

## 1 ☐ Real Estate Principles of Georgia

### **Lesson 11: Property Management**

#### 2 ☐ Property Management

**Property management:** Non-owner supervises operation of income property in exchange for fee.

- Many brokerages engage in some property management, so real estate agents should be familiar with the basics in this area.

#### 3 ☐ Property Management

- Georgia law allows a property owner to hire an unlicensed individual to manage a specific property.

- A person who offers property management services to public must be licensed either as a real estate agent or as a community association manager.

#### 4 ☐ Licensing and Organizations

**Property managers often obtain certifications from professional organizations:**

- **Certified Property Manager (CPM),**
- **Accredited Residential Manager (ARM), etc.**

#### 5 ☐ Investing in Real Estate

Real property represents an investment by its owner.

Property manager is employed to help a property owner attain her investment goals.

#### 6 ☐ Investing in Real Estate

Investment is expected to generate return (profit).

Return may take form of:

- interest,
- dividends, or
- appreciation in value.

Investment may appreciate because of:

- inflation, or
- growing demand for that asset.

## 7 ☐ **Characteristics of Investments**

Investments have three characteristics:

- liquidity (ability to convert asset to cash quickly),
- safety (probability investor will lose asset), and
- yield (total return on investment).

## 8 ☐ **Characteristics of Investments**

**Liquid assets are generally safest but do not offer high returns.**

**Savings accounts and certificates of deposits are liquid and safe, but offer low yields.**

**Real estate can generate higher returns but at greater risk and not much liquidity.**

## 9 ☐ **Advantages of Real Estate**

Advantages of investing in real estate include:

- appreciation,
- leverage, and
- cash flow.

## 10 ☐ **Appreciation**

**Appreciation:** Increase in value of property due to outside factors.

Real estate values tend to increase at a rate equal to or faster than rate of inflation.

- Real estate thus considered a good hedge against inflation.

Appreciation increases owner's equity.

## 11 ☐ **Leverage**

**Leverage:** Using borrowed money to invest in an asset.

Appreciation allows an investor to earn a return on the borrowed money as well as on her own invested funds.

## 12 ☐ **Cash Flow**

Investment property should generate a positive cash flow. **Cash flow** is money left after expenses paid.

**Cash on cash:** Cash received in a year divided by amount of initial investment.

**Sale-leaseback:** Commercial property owner sells building to investor for large cash sum and leases it back. Generates cash flow.

- Often includes a buy-back agreement.

## 13 ☐ **Disadvantages of Real Estate**

Real estate investment requires expert advice, time, and effort.

- Property requires management.
- Real estate is not liquid.
- Income may not be enough to cover operating expenses.

#### 14 ☐ **Types of Managed Properties**

**Principal types of income-producing properties:**

- residential properties,
- office buildings,
- retail property, and
- industrial property.

#### 15 ☐ **Summary**

**Investing in Real Estate**

- ▶ Property management
- ▶ Appreciation
- ▶ Equity
- ▶ Leverage
- ▶ Cash flow
- ▶ Sale-leaseback

#### 16 ☐ **Property Management Agreement**

The **property management agreement** guides the daily activities of a property manager.

Agreement:

- establishes terms of manager's employment,
- creates agency relationship between owner and manager, and
- outlines property manager's authority.

#### 17 ☐ **Scope of Authority**

Agreement should define scope of manager's authority.

Manager might or might not be able to:

- undertake major repairs,
- hire and fire employees, and/or
- execute leases on owner's behalf.

#### 18 ☐ **Basic Provisions**

Management agreement must be in writing and include:

- term of the agreement,
- manager's compensation,
- type of property/legal description,
- number of units or square footage,
- who holds and disburses funds and security deposits, and

- reporting

## 19 ☐ **Basic Provisions**

Agreement might also include:

- description of other responsibilities,
- statement of owner's goals, and
- extent of manager's authority.

## 20 ☐ **Management Plan**

Management plan lays out basic framework for manager's activities.

Plan:

- states manager's strategies for achieving property owner's goals, and
- addresses financial management and physical maintenance issues.

## 21 ☐ **Management Plan**

Owner's goals will dictate management strategies.

Owner hoping to maximize monthly income may require different strategy than owner whose goal is to increase property's value for resale.

- Owner's goals may also change with time; if so, management plan will need to be updated.

## 22 ☐ **Preliminary Study**

To create management plan, manager will need to study property and its context.

Involves four levels of analysis:

- regional analysis,
- neighborhood analysis,
- property analysis, and
- market analysis.

## 23 ☐ **Management Proposal**

Manager will create management proposal after completing preliminary analysis.

Proposal includes:

- proposed rental schedule,
- income and expense projections,
- plan for day-to-day operations, and
- proposed physical changes to building.

## 24 ☐ **Summary**

## **Management Plan**

- ▶ **Management agreement**
- ▶ **Management plan**
- ▶ **Regional analysis**
- ▶ **Neighborhood analysis**
- ▶ **Property analysis**
- ▶ **Market analysis**
- ▶ **Management proposal**
- ▶ **Rental schedule**

## 25 **Management Functions**

Functions of property manager can be divided into three categories:

- leasing and tenant relations,
- recordkeeping and manager-owner relations, and
- property maintenance.

## 26 **Statement of Operations**

Manager's report to owner is usually made through monthly statement of operations.

Statement contains:

- summary of operations,
- rent roll,
- statement of disbursements, and
- narrative report of operations.

## 27 **Property Maintenance**

Maintenance activities include:

- preventive maintenance (preserving physical condition of improvements);
- corrective maintenance (repairs to keep property in working order);
- housekeeping (routine cleaning); and
- new construction (remodeling and redecoration to improve the property).

## 28 **Risk Management**

Unexpected events can cause huge financial losses (property damage, lost rents, or lawsuit damages).

Property manager must evaluate precautionary measures: insurance, etc.

## 29 **Community Association Management**

- ▶ **Community association:** Group of homeowners organized to protect value of individual homes and common property in a development or complex
  
- ▶ Elected board of directors appoints officers to administer operation of association.

- ▶ Property Owners Association Act provides framework for creation of community associations (but associations aren't always subject to the act)

### 30 **Role of Community Association**

- ▶ Community association is responsible for:
  - enforcing covenants and private restrictions
  - maintaining common areas and improvements
  
- Not every subdivision or development has an association and, in some places, membership may be optional.

### 31 **Role of Manager**

- ▶ Managing a community association means being responsible to many owners instead of just one.
- ▶ Often, a community association manager's most challenging task:
  - Serve as a buffer between the association's board of directors and homeowners.
- ▶ Duties include:
  - maintaining records
  - preparing budgets
  - sending newsletters
  - conducting meetings and elections
  - arranging services

### 32 **Role of Manager**

- ▶ The manager's duties are delegated by the association and not by anyone else.
  
- ▶ Any manager in Georgia who handles at least \$60,000 in community association funds must be covered by a fidelity bond or fidelity insurance policy.

### 33 **Summary**

#### **Management Functions**

- ▶ **Leasing and tenant relations**
- ▶ **Marketing**
- ▶ **Statement of operations**
- ▶ **Rent roll**
- ▶ **Statement of disbursements**
- ▶ **Preventive maintenance**
- ▶ **Corrective maintenance**
- ▶ **Risk management**
- ▶ **Community association management**

### 34 **Landlord-Tenant Relationship**

Landlord-tenant relationship is governed by:

- terms of contract forming relationship (lease); and
- landlord-tenant law (Georgia law that establishes landlord and tenant rights and responsibilities).

Lease must contain all essential elements of a contract.

35  **Lease Law**

- ▶ Owner (Landlord) conveys leasehold estate to the tenant
- ▶ Landlord retains 2 estates: leased fee estate and a reversionary estate

36  **Lease Requirements**

- ▶ Parties to lease must be competent, mutually agree to its terms, and give consideration.
- ▶ An adequate legal description should be included.

37  **Lease Requirements**

- ▶ Lease must be in writing if term is longer than one year (oral leases for shorter terms are allowed).
- ▶ Tenant doesn't have to sign (accepts lease terms by taking possession).
- ▶ Property manager cannot sign leases on owner's behalf without authority.

38  **Lease Provisions**

Landlord/tenant issues addressed by lease provisions include:

- payment of rent,
- lease term,
- use of the premises,
- security deposits,
- entry and inspection, and
- maintenance.

39  **Payment of Rent**

**Rent is the consideration that makes lease a valid contract.**

**Most leases require rent to be paid at beginning of rental period.**

**Failing that, rent is due at end of rental period.**

40  **Use of Leased Property**

Use of rented property must comply with zoning and private restrictions.

Use may also be limited by lease terms.

- Lease of retail space might limit tenant to operating a particular kind of store.
- Leasehold Improvements- Improvements made by tenant with approval of landlord: Remains with property at end of lease.

41  **Security Deposit**

Most leases require security deposit as protection against tenant:

- ▶ moving out without paying all rent that's due, or
- ▶ leaving property in poor condition.

If landlord owns more than ten units or employs property manager, security deposits must be kept in trust account.

#### 42 ☐ **Security Deposit**

Security deposit must be returned to tenant within one month of lease termination; if not, owner must notify tenant why deposit is being kept.

Deposit may be used to pay for:

- unpaid rent or late fees,
- cleaning the premises,
- repairs, or
- actual damages caused by tenant's breach.

#### 43 ☐ **Entry and Inspection**

Typically, lease allows landlord to enter leased unit with reasonable notice to:

- inspect unit,
- perform repairs or other agreed-upon services, or
- show it to prospective buyers or tenants.

Landlord must provide tenant advance notice of entry.

#### 44 ☐ **Maintenance**

Georgia law requires landlord to keep premises in repair.

- Landlord may be liable for damages resulting from failure to keep premises in repair.

Tenants must generally leave premises in the same condition as before, less any reasonable wear and tear.

#### 45 ☐ **Options to Renew or Buy**

**Option to renew:** tenant has right to extend the lease for specified period

**Option to buy:** tenant has right to buy leased property at set price during certain time period

**Lease purchase agreement:** tenant formally agrees to purchase property at a later date

#### 46 ☐ **Summary**

##### **Landlord-Tenant Law**

- ▶ **Payment of rent**
- ▶ **Lease term**
- ▶ **Use of premises**



- ▶ **Security deposit**
- ▶ **Entry and inspection**
- ▶ **Maintenance**
- ▶ **Options to renew or buy**

#### 47 **Transferring Lease Interests**

Leased property may be transferred by:

- assignment
- sublease
- novation

#### 48 **Assignment**

Assignment: Tenant transfers entire unexpired lease term to assignee.

- Assignee (new tenant) becomes liable for paying rent to landlord.
- Assignor (old tenant) is secondarily liable for the rent.

#### 49 **Sublease aka Sandwich Lease**

Sublease: A transfer of a leasehold estate for a period shorter than the unexpired term.

- Original tenant “sublessor” retains part of leasehold estate.
- Subtenant “sublessee” is liable for rent to original tenant.

#### 50 **Novation**

Novation: Existing lease is replaced with new lease.

- New lease can be created between the same parties, or between different parties.

#### 51 **Termination of a Lease**

Most leases terminate when the lease term expires and the lease is not renewed.

- Periodic tenancy terminates at end of one period upon notice from one party.
- Fixed-term tenancy (Estate for Years) ends automatically when term expires.

#### 52 **Termination of a Lease**

Lease may also be terminated early by:

1. surrender
2. actual eviction
3. constructive eviction
4. illegal or unauthorized use
5. destruction of the premises
6. condemnation

53  **Surrender**

Surrender occurs when landlord and tenant mutually agree to terminate lease before it's scheduled to end.

- Surrender is the simplest form of termination.

54  **Actual Eviction**

Actual eviction occurs when the landlord expels tenant from property.

- Landlord must file court action and give tenant notice of eviction proceeding.
- Writ of Possession – Court issued requirement for tenant to move out or be forcibly removed by Sheriff.
- Landlord should never use self-help eviction.

55  **Constructive Eviction**

Constructive eviction occurs when landlord causes/permits substantial interference with tenant's possession of the property.

- Tenant may be justified in abandoning property and terminating lease.

**Failure to keep property habitable may constructively evict tenant.**

56  **Constructive Eviction**

Covenant of quiet enjoyment: Landlord's implied promise that tenant's exclusive possession of property will not be disturbed.

- Contained in every lease

57  **Illegal Use by Tenant**

Illegal or unauthorized use of property may give landlord right to terminate lease.

58  **Destruction of Premises**

In Georgia, destruction of a building (or the tenant's portion of the building) through no fault of the tenant terminates the lease.

Yet if the premises include both the building *and* the land it rests on, the lease does not terminate. The tenant must continue paying rent.

59  **Condemnation**

Lease can also be terminated when the government takes private property for a public use (such as a park).

60  **Types of Leases**

Among most common types of leases are:

- fixed leases,
- graduated leases,
- index leases,
- net leases,
- percentage leases, and
- ground leases.

#### 61 **Fixed Lease**

Fixed (or flat or gross) lease: Tenant required to pay same amount of money each month.

► Landlord will pay for all operating expenses, such as maintenance, taxes, and insurance.

- Used for most apartment rentals.

#### 62 **Graduated Lease**

Graduated lease: Tenant's rent is subject to an escalation clause.

Periodic increases are made, usually based on cost-of-living index or other measure of inflation.

Step up lease:

Guaranteed, specific rent increases at designated periods.

#### 63 **Index Lease**

Index lease: Rent is tied to Consumer Price index or some other measure of inflation.

When index increases, so does rent.

Used with long-term tenancies.

#### 64 **Net Lease**

Net lease requires tenant to pay:

- fixed rent, plus
- some or all of the property's operating expenses (such as utilities and insurance).

Triple-net lease (net-net-net lease) requires tenant to pay all operating expenses (such as property taxes, insurance, utilities, and maintenance) in addition to rent.

#### 65 **Percentage Lease**

Percentage lease requires tenant (usually retail business) to pay:

- minimum rent, plus
- percentage of gross or net income generated by tenant's business.

66  **Ground Lease**

Ground leases: Tenants lease vacant land and construct their own buildings on land.

Typically, long-term leases involve commercial tenants.

67  **Summary**

**Transferring and terminating leases**

- ▶ **Assignment**
- ▶ **Sublease**
- ▶ **Novation**
- ▶ **Surrender**
- ▶ **Actual eviction**
- ▶ **Constructive eviction**
- ▶ **Types of leases**