



Dearborn[™]
A Kaplan Real Estate Education Company

NINTH EDITION

Property Management

Robert C. Kyle ■ Marie S. Spodek, DREI, and Floyd M. Baird, RPA/SMA, Consulting Editors

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CONTENTS

Preface viii

CHAPTER 1 Professional Property Management 1

Key Terms 1

Learning Objectives 1

Overview 2

Development of the Property Management Profession 3

Classification of Real Property 3

Specialized Opportunities in Property Management 10

Roles of the Property Manager 12

Growth of Professionalism in Property Management 13

Summary 16

CHAPTER 2 Property Management Economics and Planning 21

Key Terms 21

Learning Objectives 21

Overview 22

The General Business Economy 22

The Real Estate Economy 27

The Management Plan 28

Market Analysis 30

Property Analysis 34

Analysis of the Owner's Objectives 37

Preparation of the Management Plan 38

Summary 45

CHAPTER 3 Owner Relations 49

Key Terms 49

Learning Objectives 49

Overview 50

Nature of the Relationship 50

The Management Contract 53

Takeover Procedures 61

Continuing Owner-Manager Relations 63

Summary 65

CHAPTER 4 Marketing 71

Key Terms 71

Learning Objectives 71

Overview 72

Marketing Principles 72

Marketing Activities 73

Advertising Campaign Strategy	74
Advertising Methods	77
Management Promotional Efforts	84
Personal Selling Activities	84
Summary	89

CHAPTER 5 Leases 95

Key Terms	95
Learning Objectives	95
Overview	96
Leasehold Estates	96
Types of Lease Payments	98
Provisions of a Valid Lease	100
Lease Formats	115
Summary	115

CHAPTER 6 Lease Negotiations 121

Key Terms	121
Learning Objectives	121
Overview	121
Qualifying a Tenant	122
Negotiating the Terms	129
Signing the Agreement	135
Summary	136

CHAPTER 7 Tenant Relations 141

Key Terms	141
Learning Objectives	141
Overview	141
Establishing a Sound Landlord-Tenant Relationship	142
Rent Collection	149
Lease Renewals	151
Rent Increases	152
Terminating the Tenancy	153
Terminating the Tenancy in Court	156
Summary	159

CHAPTER 8 Maintenance and Construction 165

Key Terms	165
Learning Objectives	165
Overview	166
Basic Maintenance Procedures	166
The Property Manager and Maintenance Personnel	167
Maintenance Management	170
Contracting for New Construction	178
Complying with the Americans with Disabilities Act	181
Managing Energy Efficiency	181
Summary	183

CHAPTER 9 Managing the Office and Reports 189

Key Terms	189
Learning Objectives	189
Overview	190

Establishing the Management Office	190
Staffing the Management Office	195
Determining Management Fees	198
Financial Reports	204
Reports for Tax Purposes	210
Determining Profitability	216
Summary	219

CHAPTER 10 Federal and State Laws 225

Key Terms	225
Learning Objectives	225
Overview	226
Antitrust Laws	227
Federal Fair Housing Laws	227
Americans with Disabilities Act (ADA)	240
Equal Credit Opportunity Act	242
Fair Credit Reporting Act (FCFA)	244
Megan's Law	246
Sexual Harassment	248
Lead-Based Paint Hazard Reduction Act (LBPHRA) (Title X of the 1992 Housing and Community Development Act)	249
Uniform Residential Landlord and Tenant Act	255
Summary	257

CHAPTER 11 Residential Property 263

Key Terms	263
Learning Objectives	263
Overview	264
Types of Residential Property	264
Residential Market Analysis	266
Marketing Availability of Space	270
Managing Tenant Relations	274
The Apartment Building Staff	281
Maintaining the Apartment Building	282
Apartment Operating Reports	284
Summary	289

CHAPTER 12 Specialized Housing 295

Key Terms	295
Learning Objectives	295
Overview	296
Managing Cooperatives	297
Managing Condominiums	300
Managing Planned Unit Developments (PUDs)	303
Budgets and Management Fees	304
Marketing and Leasing Cooperative and Condominium Units	306
Managing Subsidized Housing	307
Managing Manufactured Home Parks	313
Managing Housing for the Elderly	314
Summary	316

CHAPTER 13 Office Property 321

Key Terms 321
Learning Objectives 321
Overview 322
Market Analyses 322
Property Analysis 324
Marketing Office Space 327
Qualifying the Prospective Tenant 331
Negotiations and the Lease 335
Maintenance and Staffing of Office Buildings 344
Management Administration and Accounting 346
Summary 347

CHAPTER 14 Retail Property 353

Key Terms 353
Learning Objectives 353
Overview 354
Classification of Shopping Centers 354
Marketing Retail Property 358
Leasing Retail Property 362
Maintenance of Retail Property 374
Administrative Responsibilities and Financial Reports 376
Summary 379

CHAPTER 15 Industrial Property 387

Key Terms 387
Learning Objectives 387
Overview 388
The Industrial Real Estate Market 388
Marketing Industrial Space 395
Qualifying Industrial Tenants 396
Maintenance and Security of Industrial Property 409
Specialized Industrial Property: Ministorage Centers 410
Summary 411

CHAPTER 16 Risk and Environmental Issues 417

Key Terms 417
Learning Objectives 417
Overview 418
Risk Management and Insurance 419
Types of Insurance 422
Allocating Cost of Risk Management
Between Manager and Owner 430
Environmental Legislation 431
Common Hazardous Substances 435
Managing Hazard Control 443
Summary 445

CHAPTER 17 Life Safety Issues 449

Key Terms 449
Learning Objectives 449
Overview 450

Managing Life Safety and Security	450
Emergency Equipment and Technology	451
Role of Personnel in Life Safety	454
Property Management Procedures	458
Managing Criminal Activity Issues	468
Summary	471

Appendix A: Internet Resources	475
--------------------------------	-----

Answer Key	479
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Glossary	507
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Index	521
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PREFACE

First published in 1979, *Property Management* quickly became a standard as an introduction to the rapidly expanding property management field. By 1988, several states required that property managers obtain a special license, so the third edition was tailored to meet those requirements. Now, *Property Management* is the premier introduction both to the field and the license preparation manual.

The ninth edition continues to provide an overview of the profession and the essentials for those who wish to specialize. As in previous editions, each chapter concludes with “real-life” case studies, challenges that are designed to provoke class discussion and individual thought. Rationales for every answer to the end-of-chapter multiple-choice questions have been included.

■ Study aids that emphasize key anecdotal, policy, and/or procedural information in the text are identified by the icon on the left, featured at the beginning of the paragraph.

Property Management includes information on environmental concerns; expanded information concerning Internet and Web-based material; updated software information to assist users in managing their time and reporting; and increased focus on security issues.

As in each of the earlier editions, *Property Management*, ninth edition, provides a comprehensive introduction for those seeking to enter the field, those already in the management field, and real estate practitioners seeking to broaden their education beyond listing and selling.

■ ABOUT THE AUTHORS

Robert C. Kyle, MA, MBA, DBA, principal author, retired as president of Dearborn™ Financial Publishing, Inc., the parent company of Dearborn™ Real Estate Education, one of the nation’s largest publishers of real estate textbooks.

As founder of Real Estate Education Company (now Dearborn™ Real Estate Education), Mr. Kyle was instrumental in developing its full curriculum of real estate textbooks, starting with *Modern Real Estate Practice*, a book he coauthored and that has now sold millions of copies in 18 editions.

Mr. Kyle was a founder and past president of Real Estate Educators Association (REEA), a national professional organization of individuals from universities, colleges, proprietary schools, real estate firms, trade associations, and regulatory agencies concerned with education within the industry. He received the Award Emeritus from that organization. For many years, he also served on the board of directors of Grub & Ellis Company, the San Francisco based NYSE company, and was chairman of both the executive committee and compensation committee.

In the summer of 1998, Dearborn™ Publishing Group was sold to Kaplan Educational Centers of the Washington Post Company. Mr. Kyle remains chairman of CTS Financial Publishing, a Florida-based former subsidiary of Dearborn™ that was spun off to shareholders prior to the Kaplan sale. CTS is a subscription-based provider of financial information to traders with a heavy presence on the Internet.

Marie S. Spodek, DREI, consulting editor, was awarded the first Jack Wiedemer Distinguished Career in Real Estate award in 2001 by REEA. She served three terms on REEA's board of directors and became a Distinguished Real Estate Instructor (DREI) in 1988. As a senior instructor of REEA's Instructor Development Workshop (IDW), she wrote REEA's Course Development Workshop (CDW) in 1999. In 1996, Marie developed REEA's course for real estate instructors, "Taking the Risk out of Radon," for which she received a commendation from the U.S. Environmental Protection Agency (EPA). REEA named her course, *Caught on Camera: Antitrust in the 21st Century*, an Education Program of the year for 2004.

Ms. Spodek's involvement with property management began in 1987 when South Carolina instituted license requirements for property managers. While owner/director of the Professional School of Real Estate in Charleston, South Carolina, she developed a licensing class using Robert C. Kyle's first edition of this text and was a critical reviewer for subsequent editions. For the sixth edition, she revamped the material and expanded the text by including extensive information about federal laws that have an impact on the profession. She worked closely with the Greater Charleston Apartment Association (GCAA) and had the highest enrollment of property management students and one of the highest pass rates in the state.

Ms. Spodek's credentials include several books and supplements for Dearborn™ Real Estate Education. *Sustainable Housing and Building Green: What Agents Should Know*, second edition, is the fifth in her series of continuing education materials for the real estate industry. She is coauthor of *Environmental Issues In Your Real*

Estate Practice; Insurance for Consumer Protection; and Mortgage Fraud and Predatory Lending. Additionally, she is the consulting editor for *Property Management in Texas*, and contributing editor for *The Language of Real Estate*.

Floyd M. Baird, AB, JD, DREI, consulting editor, practiced law for several years before his property management career began in 1958. In that year he became executive vice president of a privately owned company owning multifamily, commercial, and industrial properties in several states. His activity in real estate education included serving as an adjunct instructor in property management at Tulsa Junior College and the Continuing Education Center of the University of Oklahoma. Dr. Baird was also a real estate broker and an instructor licensed by the Oklahoma Real Estate Commission, for which he authored continuing education monographs in property management and basic real estate subjects.

His involvement in real estate education was recognized by the National Real Estate Educators Association in 1983, when he was named a Distinguished Real Estate Instructor (DREI). As a lawyer admitted to the bar in three states as well as the U.S. Supreme Court, Dr. Baird brought both legal and practical knowledge to the property management profession.

■ ACKNOWLEDGMENTS

The following reviewers have provided invaluable contributions to this edition: Kari Robinson, CPM, COS42, COS8, CRM, CAM, and John Yoegel, PhD, DREI, C-CREC, EcoBroker, president of John Yoegel Seminars.

CHAPTER ONE



PROFESSIONAL PROPERTY MANAGEMENT

■ KEY TERMS

Asset management services	Institute of Real Estate Management (IREM)	National Association of Residential Property Managers (NARPM)
Building Owners and Managers Association (BOMA)	National Affordable Housing Management Association (NAHMA)	National Multi Housing Council (NMHC)
Code of Ethics	National Apartment Association (NAA)	Office property
Commercial property	National Associated Builders and Owners (NABO)	Residential property
Corporate property manager		Retail property
Industrial property		Special-purpose property

■ LEARNING OBJECTIVES

At the end of this chapter, the student will be able to

1. explain the importance of identifying the owner's objectives;
2. list four classifications of real property and give examples of each;

3. identify specialized opportunities in property management; and
4. describe educational programs to develop professional property management skills while encouraging ethical behavior.

■ OVERVIEW

A property manager's role is far more complex than simply showing space, signing leases, and collecting rents. In reality, the property manager attempts to generate the greatest possible net income for the owners of an investment property over the economic life of that property. As long as the goals of the owner are reasonable, ethical, and lawful, essentially the property manager seeks to:

1. achieve the objectives of the property owners;
2. generate income for the owners; and
3. preserve and/or increase the value of the investment property.

Current Challenges

Property management, as an area of specialization within the real estate industry, has emerged as a managerial science. Today, property managers must possess the communication skills and technical expertise required for dynamic decision making.

Versatility Increasingly, a property manager may be called on to act as a market analyst, advertising executive, salesperson, accountant, diplomat, or even maintenance engineer. Moreover, the manager is expected to interact competently with many professionals in related fields: attorneys, accountants, environmental inspection companies, and so forth. The manager must acquire and refine a wide range of interpersonal skills to work effectively with owners, prospects, tenants, employees, outside contractors, and others in the real estate business.

Specialization Specialists are needed to manage various types of properties. Commercial properties can include multistory office buildings, regional shopping malls, strip shopping centers, ministorage centers, and large warehouses. Residential properties vary from large multifamily apartment communities to scattered single-family dwellings. Commercial property to be managed may also include condominiums/cooperatives and town houses. Other opportunities for specialization include the management of subsidized or affordable housing, manufactured home parks, elderly housing, and military housing. The most recent specialty is managing REOs, bank-owned real estate as a result of so many housing foreclosures.

License Requirements

Property managers are entrusted with the owner's funds and they interact with tenants. In order to protect these consumers, most states now require that property managers hold some form of real estate license. Depending on the state, they may need a real estate license or a property manager license or they must work in close

contact with those who are licensed. Those who manage their own properties are not subject to real estate license requirements.

Nonstandardized Titles

■ In the property management profession, each organization uses its own system for defining job categories, with responsibilities varying according to the type and extent of properties managed. A property manager with the title Vice President–Director of Real Estate, for example, may perform the duties of a facility manager or an asset manager. One property manager may manage a number of buildings with several tiers of staff to supervise, while another property manager may take care of only a few single-family dwellings.

■ DEVELOPMENT OF THE PROPERTY MANAGEMENT PROFESSION

The demand for effective, professional property management began in the 1800s with several advancements that contributed to a radical transformation in the nature of urban real estate: steel frame buildings, the electric elevator, development of suburban areas, and increasing investment opportunities.

Steel Frame Buildings and the Electric Elevator

The structural advantages of the steel frame building, coupled with the perfection of the electric elevator in 1889, made it possible to build tall buildings on relatively small parcels of scarce urban land. This led to taller office buildings and construction of all types of multifamily apartment buildings, especially in the 1920s.

Development of Suburban Areas

The expansion of public transportation and the increase in automobile ownership following World War II enabled young couples to purchase their own homes in the suburbs. As the population shifted, suburban shopping centers were built outside the city, thereby decentralizing the traditional downtown concentration of commerce. As a result, office buildings and light industry were built away from the city core. Note, however, that these trends are being modified in some areas by the revitalization of central cities.

■ In recent years, the realignment and centralization of ownership of investment properties by large institutions and groups of investors have continued to increase the demand for professional property management.

■ CLASSIFICATION OF REAL PROPERTY

The definition of *real property* begins with the surface of a parcel of land and moves on to the owner's rights to the air above the surface and the soil and minerals beneath the surface, as well as anything permanently attached to this land, either by nature or by human hands. Man-made, permanent attachments are called *improvements*.

For example, because minerals and agricultural crops are considered to be part of real estate, the management of mines and farms could be considered real property management. In these cases, though, the process of mining or farming is more significant than the management of the land itself. Likewise, large enterprises with extensive holdings of real estate, such as hotel and motel chains, groceries, and other specialized retailers, will have a property management department staffed with experienced property managers. Activities of this nature represent specialized business enterprises and will not be covered in this text.

Most professional property management involves structures built on real property that are not intrinsic to the operation of a business or industry. For the purposes of studying specialized property management, real estate can be divided into four major classifications:

1. Residential
2. Commercial
3. Industrial
4. Special-purpose

Each type of property requires a different combination of knowledge and skills on the part of the manager.

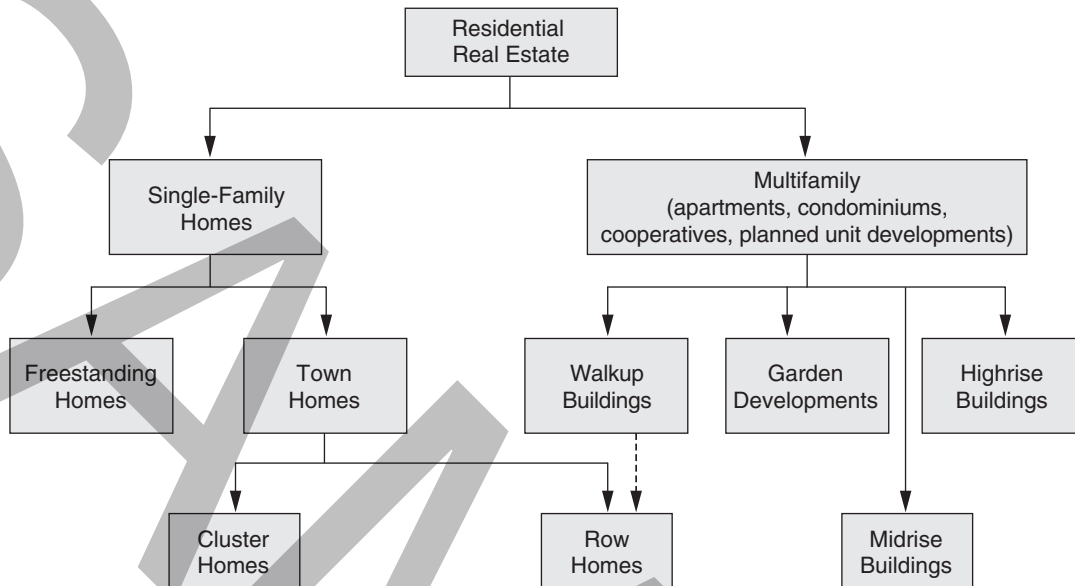
Residential Property

Residential real estate, including privately owned residences as well as government and institutional housing, satisfies the basic shelter needs of the population. **Residential property** is the largest source of demand for the services of professional property managers.

Single-family homes Freestanding, single-family homes are still the most popular form of residential property in the United States. According to the U.S. Census Bureau, the vast majority of U.S. housing is made up of single-family owner-occupied homes that do not require professional management. Nevertheless, more than 10% of single-family homes are used as rental properties. While these often are managed directly by the owner, there is a growing trend toward hiring professional management for these properties.

Manufactured home parks Manufactured homes are built in factories according to Department of Housing and Urban Development (HUD) specifications. Although permanently attached to a chassis that, in theory, permits them to be moved, fewer than 5% of manufactured homes are moved a second time. About $\frac{1}{3}$ of the homes are sited in rental communities, and their value comes from the desirability of the community. Many localities designate certain areas for these homes. The landowner rents space to the owner of the manufactured home or rents such a home to a tenant. Many retirees in the Sun Belt states choose to live in manufactured home parks (see Chapter 12). Many of these communities

FIGURE 1.1
Residential Real Estate Categories



have been designated “senior” living (near elderly is older than 55, elderly older than 62); that, coupled with the low acquisition cost and low maintenance, has contributed to their popularity.

Multifamily residences Rising construction costs and a decrease in the availability of usable land have increased the popularity of multifamily developments such as town homes (or row houses), condominiums, and cooperatives, many of which are individually owned. The economy of design and land usage inherent in multifamily housing allows for a lower per family cost of construction, although these costs also have increased, in part because of legal requirements for handicapped accessibility. Structurally, multifamily residences have many classifications—among them are garden developments, walkup buildings, and high-rise buildings. Each type is unique in its location, design, construction, services, and amenities. Figure 1.1 illustrates the interrelationships of several types of residential structures.

Multifamily residences can be held under various forms of ownership. Small properties of two to six units often are owner-occupied and owner-managed, whereas most large apartment complexes are professionally managed for their investor-owners. Cooperative and condominium apartments are largely owner-occupied buildings governed by boards of directors elected by the owners. These boards usually hire professional managers for their properties.

Facilities for the Aging Increasingly, people are living long beyond what was once considered retirement age, forcing a rethinking of housing needs for

those who are retired and semiretired. There has been a tremendous increase in the number of retirement communities, homes for the aged, convalescent care facilities, and independent living facilities. Housing for the elderly is often exempt from certain laws, such as the lead-based paint notification and the fair housing law protecting families with children against discrimination based on familial status. On the other hand, construction costs are often higher in order to comply with handicapped accessibility. Whether for-profit or not-for-profit, most of these communities require specialized, professional management.

Commercial Real Estate

Commercial real estate includes various types of income-producing properties, such as office buildings, shopping centers, stores, gas stations, and parking lots. A **commercial property** is generally considered to be a “public accommodation”—a private entity that provides goods, services, facilities, or accommodations to the public. Thus, even though commercial premises are privately owned, the public has certain rights to use them. The two principal categories of commercial real estate include office property, where the occupants provide services, and retail properties, from which goods are sold.

The general categories of commercial real estate are illustrated in Figure 1.2.

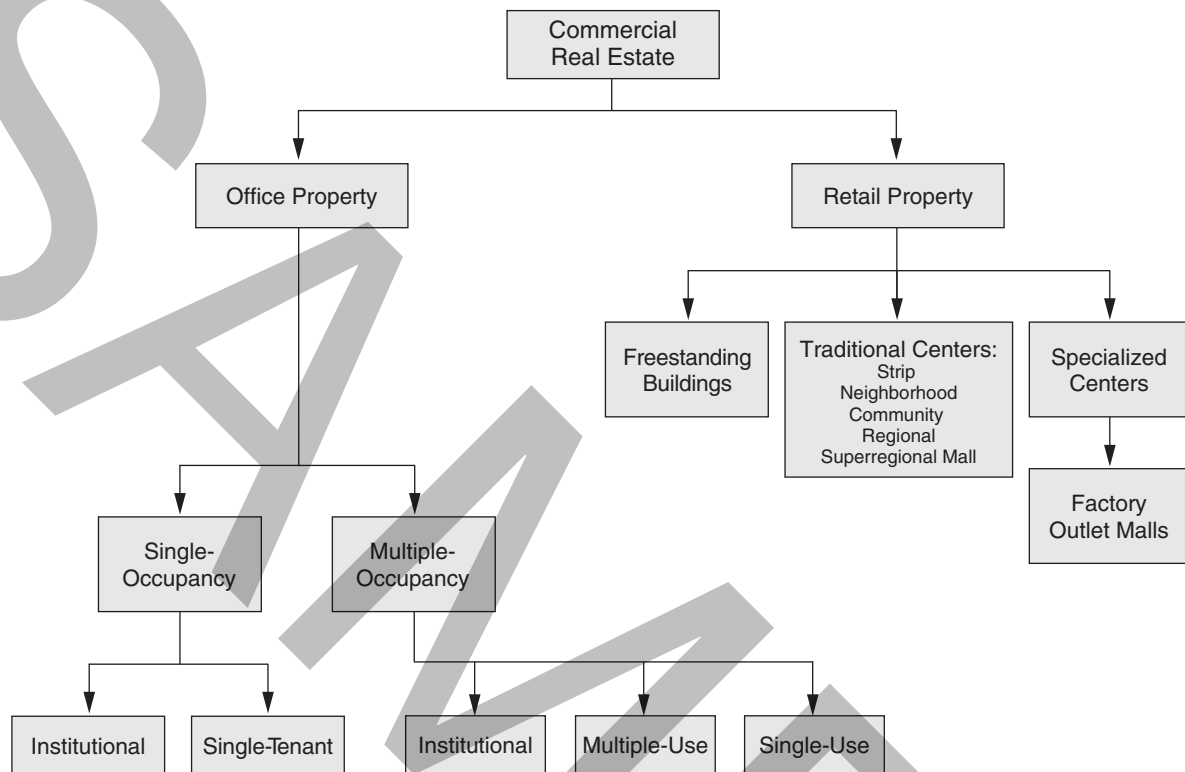
Management of these properties is discussed in Chapters 13 and 14.

Office property Office property can consist of low-rise (walkup) offices; high-rise complexes; or office parks (also called business parks). Whether an office property is situated in a downtown commercial district or in a suburban development, its location determines its success relative to the prospective workforce, transportation facilities, and other business services.

The occupants of office property may be several tenants or a single occupant who may or may not be the owner. Real estate owned and occupied by a major corporation is often referred to as *institutional property* and may be supervised by the corporation’s own property or facilities management department. Some multiple-tenant office properties accept any financially qualified business or organization, and others cater to one type of business. Medical complexes, dental complexes, and trade centers are examples of multiple-occupancy, single-use properties. Trade centers cater to one type of merchandise, and usually only wholesalers are allowed to enter and buy.

Retail property Retail property includes freestanding buildings; traditional shopping centers designated by size (strip centers, neighborhood centers, community centers, regional shopping centers, and superregional malls); and specialized centers, such as off-price stores, factory outlets, and specialty centers. The freestanding, single-tenant building is often owner-occupied and owner-managed. Strip centers usually consist of 4 to 10 stores located on a corner of a main thoroughfare and are designed primarily for convenience shopping. Neighborhood

FIGURE 1.2
Commercial Real Estate Categories

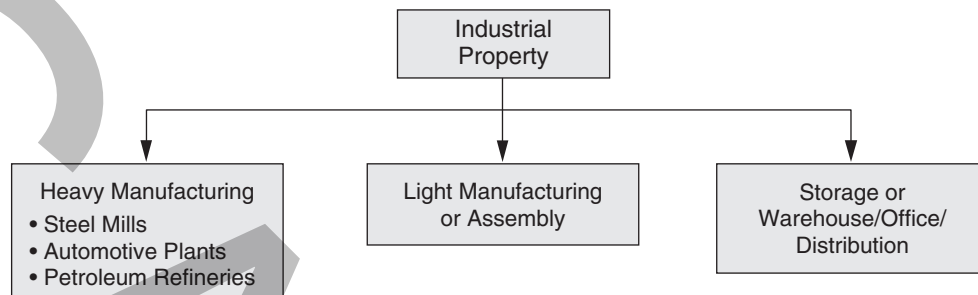


centers are the next largest, containing 15 to 20 retail outlets. Community centers may consist of 20 to 70 stores and serve an even larger area.

As regional shopping centers, superregional malls, and factory outlets that offer brand names at discounted prices have located in suburban areas, the centralized urban commercial district has all but disappeared. Professional management is a necessity due to the size of these shopping centers and their diverse tenant mix. The success or failure of a shopping center often hinges on the property manager's ability to assess the market, to conduct sales promotion and public relations, and to act swiftly and decisively.

Research parks Research parks are often located in the same locale as universities with active graduate schools. They offer combinations of office and industrial space or buildings to tenants specializing in certain fields, such as electronics or engineering. These parks may also include spaces for beginning companies, called *incubator spaces*, designed to be adapted to the changing needs of a growing company.

FIGURE 1.3
Industrial Real Estate Categories



Industrial Property

The industrial process converts raw materials into finished products, comprising all activities involved in the production, storage, and distribution of goods. **Industrial property** includes all land and facilities used for heavy and light manufacturing, for storage, and for the distribution of goods. The diagram in Figure 1.3 shows the various types of industrial property.

Heavy manufacturing Very large industrial plants, such as steel mills, automotive plants, and petroleum refineries, and smaller facilities must be accessible to transportation facilities, an adequate source of raw materials, and a skilled labor supply. Because property for heavy industry must be designed with the specific needs of potential users in mind, such plants are generally occupied and managed by the owner.

Light manufacturing Assembly or warehousing, on the other hand, can usually be performed in smaller buildings requiring fewer unique specifications. As a result, light industrial buildings can often be utilized by more than one type of enterprise—a fact that has stimulated some real estate speculators to build this type of facility for future lease to industrial concerns.

Industrial parks As the number of urban manufacturing facilities decreased, people moved from the city, and well-designed roadways were built to facilitate the flow of workers, materials, and finished goods. Industrial parks, designed for light industry and located in suburban areas with greater land availability, often provide the advantages of one-story plant and warehouse design, ample parking, and extensive landscaping. These spaces are called business parks when they include a high ratio of office space.

Loft buildings Multistory, low-rent buildings, once used for manufacturing, are reminders of the former concentration of industrial activity in the central urban areas of older cities. They are now being converted into various combinations of manufacturing, office, residential, and storage space. The thousands of

square feet in loft buildings that remain to be converted and leased offer unique possibilities for the creative and ambitious property manager.

Distribution facilities Distribution facilities or warehouses are built in suburban industrial parks to relieve the traffic congestion of the central city. Although most larger warehouses usually are owner-occupied, many are being built by investors for lease to industrial users with different space requirements. By the very nature of their use, warehouses require minimal management. Depending on the terms of the lease, management responsibilities are often shared by landlord and tenant. Many older warehouses in some central city areas have been converted into shopping malls, condominium apartments, and office space.

Ministorage facilities Rising construction costs and scarce land have contributed to another modern development, ministorage facilities, storage areas not specifically designed to meet the needs of industry. The primary purpose is to provide extra storage space for homeowners and apartment dwellers. However, businesses may also rent space in ministorage facilities to store files, extra supplies, and surplus equipment. As a result, many ministorage facilities are now also located in commercial areas as well as near apartment projects. To provide security, on-site resident managers for ministorage are common.

Enterprise zones Usually, enterprise zones are created through state statutes, and consist predominantly of warehousing, light manufacturing, or assembly zones. Local governments may grant certain tax concessions to business enterprises in return for the creation of new jobs. Some port cities have created free trade zones, where imported goods may be stored in selected warehouses until sometime in the future when import duties are paid.

Special-Purpose Property

Hotels, motels, clubs, resorts, nursing homes, theaters, schools, colleges, government institutions, and places of worship are considered **special-purpose property**. Their common denominator is the fact that the activity in these buildings is a special business or organizational undertaking that dictates the design and operation of the buildings themselves. Thus, management of these properties is usually provided internally by members of the particular business or organization. These individuals must be skilled in the techniques of professional property management and knowledgeable in their specific fields of endeavor.

Some single-occupant property is often termed *institutional*, particularly if the purpose served is religious or charitable. The designation is also coming into common usage to categorize property owned by pension trusts and life insurance companies. This is a result of referring to financing from such sources as “institutional.”

Retirement communities that combine independent living facilities with assisted living and nursing-home care are a fast-growing segment of special-purpose property. As the population ages and health care advances keep people alive longer, there is a growing need for housing for this segment of the population.

■ SPECIALIZED OPPORTUNITIES IN PROPERTY MANAGEMENT

Concierge Services

Aside from choosing among the various types of property that can be managed, property managers can also choose to offer one or more of the many specialized facets of property management.

A fixture in French hotels for decades, the *conciierge* is traditionally defined as a doorkeeper or lobby attendant. Originally, a concierge ordered tickets for the theater, sporting events, and other attractions; made dinner reservations; and arranged for messengers or deliveries and limousines or taxis, among other services.

Routinely placed in office buildings, condominium developments, shopping centers, and apartment complexes, enterprising concierges now offer a greatly expanded list of available services.

For example, concierges now offer fax, courier, and secretarial aid; cater in-office lunches and arrange conferences; and provide rental service for little-used office equipment, such as audio or visual aids. Personal services—dry cleaning, laundry, shopping, automobile care, gift shopping and wrapping, or repair of small appliances—may also be offered.

Companies now specialize in training and staffing concierges in office buildings and other settings; but a property manager, with proper research into concierge services, can supply this service as a profit center. If a building will not support a full-time concierge, property managers often hire one concierge to split time between several buildings.

Asset Management Services

Asset management in a real estate management context generally refers to financial management of a sizable number of investment properties. Real property asset managers deal with numerous large properties, monitor financial performance, study local markets, and compare individual properties against a norm as well as with other like properties in the portfolio.

A real estate asset manager supervises and is responsible for a portfolio of properties rather than managing directly an individual property or the properties in a particular area. Generally, while the manager may not make a final buy-and-sell decision, he or she is critical to the overall real estate investment process at the ownership level. In providing **asset management services** the asset manager may be called upon to recommend or decide any or all of the following:

- Whether to invest in real estate and in what localities
- In what type of real estate to invest, such as commercial or residential
- Which particular property to purchase
- Appropriate financing methods and sources
- When and if a particular property is sold or otherwise disposed of

A major difference between an asset manager and a traditional property manager is that ownership delegates to the asset manager the responsibility of monitoring the portfolio of properties in the same manner as a securities portfolio. Rent (dividends) must be collected; the performance of properties (individual issues) must be reviewed regularly; and types of properties (industries) must be analyzed. In addition, the asset manager must be knowledgeable about all markets where portfolio property is located. Like the financial asset manager, the real property asset manager usually has a strong voice in retention or disposition of property.

Corporate Property Managers

Some non-real estate corporations spend millions of dollars investing in and managing real estate assets. Their **corporate property managers** create facilities and manage properties for corporations that invest in real estate. Because real estate is not their main occupation, these corporations need property managers to develop and manage their real estate investments. These property managers are usually employees of the corporation, not independent contractors or consultants.

Current economic conditions have created the dual phenomena of *downsizing* and *outsourcing*. Corporations are reducing staff to save costs, hiring outside service providers (called *outsourcing*) to take up the slack. By outsourcing, a corporate real estate department can continue to provide essential services and remain responsive to the corporation's real estate needs. For example, if a corporation decides to sell a large property or properties, it can simply cancel its outsourced services rather than restructure or reduce its real estate department. Outsourcing also allows a corporation to save money in hiring and training costs.

Downsizing and outsourcing mean reduced opportunities for corporate managers. However, they also mean increased opportunities for property management companies in a position to offer corporations the real estate services they need.

Technology Expert

Property managers must be on the cutting edge of constantly changing technology in order to adapt to cater to the needs of clients who require sophisticated space. Increasingly, developers are adding fiberoptics, Internet access, and other telecommunications options to residential buildings as well as office space. In fact, some buildings are installing rooftop antennas so that the occupants can tap into wireless technology.

Leasing Agents

Larger property management companies often use specialty leasing consultants. Leasing agents move from property to property, on a month-to-month basis, leasing new or repositioned properties, and are generally paid by commission. One thing is sure: in a very competitive market, those who can lease are in high demand.

■ ROLES OF THE PROPERTY MANAGER

Most professional property managers work in one of two capacities: as employees of an owner of extensive properties or as independent managers for several owners. The latter are often referred to as third-party managers.

Manager as Economist

A professional property manager must have a comprehensive understanding of the economic forces at work in the real estate market in order to evaluate the property in terms of operating income, forecast its potential for the future, and construct a management plan that reflects the owner's objectives. The plan must be flexible enough to adapt to future changes in the market. These topics are treated in detail in Chapters 2 through 10.

Manager as Involved Community Member

In addition to the tasks involved in property management per se, professional managers should take an interest in professional, social, and political organizations in their municipality. Their long-range goals will be more easily realized if property managers take on civic responsibilities and help implement plans for the growth and improvement of their communities.

Manager as Facilitator of Owner's Interests

■ As an agent for the owner, the property manager must work within the owner's guidelines, goals, and objectives. For that reason, it is imperative that the manager identifies what the owner wants to achieve. Most often, the owner wants to realize the most amount of income while preserving the value of the property.

Occasionally, a shortsighted owner will direct a property manager to operate a property to extract every possible dollar from the property without putting any money back into the property. Even if not actually expressed or even tacitly admitted, it occurs when an owner demands frequent payments of accumulated cash; refuses to make any repairs except those absolutely necessary to keep the property operating; and pays bills, and even taxes, at the last possible minute. This is called *milking* a property and those owners are referred to as *slumlords*.

A property manager in this position should meet with the owner and tactfully, but clearly, point out the ultimate loss that can occur as a result of following such a course of action. If the property owner, for financial or other reasons, continues to direct that the property be managed in this manner, the property manager should document the owner's direction with a confirming letter. The property manager should consider whether to continue managing the property under policies that may be illegal and would appear to doom the project to financial failure.

Property managers should also pay careful attention to owner attitudes regarding civil rights laws and other applicable laws and regulations affecting the property.

If the property manager will suffer increased exposure to liability based on an owner's refusal to comply with such laws, the prudent course of action is to terminate the management agreement.

■ GROWTH OF PROFESSIONALISM IN PROPERTY MANAGEMENT

The Depression of the 1930s had a profound influence on the evolving property management profession. The numerous business failures and real estate foreclosures of this era placed much of the nation's real estate in the hands of mortgage-lending institutions, such as trust companies, insurance companies, associations, credit unions, and banks. These new owners soon learned that a landlord must do more than select tenants and collect rents; and as the need for more sophisticated management techniques became apparent, the property management profession gained stature.

Today, more than ever, the diverse types of properties now under professional management and the increasing variety of ownership entities employed by investors make the need for professional property management skills even more critical. Continued professional training is, therefore, a must if a property manager is to grow and succeed in this profession. A number of organizations have been formed to develop professional standards and offer educational programs.

Career Opportunities

Just as there are various types of real property, there are different classifications of property managers. A professional property manager may be an individual entrepreneur, a member of a real estate firm specializing in property management, or a member of the property management department of a large multiservice real estate company. The manager also may work within the trust department of a financial institution or within the real estate department of a large corporation or public institution.

Property managers pursue similar objectives regardless of their employment background. As the person in charge of maximizing the net income from a property, the property manager may be responsible for planning thorough budgeting and market analyses as well as advertising and space merchandising, screening tenants, negotiating leases, collecting rents, maintaining the interior and exterior of the premises, supervising security, obtaining insurance, paying taxes on the property, keeping accurate records, and making periodic reports to the property owner.

Management duties vary according to the specific situation and particular property; the successful manager therefore must be competent in all of these areas. The major functions of the property manager are discussed in Chapters 2 through 10.

Professional Organizations

Early in the 20th century, George A. Holt, owner and manager of a 16-story Chicago skyscraper, invited his colleagues to a dinner meeting, which led to the formation of the Chicago Building Managers Organization. In 1908, 75 people attended a national organizational meeting. By 1921, a number of groups had formed in the nation's larger cities and organizational changes were required: the **Building Owners and Managers Association (BOMA)** became a national federation of local and regional groups.

BOMA International Most early BOMA members were office building managers, with some participation from apartment and loft building managers. Later, as chapters were organized in Canada, England, South Africa, Japan, and Australia, the name was changed to the Building Owners and Managers Association International. An independent organization, the Building Owners and Managers Institute (BOMI) was established in 1970 to provide educational programs for property owners and managers of commercial properties. Individuals with several years of experience in the field who have successfully completed the program's courses receive the professional designation of Real Property Administrator (RPA).

For training building maintenance personnel and facility managers, BOMI has developed courses of study for Systems Maintenance Administrators (SMA) and Facilities Management Administrators (FMA).

International Council of Shopping Centers (ICSC) To promote professionalism in the specialized field of retail property management, the International Council of Shopping Centers (ICSC) has developed a series of courses leading to certification in development (CDP), leasing (CLS), management (CSM), marketing (CMD), and executive leadership (CRX). The certification courses are offered in English, Spanish, and Chinese.

Institute of Real Estate Management (IREM) In 1933, a group of property management firms created the **Institute of Real Estate Management (IREM)** as an affiliate group of the National Association of REALTORS® (NAR). IREM offers not only opportunities for property managers to meet to share ideas but also offers programs to instruct those coming into the business. IREM offers the designation of Certified Property Manager (CPM)® to those who meet educational, experience, and examination requirements. The institute also grants qualified management firms the designation of Accredited Management Organization (AMO)®. Those who specialize in the management of residential properties can pursue the designation Accredited Residential Manager (ARM)®.

National Apartment Association (NAA) Residential rental property was also affected by the 1930s depression. Apartment owners and managers in most of the larger cities formed their own associations during the 1930s. The **National Apartment Association (NAA)**, created in 1939, sponsors courses for Certified

Apartment Managers (CAM), Certified Apartment Maintenance Technicians (CAMT), and Certified Apartment Property Supervisors (CAPS).

National Associated Builders and Owners (NABO) The **National Associated Builders and Owners (NABO)** was separated from the National Association of Home Builders in order to focus exclusively on issues of multifamily management. It assumed management of several certifications. The Registered Apartment Manager (RAM) program is the oldest residential property management certification program in the United States and is HUD-approved as providing quality training to managers of multifamily rental, condominium, cooperative, subsidized, and market-rate housing. Other designations include Certified Leasing Professional (CLP) and Advanced Registered Apartment Manager (ARAM).

National Affordable Housing Management Association (NAHMA) The **National Affordable Housing Management Association (NAHMA)** advocates on behalf of multifamily property managers and owners who are involved in affordable housing. NAHMA works with Department of Housing and Urban Development, Congress, the Department of Agriculture's Rural Development office, the Internal Revenue Service, state housing finance agencies, and housing credit monitoring agencies. Its members can participate in several certification programs including Specialist in Housing Credit Management (SHCM), national Affordable Housing Professional (NAHP), Certified Professional of Occupancy (CPO), Fair Housing/Section 504 Compliance (FHC), and others.

National Association of Residential Property Managers (NARPM) The **National Association of Residential Property Managers (NARPM)** is a permanent trade organization for property managers who specialize in managing single-family dwellings (about 10% of the nation's single-family homes are not owner-occupied). Members must have a real estate license and primarily manage single-family dwellings. They agree to abide by the professional and ethical standards of NARPM's Code of Ethics and bylaws. Several designations are offered—for individuals, Professional Property Manager (PPM) and Master Property Manager (MPM), and for companies that qualify, Certified Residential Management Company (CRMC).

National Multi Housing Council (NMHC) The members of the **National Multi Housing Council (NMHC)** are those who are involved in the apartment industry, including ownership, development, management, and financing of larger apartment buildings. It works with the National Apartment Association (NAA) to advocate on legislative and regulatory affairs relating to rental properties of five or more units.

Ethics While property managers must obey many laws regarding their fiduciary obligations to their clients and customers, ethical standards often go beyond the letter of the law and reflect social and cultural concerns. Ethics is a system of moral principles, or rules of conduct that refer to fidelity, integrity,

and competency. Ethical behavior is often considered the equivalent of fairness, and professional ethics are a kind of business version of the Golden Rule. As agents for the owner, property managers should maintain unimpeachable ethical standards.

Honesty and integrity are as important to a property manager as skill, knowledge, and experience. Property managers must treat their clients, customers, and employees in an ethical manner, and they must also ensure that their employees behave in an ethical manner. Most property managers codify some sort of rules of ethical behavior in their written office policies. For example, some unethical practices that should be mentioned in the policy manual are prohibiting an employee from working on the manager's own property or from accepting gifts from suppliers.

Most of the professional trade associations previously mentioned embrace **Codes of Ethics** to which its members subscribe. The Institute of Real Estate Management has formulated its own Code of Ethics, based on the NAR Code of Ethics outlining standards of business conduct for all CPMs. One of the requirements for becoming a CPM is the successful completion of an ethics course.

Under the terms of most of the codes, the manager-agent pledges to act in the best interest of his or her principal and to handle all transactions involving the property with honesty and discretion. In essence, the property manager promises to uphold and promote the integrity of that occupation and the standards of the entire property management profession. Many of the standards of conduct required of the agent under specific articles of the code have been incorporated in the terms of most management contracts.

■ SUMMARY

The primary function of a property manager is to generate income while achieving the owner's objectives, always preserving the value of the property. Since the early 1900s, trends in urban and suburban development have sparked the increased demand for trained and skilled property managers.

For the purposes of professional property management, real estate can be divided into four major classifications: residential, commercial, industrial, and special-purpose property—each summoning a different combination of knowledge and skills from the manager.

Residential real estate is the single largest area of involvement for property managers. Single-family rental homes are often owner-managed, but professionals usually manage most apartment buildings and condominium and cooperative communities.

Commercial real estate consists of office buildings and retail properties. While some companies own, occupy, and manage their own buildings, most multiple-tenant office buildings are professionally managed. Retail properties include freestanding stores and restaurants, commercial strip centers, and shopping malls of various sizes.

Industrial property includes heavy and light manufacturing plants and warehouses for storage and distribution of the products. Most industrial property requires minimal outside management or the responsibility is shared jointly by the owner and the tenant.

Modern developments requiring specialized management include incubator spaces, ministorage facilities, research parks, free trade zones, concierge services, and asset management services.

The professional property manager must be able to assess the present and future value of a property based on net operating income, construct a management plan that will meet the owner's objectives, and remain flexible enough to respond to market fluctuations and other contingencies. Additionally, the professional property manager must be knowledgeable in advertising and marketing space, tenant psychology, the legal aspects of the landlord-tenant relationship, maintenance procedures, insurance, accounting, and financial reporting.

A professional manager may work either as an employee of an owner with many properties or an independent manager who works for several owners. The manager should make every effort to understand the owner's intentions and objectives, and if these objectives are shortsighted or illegal, the property manager should disengage from the agreement.

The educational arm of the Building Owners and Managers Association International encourages the ongoing professional development of property managers by offering education courses leading to four different designations. The Institute of Real Estate Management (IREM), an affiliate of the National Association of REALTORS® (NAR), provides education leading to a designation, certification, and/or accreditation. Other trade associations offer certifications and designations relevant to their specialties.

■ CASE STUDY

THE PROFESSIONAL PROPERTY MANAGER

Upon graduating from the University of Southern California, Jeff Lance went to work for a large commercial property management company as an assistant property manager, training in the management of office buildings. In his early training days, he was closely supervised by an experienced manager who assigned to him full responsibility for a small office building, in addition to assisting on other properties.

After a few months, Jeff found that he not only liked office building management, but he had demonstrated to himself and others a real talent for handling the many varied duties and responsibilities of a property manager. For example, he had observed that many areas of knowledge were involved in managing commercial property—housekeeping, lease preparation, building systems maintenance, roof repair, and exterior grounds upkeep.

Through contacts developed in professional organizations, Jeff was hired to manage a single-occupant landmark office building in San Francisco. After some years there—missing the variety of duties of managing multiple properties—he accepted a position as the chief asset manager for a large commercial investor that owned extensive rental properties throughout the western United States. Jeff now oversees the operations of dozens of property managers and a staff of several hundred.

1. Jeff, like most property managers, discovered that he preferred a specific type of property management. What are the advantages or disadvantages of working as an employee manager as opposed to working as a third-party manager?
2. List reasons why property owners would choose to hire a property manager rather than manage the property themselves.
3. Why should a property manager be concerned about ethics?

■ REVIEW QUESTIONS

1. The demand for professional property management that occurred in the late 1800s resulted primarily from
 - a. reshaping the urban center by building tall buildings with elevators.
 - b. increasing concentration of retail activity in downtown urban areas.
 - c. increasing availability of land for development.
 - d. declining opportunities for investments in real property.
2. The traditional concentration of retail property in downtown areas became decentralized as a result of
 - a. development of light industry in the suburbs.
 - b. development of multifamily apartment buildings.
 - c. evolution of the suburban shopping center.
 - d. expansion of public transportation.
3. The growth of shopping centers has been stimulated by
 - a. population shifts to the suburbs.
 - b. declining construction costs.
 - c. urban renewal programs.
 - d. the International Council of Shopping Centers.
4. All of the following should be goals of the professional property manager *EXCEPT*
 - a. maintain 100% occupancy.
 - b. generate income to the owner.
 - c. increase value of the property.
 - d. accomplish the objectives of the owner.
5. Which of the following professional organizations has the longest history?
 - a. Building Owners and Managers Association International (BOMA)
 - b. National Apartment Association (NAA)
 - c. Institute of Real Estate Management (IREM)
 - d. International Council of Shopping Centers (ICSC)
6. Incubator spaces are most likely to be found in
 - a. loft buildings.
 - b. research parks.
 - c. ministorage areas.
 - d. special-purpose properties.
7. Examples of special-purpose properties include
 - a. manufactured home parks.
 - b. loft buildings.
 - c. enterprise zones.
 - d. nursing homes.
8. Which of the following types of real estate properties utilizes more professional property managers?
 - a. Industrial
 - b. Commercial
 - c. Special-purpose
 - d. Residential
9. The professional property manager formulates plans to
 - a. generate the most amount of money.
 - b. maintain 100% building occupancy.
 - c. enhance the prestige of the property.
 - d. achieve the objectives of the owner.
10. The construction of multifamily unit ownership housing has been stimulated by
 - a. the varieties of ownership means by which they may be held.
 - b. government-assisted financing programs.
 - c. rising land and construction costs.
 - d. the invention of the steel frame building.
11. Income-producing properties that offer services are known as
 - a. government and charitable institutions.
 - b. retail strip centers and regional shopping malls.
 - c. retail space and regional malls.
 - d. office property and business parks.

12. The ability of a property manager to assess a market and implement sales promotion is MOST critical when dealing with
 - a. retail property.
 - b. industrial property.
 - c. office property.
 - d. special-purpose property.
13. Ministorage, unlike many other types of industrial property, is
 - a. not designed to meet the needs of any particular industry.
 - b. located in downtown commercial areas.
 - c. always designed for business clients.
 - d. not managed by professional property managers.
14. Areas that are predominately warehousing, light manufacturing, or assembly zones and that are created under state statutes are called
 - a. research parks.
 - b. enterprise zones.
 - c. special-purpose properties.
 - d. business parks.
15. Which of the following would be classified as special-purpose property?
 - a. Anything managed by a property management company
 - b. Hotels, motels, theaters, schools, and places of worship
 - c. Residential condominiums and cooperatives
 - d. Buildings occupied by members of the medical profession
16. Which of the following offers a combination of home ownership and site rental?
 - a. Manufactured home parks
 - b. Housing for the elderly
 - c. Loft buildings
 - d. Condominiums
17. Messenger services, taxi services, fax services, and shopping are all services commonly offered by
 - a. asset managers.
 - b. third-party managers.
 - c. concierges.
 - d. managers of low-income housing.
18. Asset managers often have the task of
 - a. repairing properties.
 - b. selecting tenants.
 - c. acquiring taxi services for tenants.
 - d. monitoring the financial performance of a portfolio of properties.
19. If a property owner asks a property manager to manage the property in violation of current civil rights laws, the property manager should
 - a. comply with the owner's wishes under protest.
 - b. terminate the management agreement.
 - c. comply immediately without complaint.
 - d. comply but inform the building's tenants about what the owner is requesting.
20. Ethical conduct refers to
 - a. legally required conduct.
 - b. socially or culturally imposed rules of conduct that go beyond the letter of the law.
 - c. opportunities to obey civil rights legislation.
 - d. the property manager's obligation to supervise his or her employees.

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