Manager* to proceed with negotiations to renew lease, or to pursue other activities.
- D. Sixty (60) days prior to a tenant's lease termination date, *Facilities Manager* will send a letter to the tenant, advising tenant of its impending lease termination date and outlining options for requesting a renewal, or in the absence of such a request, the policies and procedures for move-out.

Comment [KF29]: Page: 20
While everyday lease administration is typically handled by property management staff, planning for commercial tenant leasing and turnover is typically undertaken by development and/or asset management staff.

Comment [KF30]: Page: 20
This time period should be established to give the appropriate staff time to review and evaluate a course of action.

XVI. EVICTION PROCEDURES

- A. The *Facilities Manager* shall enforce the terms of each tenant lease as they apply to eviction policies and procedures.
 - 1. Cases involving nonpayment of rent shall be handled as follows:
 - a. As stated above in Section V.F., tenants having financial problems that affect payment of their rent or other charges shall be referred to the *Facilities Manager* for consideration of its problems. Any rent

Comment [KF31]: Page: 20
This step is not required by law, but is simply a method for retaining tenants who may be reliable for the long term but are having short term problems with rent payment.

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payment workouts resulting from the above will be in writing and signed *by Director of Management* and the tenant. Such documentation will become part of the tenant's permanent file.

- b. Notwithstanding the above, tenants who do not pay their rent by the tenth (10th) of the month shall receive a three (3) day notice to pay or quit. Such notice shall be in accordance with the California Code of Civil Procedures. If the tenant does not comply with such notice and Management Staff is unable to work out a suitable payment program with the tenant, an unlawful detainer action will be filed and the matter will be referred to a professional eviction service or attorney specializing in this area of the law.

Comment [KF32]: Page: 21
This timeframe may be established by each individual organization, but the number of days listed in this section should conform to Section VIII.C.

- c. If the rent and other charges are paid in full during the eviction process, Acme CDC will have the option to continue eviction proceedings to completion, or to reinstate tenancy, and the *Director of Management* shall notify *Facilities Manager* of such decision, so that *Facilities Manager* may take appropriate action.

Comment [KF33]: Page: 21
Each management organization should identify an attorney or eviction service familiar with commercial evictions. This service should be used once it becomes apparent that the tenant is not going to meet its financial or other obligations to the project.

3. Cases involving a violation of the Lease, including Rules and Regulations shall be handled as follows:

- a. *Facilities Manager* will keep tenants and agency staff advised, through newsletters, reminders or written warning notices, of policies in place at the commercial properties. *Facilities Manager* will work with tenants and agency staff and enlist their support as required to prevent recurrent violations. Tenant evictions will take place as a last resort.

- b. Tenants shall receive written notice of minor infractions of the Lease, including Rules and Regulations. The initial notice shall advise tenants that such infractions are violations of the Lease. Upon issuance of the *third* warning notice of the same violation, *Facilities Manager* will issue a 30-day notice of Intent to Terminate Tenancy.

Comment [KF34]: Page: 21
Issuance of three warnings is a somewhat arbitrary number. Each organization can make decisions about the number of warnings based on the desire to give the tenant an opportunity to comply, without wasting an inordinate amount of time on a tenant whose tenancy will ultimately be terminated.

- B. Any notice of termination or eviction shall contain a statement of the facts constituting the cause of the termination or eviction and a statement of the tenant's rights under the Grievance Procedures.

- C. Tenant complaints shall be processed according to the Grievance Procedure attached as Exhibit 1. This procedure allows for both informal and formal hearings, while not waiving the rights of either the tenant or management to any judicial resolution of the

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matter.

D. Tenants in violation of the Lease will be subject to the eviction procedures as described above.