

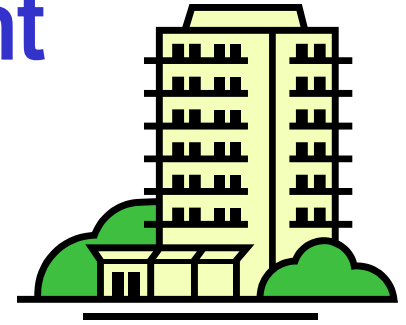


*Instructor*

*Cees Halcombe*

**PROPERTY  
MANAGEMENT**

# Property Management



## Services To Landlords

1. Evaluating rental market
2. Marketing property
3. Obtaining tenants
4. Screening applicants according to appropriate laws and regulations
5. Responding to tenant complaints
6. Income, expenses, and rate of return for property
7. Fees, security deposits, and rent collection
8. Negotiating property management agreements
9. Environmental and safety hazards
10. Operating budgets
11. Trust accounts
12. Owners' financial statements



## ECONOMIC LIFE

estimated time period that an improved property may be profitable to use.  
(Returns more money than the land is worth by itself)

## ECONOMIC RENT

- The rent a property can get on the open market at a specific time

## CONTRACT RENT

Rent agreed to in lease

# Property Management Agreement

**NAME THE PARTIES & IDENTIFY THE PROPERTY**

**STATE RENTAL OBJECTIVES (Short Term Ownership – Long term Investment)**

**DUTIES – AUTHORITY - RESPONSIBILITIES**

**REPORTING REQUIREMENTS (usually monthly)**

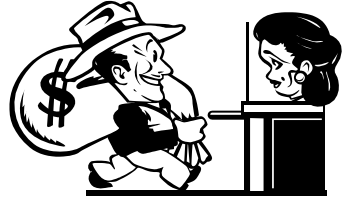
**PROPERTY MANAGER'S FEE – USUALLY % OF GROSS RENT COLLECTED – MAY BE FIXED FEE OR HOURLY FEE**

**STATEMENT OF PROPERTY MGR LIABILITY**

**TERMINATION CLAUSE – LENGTH OF A CONTRACT**

**OWNER SIGNATURE**

**PROPERTY MANAGER SIGNATURE**



# FEES, SECURITY DEPOSITS AND RENT COLLECTION



The owner and the property manager negotiate the relationship between them. This relationship can be employer-employee, principal-agent or trustee. A written management agreement between the parties stipulates whether payment is to be on a flat-fee basis or percentage of the current gross income.

## SECURITY DEPOSITS

Property managers must be aware of state laws regulating security deposits. The rules of the Board of Realty Regulation in the state where the property manager is licensed are critical. If they are not followed it may result in fines and loss of license.

## RENT

Rent is paid in advance, usually the first of the month, and the property manager must know state and local laws regarding eviction procedures as they relate to rent.

Rent control is a regulation by the state or local government agencies restricting the amount of rent landlords can charge their tenants. Due to a shortage of property for lease.

## NEGOTIATING PROPERTY MANAGEMENT AGREEMENTS

A written management agreement is negotiated between the owner and the person or firm that will manage the property.

# Property Management

## FIDUCIARY DUTIES

LOYALTY

PREVENTIVE MAINTENANCE

SCREEN & QUALIFY TENANTS

ADVERTISE & SHOW PROPERTY

ACCOUNT FOR RENTS (Monthly)

OVERSEE REPAIRS

NEGOTIATE CONTRACTS

COLLECT RENTS

TAKE LEGAL ACTION (As needed)

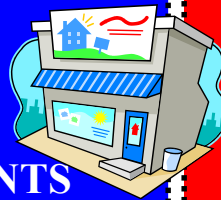
PAY BILLS

HIRE MAINTENANCE

WORK TO KEEP GOOD TENANTS

PLAN FUTURE ANNUAL BUDGET

COMPLY WITH LAWS (refusing to rent to qualified person is a CRIME)



## THINGS NOT TO DO!

DO NOT REFUSE TO RENT TO PEOPLE WITH SMALL CHILDREN

DO NOT ARRANGE FINANCING FOR OWNER

DON'T REQUIRE A POWER OF ATTORNEY

DON'T APPRAISE OR LIST THE PROPERTY

DON'T SCREEN TENANTS RACIALLY

DON'T PUT TENANT DEPOSITS IN OPERATING ACCOUNT

DON'T SET THE DOLLAR LIMIT TO BE KEPT IN THE OWNERS TRUST ACCOUNT

DON'T RENOVATE SMALL PROPERTIES TO FIT A TENANT'S NEEDS

DON'T SUPERVISE CONSTRUCTION OR REMODELING

DO NOT MAKE REPAIRS IN UNITS FOR TENANTS

**CONDO MANAGERS – DON'T PAY UNIT PROPERTY TAXES OR LEASE THE CONDOS**

# Property Manager Services To Landlords

## **EVALUATING THE RENTAL MARKET**

**Comparables** – The property manager should be knowledgeable of properties in the surrounding area that are similar to the property being managed.

**Rent Rates** – By analyzing the comparable the property manager can be knowledgeable of rent rates in the area both currently and historically.

**Vacancy Rates** – Property managers should be knowledgeable of vacancy rates in similar properties in the area both currently and historically.

**Competition** – Property managers should be knowledgeable of not only existing properties that are competitors of the managed property but also of new or proposed properties that are planned for the area.

From the comparable market rent, vacancy and competition knowledge the property manager gathers they can analyze the **CURRENT MARKET CONDITIONS** to determine if it is a **RENTER'S MARKET** (more properties for rent than there are tenants) or an **OWNER'S MARKET** (a shortage of properties with an excess of tenants)? This determines the marketing plan the property manager should take in the future.

**MARKET LEASE PROPERTY** – Based on their evaluation of the market the property manager determines the extent and type of marketing to pursue.

**Word Of Mouth** – When the property manager takes care of the current tenants and keeps them “*happy*” the tenants will promote the property to contacts they have. This “*word of mouth*” is the most effective way to market.

**Internet** – The newest phenomenon in marketing and communication is the internet. Online rental advertising is still in its early and exploratory stages. Advertising property for lease now is similar to advertising through television in that individual unit advertising is not as successful as project advertising.

**Newspaper Advertising** – is the most common form of marketing. For Rent advertisements are placed in the classified section of the newspaper usually on a daily basis or at a minimum of every weekend.

**Signs** – Yard signs or banners draw attention to the property and are an effective way to market the property.

**Television** – Normally advertising through the medium of television is not effective for individual units. However, marketing a complex or group of properties can be effectively done this way.

# **SCREENING TENANTS FOR RESIDENTIAL PROPERTY**

Potential tenant information, including their needs, the size of their family, their ability to pay, etc., must be obtained. This process is known as screening the tenant. There are guidelines as to what can and cannot be asked of a tenant and property managers must know what these are. If a property manager is not familiar with these rules discrimination can occur.

**NO DISCRIMINATION** – Discrimination in any form against is illegal and can result in fines and penalties for the property manager and owner. The basic way to avoid charges of discrimination is to be consistent. Whatever is asked of one should be asked of all. A full discrimination discussion is addressed later.

**References** – One of the most important aspects in screening future tenants is to obtain references. The problem is that references from the current landlord may not represent the truth. If the tenant is a good one the current landlord may not be enthusiastic about them leaving and may downplay their qualifications. If they want to be rid of them they may say they are better tenants than they are. The best references are those where the tenant lived in the past not where they live now.

**Financial Information** - The property manager needs to know how much a potential tenant is paid, their job security, etc.



# **SCREENING TENANTS FOR COMMERCIAL PROPERTY**

**Commercial tenant screening is different than screening residential tenants. Commercial tenant information is used to determine the interaction between the potential tenant and those currently on site and deciding if it will work.**

**Commercial Tenant Compatibility – is the primary concern. A diesel truck repair shop's noise pollution and fumes, for example, are not compatible next door to a doctor's office.**

**Financial Information – determines the viability of the commercial tenant. Commercial leases are for varying time lengths and valuable to the landlord therefore a tenant's ability to fulfill their commercial lease is critical.**

**The Type of Business – is important. Is the tenant a retail operation or a manufacturing one? If manufacturing what materials are used; are they hazardous, or explosive?**

**Future Expansion Needs – If the company will need more space in the future will there be additional adjacent space available at that time?**

**Parking - How many parking spaces are needed for employees and clients?**

**Current Lease – Can be important to be sure that all of a tenants needs are met. “Comparing apples to apples”.**

# Leasehold Estate

(Less Than Freehold Estate)

## Leasehold Estate

**A tenant's or renter's right to possess real estate for a specified term based on a lease agreement** **Generally personal property.**

### Leasehold Estates

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graph TD; A["Leasehold Estates"] --> B["Estate For Years"]; A --> C["Estate From Period To Period"]; A --> D["Estate At Will"]; A --> E["Estate At Sufferance"];
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#### Estate For Years

A leasehold estate that **continues for a definite period of time. Starting and ending date.** The period may be years, months, weeks or days. **No notice required to terminate.**

#### Estate From Period To Period

**Periodic tenancy – indefinite period of time – week to week - month to month – year to year – continues until one party gives notice of termination.**

#### Estate At Will

**Tenant has the right to use the property with the owner's permission for an uncertain term.**

#### Estate At Sufferance

**Arises when a tenant continues to possess the property after a lawful lease has expired without the owner's permission.**

**Note: A valid lease requires – Capacity to Contract – Legal Objectives – Offer and Acceptance - Consideration**

# Services To Tenants

## LEASES

### TYPES OF LEASES

**GROSS LEASE** OWNER Pays ALL Expenses *Utilities, Taxes, Insurance, Maintenance*

#### **NET LEASE**

OWNER Pays Some Expenses  
TENANT Pays Some Expenses  
*Tenant Pays Property Taxes  
Owner Pays Insurance*

#### **TRIPLE NET LEASE**

TENANT Pays ALL Expenses  
*Property Taxes, Insurance,  
Maintenance,*

### RENT SCHEDULES

#### **PERCENTAGE LEASE**

% Lease - % of Gross Income is paid to Owner – It may have a base (\$1,000?) plus a % of gross income each month

#### **INDEXED LEASE**

Tied to economic factors

#### **ESCALATOR LEASE**

Goes up based on agreed to factor (a fixed % or an annual CPI)

#### **STEP UP LEASE**

Goes up a fixed dollar amount per year

#### **GRADUATED LEASE**

- Lower Rent in early years then Gradually Increasing over the term of the lease. Owner receives the same amount over the term of the lease as a level monthly payment

### LEASE TRANSFERS

#### **SUBLETTING**

Tenant leases to a new tenant .  
Original Tenant is liable for rent.

**Two Landlords – Two Tenants**

#### **ASSIGNMENT**

All leasehold interests are transferred in an assigned lease.

## **TENANT COMPLAINTS RESPONSE**

**In Writing** – respond to tenant complaints in writing. This creates a record of property manager notification and what the response was.

**Quickly** – Responses should be done quickly and in a definite way, with specific actions to be taken and a time frame for them.

**Use Professionals** – Repair work should be done by professionals not by the property manager that is not part of the job.

**Safety Issues** – are the most critical. They can become big trouble even if the property manager does not know about them, but especially important when they have been reported.

# Return On Investment



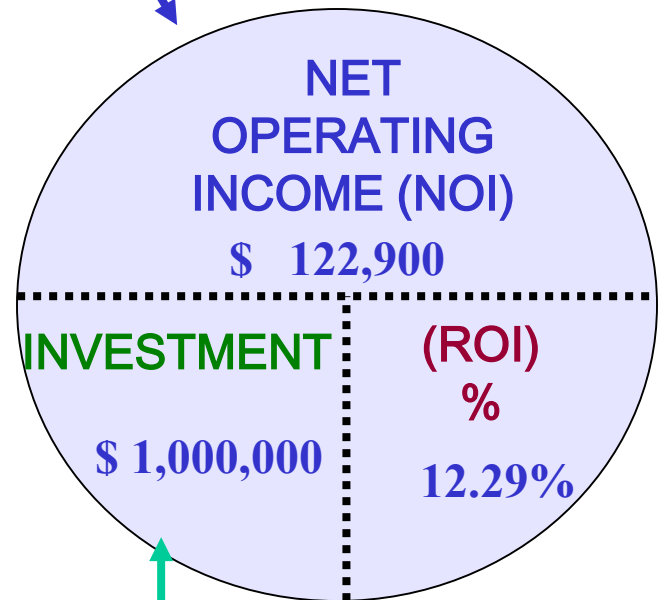
Annual Income	\$ 180,000
15 Units @ \$1,000/Mo	
OTHER INCOME (vending machines)	<u>\$ 5,000</u>
	\$ 185,000
Less vacancy & collection losses 4%	<u>\$ 7,200</u>
Effective Gross Income	\$ 177,800

$$\text{\$ } 122,900 / \text{\$ } 1,000,000 = 12.29\%$$

Annual Expenses:	
Real estate taxes	\$ 10,000
Insurance	\$ 6,000
Maintenance	\$ 6,000
Utilities, electricity, water, gas	\$ 12,000
Repairs	\$ 5,000
Replacement of equipment	\$ 1,200
Legal and accounting	\$ 500
Advertising	\$ 12,500
Management	<u>\$ 1,200</u>



\$ 54,900  
\$ 122,900



**OPERATING EXPENSES ONLY – NO CAPITAL IMPROVEMENTS OR FINANCING COSTS**

**TOTAL**

Annual Net Operating Income /

Return On Investment (ROI) =  $\frac{\text{NOI}}{\text{INVESTMENT}}$

Owner Investment \$ 1,000,000

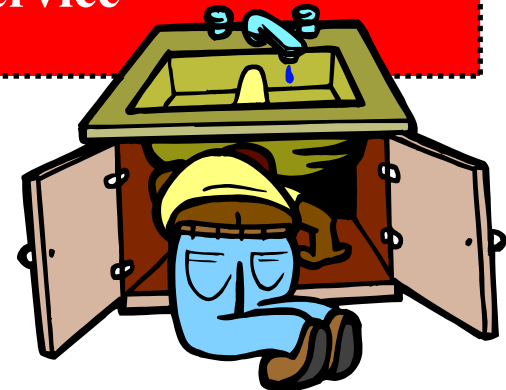
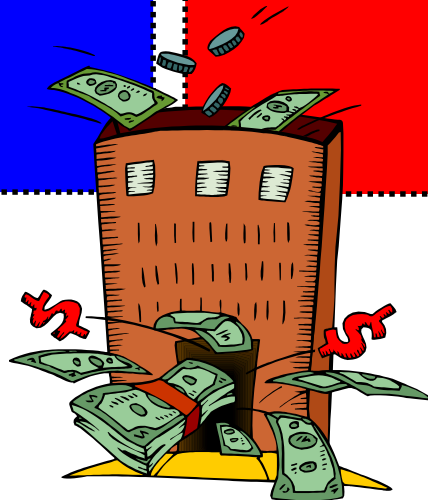
# Operating Expenses

## Operating Expenses Include:

## Operating Expenses Do Not Include:

**Real Estate Taxes**  
**Annual Insurance Expense**  
**Maintenance Costs**  
**Telephone Expense**  
**Normal Repairs**  
**Personnel Salaries**  
**Property Manager's Fee**  
**Utilities (Water, Sewer, Elec.)**  
**Garbage Collection**  
**Cleaning Supplies**  
**Legal Fees**  
**Accounting Fees**

**Mortgage Interest**  
**Mortgage Principal**  
**Depreciation of Improvements**  
**Vacancies and Lost Rent**  
**Capital Improvements**  
**Capital Expenditures**  
**(Equipment Replacement or Additions to the Property)**  
**Debt Service**



# Maintenance

## Preventive Maintenance

Preserves the physical building and eliminates costly problems before major repairs become necessary.

## Corrective Maintenance

Fulfills the owner's responsibilities to the tenant by keeping the building's equipment, utilities and amenities functioning properly.

## Routine Maintenance

Includes routine housekeeping, such as maintenance of the common areas and grounds, and maintaining the physical cleanliness of the building itself

## New Construction Maintenance

occurs to meet the needs of a tenant, and could be something as simple as installing new carpeting or as complex as upgrading or remodeling the property to meet the tenant's needs.

## ENVIRONMENTAL AND SAFETY HAZARDS

Property managers must have a working knowledge of hazardous substances and wastes and the laws regulating owners. A hazardous waste is a byproduct of a manufactured item, while a hazardous substance may include everyday items such as household cleaning products and paint. EPA is responsible for centralizing the environmental responsibilities..

## **OPERATING BUDGETS**

An operating budget is based on the anticipated revenues and expenses for the coming year. It must reflect the owner's long-term goals.

## **TRUST ACCOUNTS**

Property managers are required to maintain escrow or trust accounts in which security deposits are placed.

## **OWNERS FINANCIAL STATEMENTS**

Property managers send the owner a monthly report of income and expenses. Quarterly, semiannual or annual profit and loss statements are compiled from these monthly reports (usually by an accountant). Future operating decisions are made from them.

### **Services To Tenants**

- 1. Lease agreements used in property management**
- 2. Rental and lease agreements (including options)**
- 3. Material facts**
- 4. Show property to prospective tenants**
- 5. Occupancy terms**
- 6. Proration of rents and leases**







## Eviction Proceedings

Of the state must be followed by the property manager.

### Actual Eviction

Is when the landlord files a suit for possession because the tenant has breached the lease.

### Constructive Eviction

When the landlord breaches the lease and the tenant must leave the premises because they have become uninhabitable.

## OCCUPANCY TERMS

The landlord must give exclusive possession of the property to the tenant.

The *covenant of quiet enjoyment*.

The *warranty of habitability* requires the landlord to keep the property in good condition.

