

PROPERTY MANAGEMENT COURSE

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- 1. Ownership Concerns/focus**
- 2. Property Inspection**
- 3. Management Agreement and Fees**
- 4. Property Takeover**
- 5. Rental Analysis**
- 6. Leasing Strategies**
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Ownership Concerns

Characteristics of Ownership Forms

	Taxation Status	Investor Liability	Management	Transferability	Restrictions on allowed activities
Individual	Single	Unlimited	Personal	Unlimited	No
Tenancy in Common	Single	Unlimited	Flexible	Modified	No
Joint Tenancy	Single	Unlimited	Flexible	Limited	No
Corporation	Double	Limited	No Restrictions	Unlimited	No
S Corporation	Single	Limited	No Restrictions	Unlimited	Yes
General Partnerships	Single	Unlimited	All partners	Varies	No
Limited Partnerships	Single	Limited	General partner(s)	Varies	No
REIT	Modified single (tax losses cannot exceed cash distributions)	Limited	Trustees	Unlimited	Yes

Property Inspection

INSPECTION CHECKLIST

Some of the most essential inspection items of an inspection are as follows:

From a marketing point of view:

- Aesthetics
- Appearance
- Graphics
- Signage
- Curb appeal
- Landscaping
- Entrance and lobby decor
- Security
- Building amenities
- Service areas
- Conference room(s)
- Space layout and equipment

From a maintenance point of view:

- HVAC
- Plumbing and electrical systems
- Roofs
- Elevators and stairways
- Safety features
- Lighting
- Restrooms
- Public corridors
- Parking areas
- Rubbish disposal areas
- Fire prevention systems
- Structural defects

Forms to use to assist the inspection process are presented in the Appendix of your Managing the Office Building textbook.

Management Agreement and Fees

THE MANAGEMENT AGREEMENT -- GENERAL REMARKS

Introduction

The management agreement is a written understanding between the property owner and the property management company or department. The agreement details the responsibilities, duties, rights and obligations of each party throughout the agency relationship.

The written contract delineates the relationship between the parties in order to avoid any misunderstandings regarding rights, obligations, and duties; it is written after the property manager and the client have reviewed the requirements of the property and the client's goals. Responsibility is clearly defined in the agreement should questions arise or litigation occur.

Term of the Management Agreement

The term or duration of the agreement between the property manager and the property owner will vary depending on many factors. These include the following.

1. The size of the property and scope of the property management work. For a stable property in good condition, the initial term could be longer than in situations where there is more uncertainty.
2. The existence and extent of any problems. The agreement must allow sufficient time, resources, and compensation for solving existing problems.
3. The owners' objectives. Generally, the owners want good cash flow with minimal expense. When the objectives include renovation or other major changes, the term of the contract should be tied to accomplishing that goal, with a renewal clause.

If one objective is to sell the property, then the management agreement must allow sufficient time to prepare it for sale. In this circumstance, the contract would include a clause regarding its termination at the time of sale.

Management Agreement and Fees

Because management contracts must allow a term long enough for the manager to accomplish any ~~agreed-upon goals, the contracts are written~~ for varying terms, depending on specific situations. An initial term would normally be one to two years and include possible negotiated cancellation conditions. Annual renewal should be automatic unless one of the parties desires to change any terms and/or conditions.

Contracts that are not backed by good faith and cooperation of both parties are difficult to live with. For this reason, there is often a base period in which to accomplish certain goals and then a reversion to a month-to-month agreement. The property manager may prefer to be released from the contract if the owner is difficult to work with. In the final analysis, the intent of both parties is the most important factor in any contract and should be covered in a termination clause.

The contract should include the following information.

1. Full names of all owners, their signatures, and designation of a primary contact person among the owners. Where a partnership or corporation is the owner, also indicate which state's laws the entity operates under.
2. Commencement and termination dates should be specified with cancellation privileges delineated.
3. A thorough description of the property, including its full address.
4. Authority to sign leases or rental agreements should be defined.
5. Authority to set rental rates and collect rents.
 - a. May set and collect special fees
 - b. May set, collect and disburse security deposits.
 - c. Must disburse net proceeds to owner(s) in specified manner.

Management
Agreement
Provisions

Management Agreement and Fees

6. Authority to establish bank accounts.
 - a. Authority to pay expenses from ~~operating and/or reserve accounts.~~
 - b. For tenants' security deposits
 - c. Specify who keeps the interest earned on interest-bearing account(s).
 - d. Negotiate a line of credit for the managing agent.
 - e. Specify the amount of the fidelity bond for all personnel who will be handling money.
 - f. Define obligation to send financial and other reports to owner(s).
 - g. Adhere to regulations regarding commingling.

7. Authority regarding maintenance and service contracts.
 - a. Limitations on changing the property structurally
 - b. Emergency provisions
 - c. Dealing with building code violations

8. Employees are normally under the direct control and supervision of the property manager. They are paid by the management company, but their salaries and benefits are reimbursed out of the owner's funds. As a result, they are employees of the owner, not of the property manager. A U.S. Supreme Court decision states that employees, under certain conditions, are to be considered as those of the manager only from the standpoint of the wage-and-hour laws. Regardless of contractual provisions, they are employees of the property owner.

A hold-harmless clause should be included to indicate that, as long as acting within legal guidelines, the agent is indemnified in suits or claims in connection with labor laws.

9. Authority to choose and conduct advertising and promotional campaigns.

Management Agreement and Fees

10. Specify which types of insurance and what levels of coverage are needed.

11. Force Majeur covers emergency situations such as war or natural disaster. The managing agent is excused from failure to perform duties as usual.

Basic Property Management Fees

Fees should be clearly defined by a complete written statement. No standardization of fees exists, as the professional property manager charges fees sufficient to cover the costs of services provided, overhead and a fair profit. Take into consideration the type of property, its location, physical and fiscal condition, staffing and supervisory requirements, and owners' requirements.

Flat monthly fees are usually charged when the volume of income from the property is established by long-term contract. They are based on the time the agent devotes to the account. On new properties, a flat fee is charged to cover time and expenses until occupancy reaches a predetermined level.

Fees based on a percentage of gross collections are common when the manager is responsible for securing tenants. A percentage fee encourages securing the maximum possible rent and collecting funds promptly.

Combining the two fees is most commonly used with a percentage of gross collections tied to a minimum flat fee. The manager is motivated to keep occupancy up, but is protected in circumstances beyond his control against the possibility of no fee.

Additional Fees

Certain circumstances beyond the normal course of events will warrant additional fees.

1. Leasing commissions for securing tenants, negotiation of leases and preparation of the lease document. These commissions are generally based upon a percentage of the rent and are normally paid upon execution of the lease. Attach to the agreement a lease commission schedule covering all lease situations.

Management Agreement and Fees

- ~~2. Stipulate sales/brokerage fee due in compensation for selling (or cooperating in selling) the property.~~
3. Supervision of extraordinary repairs or alterations involving work with outside contractors. Base this fee on a percentage of the total cost or on the manager's time expended.
4. Keeping corporate or partnership books in addition to normal accounting.
5. Providing special reports or appraisals.
6. Tax appeals and other consultation beyond normal services.
7. Attendance at various meetings

taking over
the Management
Account

The profile of the real estate investor has been steadily changing for a number of years. The form of ownership will affect how you choose to manage a property. Investment properties have become much larger and more complex, and ownership of these properties has also become larger and more complex. Large corporations and syndicates are joining individuals and partnerships as owners.

The goals and objectives of these various types of owners frequently differ. It is most important that the owners' objectives be understood by all parties.

When taking over a new management account, the most important of the many details involved are inspecting the property, analyzing the owners' objectives, and coordinating the two.

The next step is choosing the management team to accomplish these objectives. All members of the management team should meet to discuss the property and its operation, to understand their own role and the roles of their co-workers, and to know the goals and objectives of the owners.

Management Agreement and Fees

details concerning the physical and economic aspects of the property. This information ~~should include, but not necessarily be limited~~ to, the following items. Establish a master checklist to be sure to get the needed information.

1. Legal ownership
 - a. Name of main contact person
 - b. All owners' Social Security numbers or tax identification numbers
 - c. All owners' address and telephone numbers (work and emergency)
2. Description of property
 - a. Include building size (gross, rentable, and usable area)
 - b. Legal descriptions
3. Property operating manual
4. Utility accounts and numbers
5. Insurance
 - a. Agent or broker
 - b. Amount and types of coverage
6. Current contracts
 - a. Maintenance
 - b. Janitorial
 - c. Trash
 - d. Elevators
 - e. Security
 - f. Window washing
 - g. Landscape
 - h. Others
7. Real estate and personal property (if applicable) tax bills and information
 - a. Assessed valuation
 - b. Date of last assessment
 - c. Status of any appeals
8. Details of property financing (all loans)
9. Employee data, such as pay period, rates of pay, payroll information, pay history, Social Security numbers, tax I.D. numbers, discipline and job review forms, etc.

Management Agreement and Fees

10. Lease documents, including escalations
- ~~11. Current rules and regulations~~
12. Tenant rent roll
13. Tenant lease files, ledger cards
14. Keys and key control
15. Itemized sources of income and receipts
16. Purchasing data and procedures
17. Warranty information and maintenance contracts
18. Building plans, if available, and information about clean-outs, utility shut-offs, etc,
19. Floor plans
20. Inventories of equipment, supplies, and tools
21. Any pending litigation
22. Names and addresses of anyone needing notification such as tenants, utility companies, vendors, insurance brokers, tax authority

Notify everyone affected by the change in management and any changes in policies and procedures that affect them, particularly the tenants.

Management Agreement and Fees

Criteria for Choosing a Fee Property Manager

Institutional property owners, or other sophisticated clients, choose a fee property manager on the following criteria.

1. The reputation of the property management company
2. The type of clients currently being served
3. Current clients' level of satisfaction with the quality of service they are receiving
4. The person the management company has assigned responsibility for the account
 - a. The person's accountability to the owner
 - b. Experience level of that person
 - c. The client's rights regarding any personnel changes
5. Ability to generate the reports, financial and others, that the owner requires and willingness to work with the owner's auditors and reviewers.
6. Timely submission of financial reports
 - a. Knowledgeable clients are most interested in reviewing reports very soon after the end of a reporting period (10 days or less).
7. Fee charged
 - a. Knowledgeable clients judge the fee level in relation to the quality and scope of service to be rendered.
 - b. They balance the proposed fee against the cost of managing the property themselves in terms of cost-efficiency.
 - c. They balance cost-efficiency against the effectiveness of the management offered.

Calculating the Fee

Whether charging a flat fee, a percentage fee, or a combination of the two, the fee basis is determined by a careful analysis of the costs of managing the property. Fees can be tied to other factors, such as the property's increase

Management Agreement and Fees

in value. Care needs to be exercised with this approach because the risk exists that the ~~property value will not appreciate.~~

Besides allowing for the management staff payroll and other regular expenses, such as maintenance contracts, provision must be made for other, less regular expenses.

The Management Pricing Calculation Form assists with assigning charges. The blank form at the end of this section is an example of what can be done. It should be adapted to the requirements of a particular property.

The services of the property managing agent, the property management company's supervisor, and outside services, such as accounting and clerical staff, all need to be assessed. Many management companies have central accounting and clerical staffs that take care of all properties managed by the company. In this case, there is an hourly rate assigned to the use of these services by each property.

If site staff members perform accounting and clerical duties, then the assessment should include not only their hourly wage rate, but an allowance for their benefits.

Whether you are directly involved in negotiating the management agreement and setting the fees, or work with the agreement made by one of your superiors, it is important to know what goes into its make-up.

Property Takeover

EXHIBIT 6.1 - NEW MANAGEMENT ACCOUNT - MASTER CHECKLIST

Building _____ Address _____

Owner _____ Contact _____

Date of Takeover _____

Project Manager _____

Leasing Manager _____

Building Manager _____

Management Contract: Signed _____

Date _____

NOTIFICATION TO:

- _____ Tenants
- _____ Employees
- Day _____ Night _____
- _____ Suppliers
- _____ Contractors

- _____ Utilities
- _____ Mortgage Company
- _____ Taxing Authority
- _____ Police Department
- _____ Fire Department
- _____ Other

EQUIPMENT:

- _____ Alarms - Fire/Security
- _____ Card Readers
- _____ CCTV
- _____ Communications System
- _____ Lighting
 - Exterior _____
 - Interior _____
 - Emergency _____

- _____ Lobby - Seats/Weather Carpets
- _____ Mail Facility
- _____ Music System
- _____ Signs
 - Exterior _____
 - Building _____
 - Lobby _____
 - Elevator _____

CONSTRUCTION/DESIGN (Tenant Improvements):

- _____ Architect
- _____ Engineer
- _____ Space Planner
- _____ Building Drawings
- _____ Building Standards

- _____ Costs, Remodeling
- _____ Costs, Construction
- _____ Work in Progress
- _____ Work Promised

Property Takeover

LEASING:

- | | |
|---|--|
| <input type="checkbox"/> Copies of Leases | <input type="checkbox"/> Brochures/Marketing Materials |
| <input type="checkbox"/> Rent Roll | <input type="checkbox"/> Directory/Directory Strips |
| <input type="checkbox"/> Vacancy Roll | <input type="checkbox"/> Meet Tenants |
| <input type="checkbox"/> Floor Plans | |
| <input type="checkbox"/> Area: | <input type="checkbox"/> Outstanding Proposals |
| Gross sf _____ | <input type="checkbox"/> Options |
| Rentable sf _____ | <input type="checkbox"/> Rights of Refusal |
| Usable sf _____ | <input type="checkbox"/> Delinquencies |

ACCOUNTING DEPARTMENT:

- | | |
|--|---|
| <input type="checkbox"/> Budgets | <input type="checkbox"/> Schedules and Information
Required by Owner |
| <input type="checkbox"/> Lease Summaries | |
| <input type="checkbox"/> Mortgage Information | <input type="checkbox"/> Copies of Tax Forms/Files |
| <input type="checkbox"/> Financial Information | Federal _____ |
| <input type="checkbox"/> Management Contract | State _____ |
| <input type="checkbox"/> Tenant Rent Roll | |
| <input type="checkbox"/> Payroll | |

PUBLIC RELATIONS:

- | | |
|--|--|
| <input type="checkbox"/> Press Release - Prepared | <input type="checkbox"/> Mailing List(s) |
| <input type="checkbox"/> Press Release - Distributed | |

INVENTORIES:

- Tools
- Equipment
- Supplies

KEYS:

- System Type
- Location

LEGAL:

- Outstanding Litigation
- Pending Litigation
- Outstanding Citations

INSURANCE:

- Policies
- Agent
- Renewal Reminder File

Property Takeover

CONTRACTS	REVIEWED	NEEDED
Elevators	_____	_____
Emergency Generator	_____	_____
Equipment Maintenance	_____	_____
HVAC Maintenance	_____	_____
Garage/Parking	_____	_____
Janitorial	_____	_____
Landscaping, Exterior	_____	_____
Landscaping, Interior	_____	_____
Linens	_____	_____
Pest Control	_____	_____
Site Maintenance	_____	_____
Security	_____	_____
Snow Removal	_____	_____
Sprinkler System	_____	_____
Trash Removal	_____	_____
Uniforms	_____	_____
Utilities	_____	_____
Water Analysis/Treatment	_____	_____
Water Coolers	_____	_____
Other Suppliers	_____	_____
Other Vendors	_____	_____

INFORMATION COMPLETE _____

DATE _____

PROJECT MANAGER

Marketing III: Leasing Strategies

MARKETING STRATEGIES

Once you have gathered and analyzed the data about the regional and neighborhood markets and determined the effective rent level you wish to set, you can begin the process of attracting tenants to your property. This is the next phase of the marketing program. The steps to take in attracting tenants will be discussed first followed by the steps of actually procuring those tenants.

1. Define the target market.
2. Develop a marketing strategy or plan.
3. Determine the marketing budget.
4. Implement the plan.
5. Evaluate the results of the plan on an ongoing basis.

The Target Market

The first step in the marketing process is to identify your market segment (the portion of the market you wish to attract as tenants). This is accomplished by characterizing your potential tenants (define the profile of your desired tenants) and identifying where those tenants can be found. The process of defining the market segment that you plan to attract, or "target," is also called the process of defining your target market.

As you learned in the section on demographics, performing an analysis of your region and neighborhood (determining the employment base, learning about business formations, types of business, and community services, contacting the city planning and zoning commission, knowing tax rates, etc.) gives you the background knowledge of what is going on in your community.

The information you need about your building in comparison with other buildings that could also attract your target market is gained from conducting an analysis using the comparison grid.

To be certain that the target market you are choosing is appropriate, do a thorough analysis of the site.