DEPARTMENT OF
HOUSING AND HUMAN CONCERNS
COUNTY OF MAUI

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January 29, 2014

Honorable Alan M. Arakawa
Mayor, County of Maui
200 South High Street
Wailuku, Hawaii 96793

For Transmittal to:

Honorable Stacy Crivello, Chair
Housing, Human Services & Transportation Committee
Maui County Council
200 South High Street
Wailuku, Hawaii 96793

APPROVED FOR TRANSMITTAL
Alan Arakawa 1/30/14
Mayor Date

Dear Chair Crivello:

SUBJECT: HHT-7 HALE MAKANA O WAIALE RENTAL REHABILITATION FACILITY AND KA HALE A KE OLA HOMELESS RESOURCE CENTERS, INC.

Attached for the Housing, Human Concerns and Transportation Committee's review is the Hale Makana O Waiale (HMOW), Project Assessment Reported prepared by Cirrus Asset Management, Inc.

The Project Assessment Report was authorized by the County of Maui's Department of Housing and Human Concerns on December 9, 2013. In general, Cirrus Asset Management was asked to evaluate the overall operational and financial performance of Hale Makana O Waiale and to prepare a written report with recommendations to improve HMOW operations and financial performance.

The intention of this assessment is to provide the HMOW Board and staff with a tool to help improve overall operations of this facility.

Should you have any questions, please feel free to contact me at Ext. 7805.

Sincerely,

Jo-Ann T. Ridao

JO-ANN T. RIDAO
Director of Housing and Human Concerns

Attachment
C: Rebecca Woods, CEO
Gary Murai, Corporation Counsel

Cirrus

441 Walina Street, #100, Honolulu, Hawaii 96815

January 23, 2014

Jo-Ann T. Ridao, Director
Department of Housing and Human Concerns
2200 Main Street, Suite 546
Wailiku, Hawaii 96793

Re: Hale Makana O Waiale, Wailuku, Hawaii
Project Assessment Report

Dear Ms. Ridao:

Attached please find the Project Assessment Report that was authorized by the County of Maui's Department of Housing and Human Concerns on December 9, 2013. Thank you for the assignment.

SECTION 1 - INTRODUCTION

Assignment

- Inspect and report on observable property management practices and physical condition of Hale Makana O Waiale, a 200-unit multi-family property;
- Analyze the current property management practices (operations, maintenance, leasing, tenant issues) and compare those practices to comparable properties and industry standards;
- Analyze HMOW's operating statements and compare to comparable properties;
- Prepare a written report with reasonable and appropriate recommendations to improve HMOW's operational and financial performance.

Executive Summary

Many property management changes can be made that will result in significant improvement to the property's performance and ensure its viability as an ongoing affordable housing community. Income can grow, expenses can be reduced, and the quality of life can be improved at Hale Makana.

Normalizing the property management practices at HMOW with industry standards can increase income by $127,000, decrease payroll expense by $400,000 and decrease other expenses by over $100,000.

Our detailed report begins on page 4, following the Executive Summary of Recommendations.

Executive Summary of Recommendations

page no.

Methodology

- Examine property management documentation (e.g., financial statements, rent rolls, policies and procedures, staffing and maintenance schedules)
- Conduct four property visits (three daytime and one nighttime) with one to five staff
- Inspect 10% of the residential units
- Document observable conditions
- Meet with the executive director, administrative and maintenance staff
- Analyze comparable properties for comparison
- Evaluate the physical and financial condition of HMOW, its staffing and its property management operations
- Compare and contrast HMOW to comparable properties and/or industry standards

SECTION 2 – OBSERVATIONS and RECOMMENDATIONS

A. Property – Introduction

The Hale Makana O Waiale property is located at 195 Waimaluhia Lane in Wailuku. It consists of 200 residential units that are subject to the Low Income Housing Tax Credits program and HOME Investments Partnership Program.

The property is owned by Hale Makana O Waiale, L.P. It is self-managed by the partnership's general partner, Ka Hale A Ke Ola Homeless Resource Centers, Inc., which succeeded the former general partner, Maui Economic Concerns of the Community, Inc.

There are about 28 two-story apartment buildings with sufficient parking, and several small utility buildings, located on 11.5 acres. It is fronted by a 3-acre public park. (Note: We were informed that the HMOW staff is maintaining the 3-acre park at a substantial cost to the property. It is unclear whether HMOW has an obligation to do so, although HMOW is listed on the tax records as the Lessee. This should be clarified.)

B. Property – Financial Aspects

We received operating budgets, income statements and balance sheets for 2011, 2012 and month-to-date through October 2013. We compared the HMOW 2013 income statements to those from three comparable projects located on Maui:

Comparable 1 – 142-unit Section 42 tax credit property, class A

Comparable 2 – 62-unit Section 42 tax credit property, class B

Comparable 3 – 288-unit conventional property, class A

To facilitate this comparison, we restated HMOW's financials, without changing any figures substantively. The comparison statement will be referenced throughout this Report and can be found in Appendix A.

<u>Payroll Costs</u>

The payroll costs for HMOW are nearly 3 to 4 times higher than the comparable affordable properties, and 3 times higher than the comparable conventional property. The payroll costs are as follows:

HMOW	$3,891 per unit per annum ("pupa")
Comp #1	$1,338 pupa
Comp #2	$1,035 pupa
Comp #3	$1,622 pupa

A property of HMOW's size and condition should have payroll costs of about $1,650 PUPA. HMOW is significantly over-staffed, and this will be discussed more fully in Section D starting on page 13 of this report.

As a rule of thumb, multi-family properties are staffed with about one administrative person per 80 units, and one maintenance person per 80 units. Given the compliance needs of HMOW, there should be three administrative employees - an experienced Community Manager and two Assistants. Given the age and condition of HMOW, there should be two full-time maintenance employees, plus a porter. This should be increased by two additional maintenance persons for a short time to address the deferred maintenance conditions.

<u>We believe that the following recommendations will enable the property to reduce its expenses by at least $400,000, and with *improved* results:</u>

1. Reorganize the maintenance department to an appropriate level of staffing.
2. Allocate specific maintenance tasks (turnover, work orders, grounds, etc.) to specific staff in order to achieve efficiency and accountability.
3. Outsource landscape maintenance, trash collection and pest control.
4. Handle all plumbing work in-house except major repairs.

<u>Income and Rent Loss</u>

The 2013 Rent Income at HMOW was about $9,237 pupa; so, the average collected rent per unit at HMOW was about $770 per month. Since the *weighted* average of the rents calculates to about $837, there is rent loss of about $67 per unit per month – or an annual 8% rent loss at HMOW in 2013.

To verify the 8% rent loss calculation, we compared the 2013 Rent Income of $1,847,503 to the maximum allowable rent, which is called the Gross Potential Rent.

The GPR was about $2,009,280 based on the rent schedule provided to us by management. The difference between GPR and the 2013 Rent Income is $161,777, which is equals 8.05%.

Rent loss is due to vacancy, bad debt, move-in concessions and any other deduction from the property's collectible rent. The Maui rental market in 2013 was very strong. While, 2% is a fair standard to use for an affordable property, the comparables had very low rent loss compared to HMOW's, which was much higher.

HMOW	8.0% rent loss
Comp #1	0.3% rent loss
Comp #2	0.2% rent loss
Comp #3	5.0% rent loss

Based on our site visits and interviews with the staff, this 8% rent loss is most likely due to unit turnover that is lengthy, inefficient and poorly executed. We were given various estimates for unit turnover times…some said unit turns were done in 3 days while others stated they took at least a week. There is no reliable tracking mechanism in use at HMOW to measure the turnover times.

There may be additional causes for the rent loss, but these are probably less significant than unit turnover times. They could include resident approval delay time, move-in delays and collection losses.

It is impossible to pinpoint the causes for the rent loss, but it is self-evident that 8% is an area that needs significant improvement. <u>We believe that the following recommendations will enable the property to increase its Income by about $120,000 per year.</u>

5. Reorganize with proper staffing and supervision.
   Unit turnovers can be done at the rate of one unit per two-person team, per week, and at significantly better quality than what is done currently.
6. Audit the Rent Roll, unit-by-unit, to ensure that every household is paying the correct and highest allowable rent for that unit type.
7. Discontinue the policy of allowing residents to temporarily relocate to "courtesy units" while upgraded floors are being installed in their units.
8. Change the accounting practices to show the Gross Potential Rent, Gross Scheduled Rent and Vacancy Loss on the financial statements.

<u>Accounting Practices</u>

HMOW is operated using a combination of handwritten papers, QuickBooks and Microsoft Office programs. This includes every aspect of property management accounting - accounting for rent charges, rent collections, tenant charges and payments, delinquencies, rent rolls, resident notifications and communications, move-outs, move-ins, security deposit refunds, compliance tracking, accounts payable and financial reporting.

None of the comparable properties uses this type of manual system. A property of HMOW's size should use professional property management and accounting software, such as Yardi. All of the property management functions listed above could be handled far more effectively. In addition, Yardi or another web-based software solution, would allow the County of Maui to access live, on-demand property and management data.

<u>We believe that the following recommendation will enable the property to increase its profitability by tens of thousands of dollars by reclaiming hundreds inefficient work-hours due to the manual systems in place.</u>

9. Convert all paper systems to Yardi or another professional property management software.
   The conversion takes planning and professional expertise, but can be accomplished in 2014.
   The recommendation will have some start-up costs, and then cost approximately $5,000 per year.
   The County of Maui staff should understand their expanded abilities to access property data online with Yardi, which will help them supervise the asset as interested stakeholders of HMOW.

<u>Utilities</u>

The two best properties for utility comparisons are Comp #1 and Comp #3 since they both have extensive grounds like HMOW. Here is how both compare to HMOW:

- HMOW $2,068 (excluding propane gas)
- Comp #1 $1,662
- Comp #3 $1,166

Of them, Comp #1 is most similar since it is a family affordable property. Using Comp #1 as a comparison, there are two types of utilities that indicate the most significant variances - Trash, and Water/Sewer.

<u>Trash Removal</u>

For Trash removal service, HMOW uses a method that is not in use at any project anywhere, to our knowledge. HMOW's maintenance staff drives a truck around the property to pick up trash bags, which are regularly placed on the curbsides by the residents. The staff off-loads the trash bags from their truck into large 40-yard bins that are located on the owner's neighboring property.

Any property like HMOW would have trash dumpsters located in enclosures throughout the property. In fact, there are dumpster enclosures at HMOW, but there are no dumpsters.

HMOW financials (see Appendix A) show "Refuse Service"; this is the cost of hauling just these 40-yard bins. Even so, the cost of these bins is nearly double that at Comp #1. On a per unit basis, HMOW's annual costs are 30% higher than the costs of trash removal at Comp #1. Comp #1 has trash dumpsters located throughout the property.

In addition, HMOW incurs the additional cost of paying its staff to pick up trash and using one of its three vehicles. Finally, the residents have to live with trash cans outside their front door, and the numerous trash bags throughout the property.

Management informed us that they believe it is cheaper for them to haul trash this way. We were also informed that 12-18 worker-hours per day were spent picking up the trash bags. Using the lower figure of 12, HMOW's average maintenance wage of $13 and a 5-day workweek, this comes to about $40,560. When you add HMOW's payroll taxes and burden (which is about 44%), the approximate annual cost of payroll that is attributable to hauling resident's trash is $58,400...which is $292 pupa.

So, adding the $215 trash expense to the $292 payroll expense for trash pick-ups, HMOW's pupa cost for trash removal is at least $507 pupa, or $195,000 dollars per year. This is <u>three times</u> the trash expense at Comp #1, which is at $166 pupa.

Management also informed us that they are billing the residents for trash removal at the rate of $15 per month. But, the affordable housing programs require a utility allowance (deducted from the gross rent) for any resident paid trash expense. The trash utility allowance in Maui County is $18. So, while management is billing $15, plus incurring the cost of staff's time to do the billing, HMOW is losing $18 in rent. The net effect of billing the residents is a <u>loss</u> of $3 per unit per month...or roughly $7,200 annually.

<u>We believe that the following recommendations will enable the property to reduce its expenses by about $68,000 and increase income by $7,200.</u>

10. Rebid trash service using small trash dumpsters, with favorable terms and service level flexibility.
    Monitor and adjust the service continually for at least six months to optimize the pick-ups and service level. With the reduction/elimination of 40-yard bin pick-ups and the staff's "trash hauling" staff, the savings will be about $341 pupa.
11. Stop billing residents for trash and stop giving the residents a trash utility allowance from their gross rent.
    The net effect will be a $3 per unit rent increase ($7,200) in Gross Potential Rent, plus regained staff time.

<u>Water/Sewer</u>

The water/sewer costs for HMOW are most closely comparable to Comp #1 for the same reasons stated above.

- HMOW $1,356 pupa
- Comp #1 $1,037 pupa

Management informed us of two variables they believe may contribute to the high water/sewer costs: (1) the adjacent 3-acre park is being watered at HMOW's expense; (2) HMOW allows the contractors working on Waiale to use HMOW's water.

We were also informed that there is a well on property that supplies, or contributes to, water used for landscape irrigation. It is unclear about the extent of the well's usage, or whether a mixing valve is used to blend well water with the municipality's water supply. This needs to be verified further. At any rate, the use of well water does not help explain the high water/sewer costs at HMOW.

HMOW's water costs exceed those of Comp #1 by nearly 50%. There were several conditions seen during the daytime and nighttime inspections that indicate substantial water usage/waste.

Hoses: Every building has a water hose connected to it, allowing residents to use water, without restriction. None of the hoses has a nozzle. Residents were observed washing their cars, coolers, lanais, etc. with free-flowing water hoses.

Toilets: In the 20 apartments that we inspected, five of them had at least one toilet that was running. This is a 25% incidence rate, which is excessive.

Low-Flow Shower Heads: The apartment we observed did not have low-flow water heads in them.

Water Leaks: There were many areas near the buildings that were soaked. It is impossible to tell whether these are underground water leaks of building supply lines, or irrigation line leaks.

Irrigation Lines: The nighttime inspection revealed an irrigation system that is not being maintained. Pictures are attached in Appendix B. Management reported that their irrigation lines are not metered like their residential water service. This needs to be verified because HMOW's sewer cost is about even with the water cost. If irrigation/well water is not reflected in the water costs, then we would expect sewer cost to be substantially lower.

We believe that the following recommendation will enable the property to decrease by tens of thousands of dollars.

12. Cap all hose bibs on the units; leaving just a few for management's use and secured within a special box.
13. Car washing, if it is a property amenity that ownership wishes to offer, should be provided with proper equipment and drainage, at a single location and allowed at certain times of day.
14. Send maintenance reminders to every unit regularly, asking for reports of plumbing or other issues.

15. Maintenance staff must perform annual inspections of occupied units, and maintain a log of having done so.
    This needs to be done immediately given the number of leaks we observed.
16. Verify that the irrigation water metering is separate and not subject to the sewer fees like the residential service. Verify if a mixing valve is present and how it is being used.
17. Determine HMOW's obligations, if any, to provide irrigation and maintenance at the 3-acre park.

C. Property – Physical Aspects

The buildings are 15-18 years-old, built in 1996 per the County Tax Division website. The building exteriors and interiors are showing significant wear for their age. A complete physical assessment of the property is beyond the scope of this Report, but several observed conditions are detailed below.

In general, the principles behind "Crime Prevention Through Environmental Design" ("CPTED") help to determine an appropriate level of exterior maintenance for a multi-family property. The CPTED guidelines focus on crime deterrence, not just aesthetics.

The CPTED guideline for consideration at HMOW is the "Broken Window Theory". It says that nuisances, if allowed to exist on a property, will lead to other nuisances, then to the decline of the property, and then possibly to the decline of the entire neighborhood. Criminal activity breeds at poorly maintained properties. This reality should always guide owners, managers and staff of any multi-family property.

At HMOW, our three visits plus an evening visit found the following issues, and pictures are contained in Appendix B.

Graffiti: Behind the Leasing Office, there is a retaining wall with gang-style graffiti as well as a racial slur in 6-foot tall letters. We did not find out how long it had been there, but the paint did not look fresh. Everybody knew about it...and for the three days we were there, nobody did anything about it. Costs should be coordinated with the adjacent property owner. In the long-term, that property owner should be induced to plant and maintain hanging vines at the top of the wall so it will eventually not be an attractive nuisance to taggers. We recommend the following:

18. Remove graffiti - sandblast or paint-over - wherever and whenever it appears.

Building Paint: The exterior facades of the buildings show significant wear and in the next 1 to 3 years will need a complete repaint. We recommend the following:

19. Select an attractive 3-color scheme for buildings paint and begin a competitive bid process in 2014.

Overgrown Foliage: Some bushes and several and trees are overgrown, presenting a safety hazard in some cases. We believe that the property would benefit from more bushes along the curbs, less vegetation and no irrigation in the back and side yards, and heavier pruning of the large trees. Some trees that are destroying adjacent hardscape and softscape should be flagged for removal.

Lighting: Overall, the nighttime lighting was acceptable. We took some informal lux meter readings and found only a handful of poorly lit locations. These were nearly always a result of burned out bulbs or fixtures.

The existing high-pressure sodium light bulb is a good choice for energy efficiency. However, with minimal per unit costs, the property should consider transitioning to LED light bulbs. They also give out a more blue light than the yellow light output of sodium bulbs. We recommend the following:

20. Convert the common are lighting to LED bulbs as they are replaced over the next 1 to 2 years.

Evening Maintenance Practices: A maintenance person who is knowledgeable and equipped to handle routine issues (irrigation, lighting) should do the inspections and evening repairs, or otherwise generate work orders for next day repairs. We recommend the following:

21. Nighttime inspections should take place routinely with a computerized log of issues and solutions.

Laundry Rooms: The laundry income of HMOW, which is far lower than the comparable properties: $60 pupa below Comp #1. Comp #2 has laundry income that is twice as high as HMOW.

The three laundry rooms were dilapidated and unacceptably dirty when inspected. They were missing appropriate house rule signage. All have regular light switches, instead of timed or sensor switches.

The financials reflect a laundry contract incentive of about $20,000 received in October 2013, so we assume this was a laundry contract renewal. We recommend the following:

22. Repair and upgrade the laundry rooms, which could increase laundry revenue by at least $12,000 (using $230 pupa).
    Laundry rooms must be cleaned on a daily basis with a written log; repairs must take place; appropriate house rules signage, including operating hours, must be posted; install sensing or timed light switches; consider pleasant a color scheme and seating.

Stairs: Many stairways and handrails need paint and some are deteriorated creating unsafe conditions. We recommend the following:

23. Replace dilapidated stairs more rapidly, and consider steel stringers and cast concrete treads, instead of all-wood stairs.
    We also recommend post caps be placed on the replacement wood stairs to prevent water intrusion.

Signage: Several of the signs are bent and vandalized. These need to be repaired or removed. There is also a very large, unappealing sign along the front driveway, warning of trespasser and various things. If the message is deemed important, then the sign should be made to look more professional.

24. We recommend that management reconsider the benefit of the any sign versus the negative image it conveys.

Leasing Office: The leasing office must convey a positive first impression, and a lasting impression to the public and the residents. We recommend the following:

25. Update the entrance to the leasing office and the office itself to a more professional and appearance.

Water Heaters: The 76-gallon water heaters (two per 4-unit building) are beginning to fail. There is an ongoing program to replace them with on-demand water heaters. Although the appropriateness of this equipment is outside the scope of this Report, the website for the devices being installed (Takagi T-D2-IN) says, "the T-D2 can produce enough hot water for up to four bathrooms in warmer climates". Although some of the buildings where these devices are being installed have more than eight bathrooms, we were unable to verify whether any residents experienced hot water shortages. We were informed that approximately 15 buildings have been changed over, so far. We recommend the following:

26. Establish preventative maintenance practices for the existing water heaters and the new on-demand water heaters, review with staff, and follow-up with a computerized log. Verify that the new device's capacity is sufficient for the number of apartments served by them

D. People – Staffing

The owner of HMOW employs a staff of 26 on-site personnel to manage and maintain HMOW, as well as their two other properties - one next door to HMOW and one in Lahaina.

The payroll costs are allocated among the three properties, and to HMOW particularly, as follows: 87% of the Admin staff; 57% of the Maintenance staff, and; 100% of the Security staff. The following people make up the HMOW staff:

Employee	Position	Hire Date

Admin Staff – allocated at 87%

Kamaka, Joelvonne K.	Director of Leasing	08/02/2004
Nagata, Jaylene E.K.	Leasing Assistant	01/25/2010
Latham, Ora P. **	Receptionist	02/07/2006

Maintenance Staff – allocated at 57%

Molina, Joseph Nolan	Maint. Manager	03/06/2000
Rita, Edwin	Maint. Supervisor	07/28/2009
Carvalho, Philip A. **	Maintenance	07/19/2010
Cravalho, Richard A.	Maintenance	10/12/2009
DeFrancia, Malcolm K.	Maintenance	12/17/2010
Edlao, Eldrian P.	Maintenance	08/23/2006
Ferreira, Alfred K	Maintenance	06/03/2013
Hapakuka, Hastings D.	Maintenance	06/29/1998
Hue, Toby L	Maintenance	11/06/2012
Kekona, Zacchary K.	Maintenance	04/08/2010
Kepani, Raynald	Maintenance	10/22/2012
Legsay, Daniel D	Maintenance	12/03/2012
Nobriga, Robert D.	Maintenance	09/06/2011
Rodrigues, Joseph C.	Maintenance	08/18/2008
Sanborn, Athan M.	Maintenance	04/14/2009
Vincent, Joseph K.	Maintenance	08/04/2005

Security Staff – allocated at 100%

Nelson, Jill A.	Security	01/25/2010
Alo, Mayshell K	Security	11/07/2012
Malunay, Jeffrey	Security	08/18/2008
Medeiros, Robert M	Security	05/03/2013
Nakamoto, Dannielle	Security	10/25/2012
Rodrigues, Lorie Ann M.	Security	12/11/2008
Stone, Michael	Security	10/25/2012

** denotes that employee lives on property

Allocation Audit: Using the payroll schedule provided by management, the total base salaries of all staff that should be allocated to HMOW is $480,055. However, the Salaries and Wages line item on the financial statement shows $540,832. We recommend the following:

27. Conduct a payroll and staffing audit to determine the source of the 12% variance between expected and actual payroll costs.

Staffing Expectations: As mentioned near the beginning of this Report, HMOW's total payroll costs are 3 to 4 times higher than comparable affordable properties, and 3 times higher than the comparable conventional A property. So, we recommend reorganizing the staffing at HMOW. While there may be resistance to this particular recommendation, it also has the highest financial gain to the property. So, we will go into detail on the basis for this recommendation, We believe that the primary purpose of a professional property manager is to take actions that first and foremost benefit the property. Doing so benefits the staff, the residents, the owner, the investors/stakeholders and, ultimately, the neighborhood.

Staffing Levels: Since the staff's time and pay is allocated to three properties, the first thing we need to do is attribute how many people work at the property on a full time basis. The best way to calculate this is to use the allocations and multiply them times the total number of employees. This will give us a "pure" number of staff whose work is attributable to HMOW. So, using the 87% allocation for Admin workers, 57% allocation for Maintenance and 100% allocation for security, then multiplying it times the total number of each employee type, we get:

- Administrative Staff 2.61 full-time staff
- Maintenance Staff 9.12 full-time staff
- Security Staff 7.00 full-time staff

Administrative Staff

There is no full-time "Manager" working at HMOW. All executive decisions are made by Becky Woods, who is the CEO of Ka Hale A Ke Ola Homeless Resource Centers, Inc. Her office is at the neighboring property.

The Admin staff is not responsible for collecting rents. All residents are given a deposit slip and required to deposit their rent into HMOW's bank account. (As discussed in the Operations section below, there is no enforceable provision for this in the Lease.)

The leasing staff reportedly process an average of 4 move-ins per month. Other than leasing paperwork, the Admin staff has none of the typical office duties and authority given to apartment management staff.

Besides the two leasing staff in the office, there is a receptionist. Like the leasing staff, she also has minimal responsibilities and authority.

Appropriate Admin staffing for a stabilized, affordable 200-unit property like HMOW would be three full-time employees. We recommend the following:

28. Hire a full-time Community Manager who has experience operating a multi-family property of at least 150 units and possesses a Hawaii real estate license.
29. Hire (or retrain the exiting leasing agents) two Assistant Managers, one of whom is a compliance specialist.

Once HMOW's operations are converted to a professional management system, the property could be run leaner with three Admin staff. The Admin staff would be responsible and empowered to manage the property, including all leasing, all rent collection, bank deposits, entering payables and receivables into the management software, processing move-ins and move-outs, ensuring compliance and handling resident issues.

Security Staff

There are 7 Security employees at HMOW and their total payroll cost is about $232,000 per year.

The "security" staff performs many of the functions that assistant managers would typically perform. They do move-out inspections (about 4 per month), distribute notices to residents, handle keys, etc. In a sense, the Security staff functions as seven additional Admin staff.

To be fair, Security is intended to be the eyes and ears of the management. Unfortunately, as the following story shows, our observation was that they do not perform that function very well.

> During a Sunday afternoon visit at about 9:40 am, when entering the property we noted two security people sitting in the office. While inspecting the entire common area for nearly two hours, we saw no security staff. When we finally worked our way to the office, the same two security persons were still in the office conversing.
>
> During a property visit the next evening, we observed a severe flood of water and property damage being caused by a burst irrigation line. A resident passing by informed us that she had reported it three days earlier. It appeared to have been there for at least that long, the water having created a cavern under one of the lanais. (Pictures in App. B.) We observed the two security people walk by the unmistakable "lake" that had formed from this flood. They illuminated it with their flashlights and walked on by. An inspection of their handwritten logbook the next day revealed that they did not report the leak to maintenance. None of the numerous irrigation problems was in the logbook.

There is a concern about whether HMOW's "security" staff complies with the new Hawaii state law concerning security guards. The law requires training, testing and continuing education for security guards and those "acting in a guard capacity." In addition, before starting work as a security guard, individuals must complete eight hours of classroom instruction, pass a written exam and undergo four hours of on-the-job training. All guards must also undergo a federal criminal background check. If HMOW's Security employees do not comply with this law, this creates substantial liability for ownership.

Finally, HMOW's ownership is assuming considerable legal exposure by offering "security" guards at all. Significant, potential liability arises because "security" places a duty on ownership and management to ensure residents' safety and security. For this reason, professional property managers will be sure to specify that "courtesy patrol" is offered, and not hold out the property as a security property.

We do not believe the Security role is readily achievable, or even desirable, at HMOW. We recommend the following:

30. Bid and award a contract to outsource "courtesy patrol" to a reputable Security Guard company.

They will provide professional, trained guards who will patrol on foot and by car, be on call 24/7, and maintain a computerized log with daily reports to management. Patrolling hours can be tailored to those times when it is needed. We believe that the savings to the property, after the Company's fees, will be about $125,000 per year.

Maintenance Staff

The Maintenance staff's performance is easily measured since you can see it. The photos in Addendum B include many pictures of the common area and unit interiors. In short, the maintenance at HMOW is very poor and must be completely reformed. The current maintenance "system" was deficient in several critical areas:

- Turnover units are worked on up to and *excluding* cleaning. They are not cleaned until they are rented...meaning prospective residents are shown filthy vacant units.
- Filthy units and poor workmanship is an acceptable practice, even by their supervisor, with a "that's the best we can do" attitude.
- Staff is constantly rotated to perform all functions (grounds maintenance, turn).
- There is no preventative maintenance for any of the building systems.
- There is no professional computerized maintenance system.
- Grounds and irrigation are not being maintained properly.
- All plumbing, except the most basic repairs are outsourced.

The maintenance supervision is lacking, as shown by the above issues and the following experience during our inspections:

> Recall the irrigation flooding issue described above. Upon hearing about it, Becky Woods was understandably irate. The night it was first seen, we reported the leak to Becky because of the sheer volume of water being wasted. The next day, we met with the Maintenance Manager, Nolan, to look at the leak. The line had been repaired that morning through Becky's direction. When asked why it had not been reported, Nolan muttered, "What do you expect". He failed to grasp that this leak, and the numerous others, were a systemic problem. He became defensive, and then demanded to know why we, the inspectors, had not reported the problem to maintenance. He then admitted that if we had not even reported the problem to Becky, the line would still be broken.

Other examples were evident in our inspection team's interaction with the maintenance staff. The prevalent attitude was "that's the best we can do". Even though HMOW has 9 full-time staff to perform maintenance, Nolan said he needed 6 more maintenance staff to get the work done – meaning believes that he needs 15 maintenance staff for a 200-unit property.

Appropriate maintenance staffing for a stabilized 200-unit property like HMOW would be two full-time maintenance staff plus one porter. Given some of the deferred maintenance at the property, this can be increased by as many as two additional staff for a short time until the deferred maintenance is caught up.

Determining whether the front line maintenance staff has the proper skills can be done through extensive interviews and skills testing, which is what a professional property management company would undertake before hiring staff. While some probably have the necessary skills, deficient supervision would undermine them. We recommend the following:

31. Reorganize the maintenance department completely.
32. Reduce the number of maintenance staff down to 3 full-time permanent employees plus two others to address deferred maintenance issues.
33. Bid and award contracts for landscape maintenance, trash collection and pest control.

E. People – Documents & Operations

Documents: We received documents that we requested for this Project Assessment Report. The following is a list of some documents, critical to property management, were not provided.

• Property Management Agreement	Not Available
• Management Plan	Not Available
• Capital Budget for 2011 – 2013	Not Available
• Capital replacement study or similar document	Not Available

A property management agreement is necessary for any property management relationship. It should contain a budget, staffing plan and overall management plan that is agreeable to all interested parties. The general partner provided a 15 year-old management agreement with the prior general partner/property manager, which is currently invalid since it was unassignable.

A replacement reserve study is necessary to understand the current and upcoming needs for long-term asset preservation. A capital budget is necessary to anticipate the upcoming year's capital expenditures and to establish the appropriate level of funds that will be transferred into a capital reserves account.

Real Estate License: Under Chapter 467 of the Hawaii Revised Statutes, a real estate license is required to manage real property, with narrow exceptions. Whether the general partner's corporation is exempt from Hawaii's licensing law may depend on the ownership structure.

Rent Deposits: We were informed that the residents are required to make their rent payment by directly depositing the money into HMOW's bank account at the bank branch. The Leasing manager said she never accepts rents at the property. There is no language in the HMOW lease that requires residents to pay rent this way. From a resident convenience and customer service standpoint, we believe it is better practice to accept non-cash rent payments at the property's office. We would recommend this only if professional property management software will be used.

Lease Form: The Lease form in use at HMOW is deficient in several ways. Professional property management companies in Hawaii typically use either the Hawaii Association of Realtors lease, or a proprietary lease. The Realtor's lease is useful as a basic document, but a proprietary lease should be used to include house rules and other terms that benefit the property as a whole.

Cash Accepted: The Leasing office accepts cash as payment for move-in money. These can exceed $1,500. This is a poor practice for employee safety and for proper accounting controls.

Late Fees: The late fee charged is $35 per day, with no stated maximum.

We recommend the following:

34. Develop a complete property management plan for HMOW.
35. Undertake a replacement reserve study and develop a five-year capital budget.
36. Seek a legal opinion whether current management is exempt from Hawaii licensing requirements.
37. Develop, or purchase, a better lease form that is fully consistent with Hawaii law and provides better enforcement tools for management.
38. Seek a legal opinion with regard to the rent payment/bank deposit requirement.
39. Revise the $35 per day late fee policy.
40. Discontinue the policy of accepting cash at the office; only accept a cashier's check or money order for move-in money.

SECTION 3 - CONCLUSION

If the foregoing recommendations are implemented and property management practices at HMOW are normalized to industry standards, we believe this will significantly improve the property's performance. Income can grow. Expenses will decrease. Employees will be empowered and accountable. The appearance of the asset will improve. Moreover, the residents' quality of life at Hale Makana O Waiale will improve.

Thank you. We welcome your comments and questions.

Respectfully submitted,

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