

Unit 19: Property Management

LECTURE OUTLINE

- I. The Property Manager
 - A. Property manager must:
 - 1. Achieve the objectives of the property owners.
 - 2. Generate income for the owners.
 - 3. Preserve and/or increase the value of the investment property by:
 - a. Securing suitable tenants
 - b. Collecting the rents
 - c. Caring for the premises
 - d. Budgeting and controlling expenses
 - e. Hiring and supervising employees
 - f. Keeping proper accounts
 - g. Making periodic reports to the owner
 - B. Securing management business
 - 1. Sources of business
 - a. Corporate owners
 - b. Apartment buildings
 - c. Owners of small rental residential properties
 - d. Homeowners' associations
 - e. Investment syndicates
 - f. Trusts
 - g. Owners of office buildings
 - 2. New opportunities
 - a. Community association management
 - b. Housing for seniors
 - c. Manufactured homes
 - d. Resort housing
 - e. Concierge services
 - f. Asset management
 - g. Corporate property management
 - h. Leasing agent
 - 3. Professional associations provide information and contacts

- II. The management agreement is the contract creating a general agency relationship between owner and property manager
 - A. The property manager's role is that of a general agent. The agreement should include:
 - 1. Description of the property
 - 2. Time period the agreement will cover
 - 3. Definition of manager's responsibilities
 - 4. Statement of owner's purpose and responsibilities
 - 5. Extent of manager's authority
 - 6. Reporting, including frequency and detail of manager's periodic reports
 - 7. Compensation—management fee or other compensation; a negotiable percent, flat fee or both
 - 8. Allocation of costs
 - 9. Liability—manager should be additional insured on property liability policy
 - 10. Antitrust provisions
 - 11. Equal opportunity statement
 - B. Math concept—calculating commission based on property rent
- III. Property Manager's Responsibilities in accordance with the management agreement
 - A. The Management Plan
 - 1. Owner's objectives
 - 2. Regional and neighborhood market
 - 3. Specific property
 - B. Financial reports
 - 1. The operating budget should be based on anticipated revenues and expenses.
 - 2. Cash flow report is a monthly statement that details the financial status of the property.
 - a. $\text{Gross rental income} + \text{other income} - \text{losses incurred} = \text{total income}$
 - b. $\text{Total income} - \text{operating expenses} = \text{net operating income}$
 - c. $\text{Net operating income} - \text{debt service} - \text{reserves} = \text{cash flow}$
 - 3. Income includes:
 - a. Gross rentals collected and delinquent rental payments
 - b. Utility payments

- c. Vending contracts
 - d. Storage charges
 - e. Late fees
 - 4. Fixed expenses
 - a. Employees' salaries
 - b. Basic operating costs
 - 5. Variable expenses
 - a. Building repairs
 - b. Capital improvements
 - c. Landscaping
 - 6. Profit and loss statement
 - a. Provides a general financial picture based on the monthly cash flow reports and does not include itemized information.
 - b. May be monthly, quarterly, semiannual, or annual.
 - c. $\text{Gross receipts} - \text{operating expenses} - \text{mortgage interest} = \text{net profit}$
 - 7. Budget comparison statement compares the actual results with the original budget.
- C. Renting the property. The property owner may use a leasing agent, but that agent does not undertake the full responsibility of maintaining and managing the property.
 - 1. Setting rental rates
 - a. Must cover fixed charges and operating expenses as well as provide a fair return on the investment
 - b. Must consider the prevailing rates in comparable buildings
 - c. Must consider the current level of vacancy in the property to be rented
 - i. High vacancy level may indicate poor management or undesirable property.
 - ii. A high occupancy level may indicate rents are too low.
 - 2. Marketing
 - 3. Advertising must comply with all applicable federal, state, and local laws.

4. Management activities—good reputation can be enhanced through community involvement and charitable giving
5. Marketing and advertising costs—cost-benefit analysis identifies best advertising methods
6. Selecting tenants in compliance with all applicable laws, to determine whether:
 - a. The size of the space meets the tenant's requirements.
 - b. The tenant has the ability to pay.
 - c. The tenant's business will be compatible with the building and with the other tenants.
 - d. If the tenant is likely to need more space in the future, expansion space will be available.
 - e. Landlord must comply with applicable fair housing laws and ADA.
7. Collecting rents
 - a. Select tenants carefully.
 - b. Substantiate a tenant's ability to pay through financial references.
 - c. Maintain a firm and consistent collection plan, specifying
 - i. Time and place of payment,
 - ii. Provisions and penalties for late payment and returned checks, and
 - iii. Provisions for cancellation and damages in case of nonpayment.
8. Maintaining good relations with tenants
 - a. Keeping tenants satisfied minimizes turnover and expenses for the landlord.
 - b. Good property managers
 - i. Use good communication systems to keep tenants informed.
 - ii. Ensure that maintenance requests are attended to promptly.
 - iii. Enforce all lease terms and building rules fairly.
 - iv. Keep accurate records regarding rental payments and lease expirations.
9. Maintaining the property
 - a. The property manager must balance the service requirements of the property and costs.

- b. The physical integrity of the property must be protected.
 - i. Preventive maintenance includes the regularly scheduled activities to maintain the structure
 - ii. Repair or corrective maintenance means fixing items that are broken
 - iii. Routine maintenance refers to everyday cleaning and repairs
 - iv. Construction in nonresidential properties includes the alterations called tenant improvements
- c. Hiring employees versus contracting for service. The decision is based on the size of the building, complexity of the requirements, and availability of suitable labor.
- d. Tenant improvements are major alterations to meet commercial or industrial property tenant needs.

10. Environmental concerns

- a. Recycling
- b. Lead-based paint disclosure
- c. Air quality issues
 - i. Building-related illness (BRI)
 - ii. Sick building syndrome (SBS)

IV. Federal Laws Prohibiting Discrimination

A. Americans with Disabilities Act

- 1. Adopt nondiscriminatory employment procedures if 15 or more employees
- 2. Ensuring access to services and facilities for people with disabilities (see Figure 19.1).
 - a. Determining whether a building meets the ADA's accessibility requirements.
 - b. Preparing and executing a plan to retrofit a building that is not in compliance.
 - c. Removing barriers and providing accommodations when they can be accomplished in a *readily achievable* manner.

B. Equal Credit Opportunity Act

- 1. Managers should use the same lease application for every applicant.
- 2. Requirements for credit reports must be the same for every applicant.

3. Be consistent in evaluating applicants' income and debt and whether to rent to an applicant.

C. Fair Housing Act

1. Property managers must take care that their practices of attracting tenants do not violate fair housing laws.
2. Blockbusting and steering are prohibited.

IV. Risk Management

A. Risk management techniques

1. Avoid the risk by removing its source.
2. Control the risk by taking preventive measures.
3. Transfer the risk by taking out an insurance policy.
4. Retain the risk by insuring, with a large deductible to bring down the cost.

B. Security of tenants

1. Recent court decisions have held landlords and their agents responsible for physical harm inflicted on tenants by intruders.
2. Property managers should evaluate measures to protect tenants from unauthorized entry to building and secure individual apartments.
3. Lease can have a crime-free provision that makes criminal activity a ground for eviction.

C. Types of insurance

1. Tenant's insurance—property manager should notify tenants about obtaining renter's insurance.
2. Commercial insurance
 - a. Fire and hazard insurance can be extended to cover windstorm, hail, smoke damage, and civil insurrection.
 - b. Flood insurance is a separate policy; covers flooding caused by heavy rains, melting snow, failed levees, etc.
 - c. Consequential loss, use, and occupancy insurance covers the loss of revenue if the property cannot be used to produce income.
 - d. Contents and personal property insurance covers contents and personal property when they are not physically located on the premises.

- e. General liability insurance covers risks an owner assumes when members of the public enter a building
 - i. Public liability insurance protects the public while on the premises.
 - ii. Workers' compensation insurance protects employees while they work either under a state program or a private insurance policy.
- f. Casualty insurance is usually written to cover a specific risk; it can cover theft, burglary, vandalism, machinery damage, and health and accident.
- g. Surety bonds cover an owner against financial loss resulting from an employee's criminal acts or negligence.
- h. Multiperil policies are comprehensive insurance packages.

D. Insurance claims

- 1. May be based on depreciated or actual cash value.
- 2. May be based on current replacement cost.
- 3. Commercial policies usually include coinsurance clauses.