

IMPROVE

# EFFICIENCY

## AT YOUR BUILDING

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**W**ith the VAT tax approaching on the horizon, it has become imperative to understand how tax will affect real estate investments and the overall industry. While a lot of focus is being invested towards the effects of VAT tax on the real estate development and the construction side, it is important to invest an equal amount of focus for occupied properties, particularly, residential and commercial buildings. Many real estate developers hope that residential properties will be zero-rated rather than tax exempt, as they may not be able to claim back VAT paid if residential properties were tax exempt. We are yet to see how the tax law will treat occupied and leased buildings.

To defer the risks of the potential impact on taxes on the operational costs, building owners should consult with their property managers and legal counselors to consider a separate base rent and service charge allocation towards the lease agreements, in order to maintain the current net income generated at the property. This has proved successful in several buildings managed under KAIZEN AMS in the last 4 years since KAIZEN AMS initiated this concept. For freehold buildings managed under the JOPD and Strata law, managers need to assess how VAT will affect building budgets when the VAT Tax law is published. As an added measure, in case recouping VAT tax will not be possible from building occupants, whether tenants or owners, then building managers must seek alternative approaches to generate additional savings on operating budgets to match the potential VAT amounts to be paid. Professional property and asset managers are continuously



diving deeper into the properties' operating budgets to try and generate additional savings, while maintaining the same level of quality. Generally, in the UAE, approximately half of a building's budget goes towards resources related to maintenance, cleaning and security, among others, while the other half goes towards utilities, mainly electricity and cooling. The goal is not to minimise expenses, the goal is to manage the target level of quality at the right level of expenses. The cost of managing a property should reflect the vision of the owners.

In order to generate savings on maintenance, security, cleaning and other resource-driven services, the managers should try and renegotiate contracts with service providers to try and achieve better rates, or alternatively, better contract terms and threshold amounts. They should also review KPI's to reflect important aspects of the community and encourage a repair-first mindset for equipment.

On another note, generating savings on energy and cooling is generally more straightforward. From experience, we know that reducing energy costs by 10 percent is relatively easy without having to spend large capital amounts. It's critical to understand where the most energy is

being used and where energy is being lost. Being a member with the US Green Building Council, we are always up to date on the recent technologies and methods to reduce energy and cooling bills, and have historically generated excellent savings from small measures. If the building manager has squeezed the costs to an absolute optimum level, again, without affecting on quality, then perhaps it's time to look into adding revenues into the community. This can be generated by straightforward approaches such as decreasing vacancies, increase rents strategically and minimizing turnover. Additional revenue can also be generated from other services such as creating and managing a visitor parking management, car cleaning services for residents, vending machines and magazine stands, among others.

In summary, it is important for building managers and financial managers of building owners to review the budgets and analyze areas to generate additional revenues, and areas of generating additional savings. It is important to begin this exercise immediately, and implement the necessary plans, in order to be ready for a potential negative tax impact on net income. ■